

THE ECONOMICS OF RCEP AND POTENTIAL OUTCOMES FOR INDIA

Relevant for: International Relations | Topic: RCEP

The Regional Comprehensive Economic Partnership (RCEP) agreement is under negotiation and has remained a much-contested subject in recent times. It is imperative to view this agreement and its potential outcomes from an objective and balanced perspective.

If India is out of the RCEP, it would make its exports price uncompetitive vis-à-vis other RCEP members' exports in each RCEP market, and the ensuing export-losses contributing to foreign exchange shortages and the subsequent extent of depreciation of the rupee can only be left to imagination.

We need to appreciate the policy makers' possible ingenuity in balancing the objectives of efficiency-yielding calibrated import liberalization, without sacrificing on the domestic sensitivities, but matched with ensuring reciprocal market access for the Indian private sector's exports in the markets of RCEP.

RCEP also needs to be understood as a "comprehensive" agreement, which helps tap the economic complementarities that get generated due to the interlinkages among various segments of trade. These inter-linkages are particularly important when India endeavors to integrate with a region, which has been the most successful region of the world in terms of thriving regional value chains (RVCs). These RVCs necessitate freer movement of professionals across countries in the region.

This is especially crucial in a scenario when the vector of India's demographic dividend is concomitant to the vector of the "aging" population in most RCEP countries. This skill-matching needs to be focused in the realm of RCEP negotiations by signing an RCEP Agreement on Movement of Natural Persons Harnessing Regional Skill-Complementarities.

All these may or may not add up to trade deficit. It is worth highlighting that trade deficit needs to be viewed in the context of its affordability. Just as an individual loan and usage of credit cards are deficits at the micro level, but can be very helpful if it can be afforded by the individual, the trade deficit needs to be approached at the macro level.

Finally, our analysis suggests that there are enormous export gains that could accrue to India from RCEP under varying scenarios. This assumes even greater importance since our focus has been on products with favourable terms of trade for India, implying that by definition, per-unit foreign exchange realization from these products will be greater than per-unit foreign exchange expenditure on imports of similar products within intra-industry trade pattern.

Some of the sectors that have been identified as potential sources of India's export growth impulses under RCEP to the tune of approximately \$200 billion, include processed food, gems and jewellery, metal manufactures, refined petroleum, chemicals and pharmaceuticals, leather goods; textiles and clothing, automobiles and parts, electrical machinery, and parts of aircraft and spacecraft, etc. There are more compelling trade and economic reasons for RCEP to become India-led in future, than otherwise. India must play its due role to get its due place in the regional economic configurations!

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