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RCEP AN OPPORTUNITY BEFORE ASIAN GIANTS TO SHOW A UNITED FRONT

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Trade deficit with China has to be solved for creation of job opportunities in India

An alarming level of deficit has now cast a shadow on the flourishing trade between the two fastest growing economies of the world and the engines of growth in Asia. Bilateral trade between China and India touched $87 billion in 2018-19, with the trade deficit widening to $53 billion in China's favour. Imports from China were 13.6% of India's total merchandise imports in 2018-19. These imports mainly comprise consumer goods and electronics, such as phones and ICs. Despite the political frictions on the border, it is trade which has steered relations between the two countries. Though bilateral trade is expected to touch $100 billion next year, it is largely overshadowed by the rising deficit concerns on the Indian side. Indian industry is worried that the further influx of goods from China will hurt local companies, especially those in consumer durables and manufacturing. In fact, many years ago, the India-China free trade agreement (FTA) was put on hold even after a Joint Study Group from both the Indian and Chinese side recommended the FTA largely due to lobbying by the chambers of commerce in India. Indian industry is also concerned that the 16-member Regional Comprehensive Economic Partnership (RCEP) agreement, led by Asean and China, will further increase India's trade deficit with all its major trading partners.

India's existing FTAs with RCEP members have increased India's trade with the region. However, Indian industry has held the view that these FTAs have largely increased imports into India rather than increasing Indian exports to regional markets. Notable is the fact that India runs a trade deficit with 10 of the 16 RCEP member-countries at a whopping $104 billion—64% of India's total trade deficit in 2017-18, and this deficit has reportedly been growing over the past few years. This makes it all the more difficult for India to accommodate the demands of RCEP member-countries to open up its market to 92% of traded goods.

So far, India has offered to relax tariffs on 86% of traded goods to Asean, South Korea and Japan under the respective FTAs it has signed with them, as well as up to 74% of traded goods with China, New Zealand and Australia. But this, too, has been rejected by the participating countries as being too little, too late.

The Indian industry is particularly concerned about China in RCEP. Various sectors, including dairy, metals, electronics, chemicals and textiles, have urged the government to not agree on duty cut in these segments. Indian industry is sceptical that the RECP deal would lead to further lowering of tariffs resulting in a flood of goods from China, while not assuring India of an equal access to the Chinese markets, thereby widening its large trade deficit and wreaking havoc on the Indian industry, especially small manufacturers of articles such as toys and consumer durables. Given the slowdown in the Indian economy, this is something which needs to be avoided.

Nonetheless, the RCEP is also a perfect opportunity for both India and China to take their cooperation in all mutual areas of interest, including trade to another level and show a united front to the world. Indian industry will need to get competitive and prepare itself effectively to meet the influx of imports from all major trading partners, and the government will have to make consistent and concerted efforts by constantly talking to the Chinese officials on reducing the deficit. This trade imbalance between the two countries needs to be addressed for sustained growth and employment opportunities in India.

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