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SEIZE THE PACT

Relevant for: International Relations | Topic: RCEP and India

On Sunday, trade ministers from the 16-nation regional comprehensive economic partnership (RCEP) group pledged to resolve their issues on the proposed free trade agreement (FTA) by November, when their leaders meet next for the ASEAN summit. So far, the Indian government has been cautious about joining this trade block. But, as pressure from RCEP members mounts, the government will have to carefully think through its strategy on trade pacts. Given the nature of global trade, joining these FTAs will not only gradually facilitate the country's integration with global value chains, but provide greater opportunities for investment as well.

The RCEP is a proposed free trade agreement between the 10 ASEAN countries and their FTA partners, namely India, China, Japan, Korea, Australia and New Zealand. Once concluded, it will account for 25 per cent of the global GDP and 30 per cent of global trade. Part of India's reluctance to join this trade pact stems from the view that the country has not benefited from its FTAs with countries like Korea, Malaysia and Japan. After these pacts came into effect, imports from these countries surged, while exports did not risen commensurately, leading to a widening of the trade deficit. India already runs a trade deficit with most of the 16 RCEP countries. Opening up its market further could worsen the situation. Large sections of India Inc are concerned that being part of RCEP would lead to an influx of more competitively priced Chinese products in both the consumer goods and industrial segments. Thus, eliminating tariffs for a significant section of traded goods is bound to face resistance from domestic industry. A slowing economy will only exacerbate such fears.

Part of the explanation for this dismal performance under FTAs can be attributed to higher compliance costs, administrative delays etc. But with India's exports being almost flat over the past five years, shunning such trade pacts is not a prudent approach. One should be mindful that the long-run benefits from joining these trade blocks will outweigh the short-term costs. To be sure, India should negotiate concessions and safeguards for sensitive sectors. Further, the proposed tariff reductions could be phased over a five to ten-year period which will give time to the industry to adapt. But the costs of not going forward with the trade pact, under pressure from industry, will be great. India must seize this opportunity to hook into global value chains, while addressing the deeper issues that afflict manufacturing competitiveness.

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