

FORGING TRADE ALLIANCES

Relevant for: International Relations | Topic: RCEP and India

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The Regional Comprehensive Economic Partnership (RCEP) aims to bring the 10 countries of [ASEAN](#) with Australia, New Zealand, South Korea, India, China and Japan to create the world's largest trading block. If it comes into being, RCEP will constitute more than 40 per cent of the global population and almost half of world's economy. It consists of three of the six largest economies of the world, especially, the two fastest growing large economies — India and China. Out of the top 16 countries with the largest GDP, six belong to the proposed RCEP.

There is a huge debate in India over joining RCEP. India's allies in Southeast Asia, as well as Australia, want India to join it to balance China. On the other hand, many in India feel that RCEP will aggravate India's burgeoning trade deficit with China. The Indian industry feels that China does not provide a level playing field for items that they could export, especially in fields like pharmaceuticals, information technology, films, indigenous medicines, wellness and yoga. Some of these are founded on opacity that surrounds the Chinese government's decision making.

There is a tendency in Indian industry to seek protection, whenever any steps towards globalisation are taken. The "Bombay Club" long used for protectionism, protested when liberalisation was introduced and tried to prevent imports for as long as they could. However, it is an acknowledged fact that globalisation did benefit the Indian economy, it brought in newer technology and made Indian industry far more competitive. RCEP does provide Indian industry a huge market to grow and expand, provided it transforms and the government frees it from bureaucratic controls that have been stifling growth.

There is a tendency amongst many in India to undermine the entrepreneurial skills of Indians. When import access was given to Chinese goods, it did not eliminate Indian industry. Of course, some industries which are uneconomical, have not modernised and imbibed new technologies will fall by the way side. More significantly, opening up markets and reducing tariffs will benefit consumers. The automobile, telecom and even IT boom would not have been feasible without liberalisation. Similarly, the recent spurt in solar power generation is directly a result of the availability of cheap imported solar films.

The apprehensions about China's non-tariff barriers are not unfounded. But, China's track record shows that it has scrupulously followed multilateral arrangements. By entering RCEP, India may be able to get greater market access to even China as it is vulnerable due to its ongoing trade war with the US. More significantly, with China facing the demographic crunch, India could easily edge it out, if we go for economies of scale, made feasible by a large trading block like RCEP.

India's presence in this trading block could lead to a large number of multinationals shifting their production facilities from China to India, as that would enable them to access Chinese markets, without being present there, to comply with US sanctions. This could also bring in huge investments from many companies in the West.

With the Trans-Pacific Partnership having unraveled, it is quite feasible that a post-Trump US administration may join RCEP if it takes off. More significantly, RCEP is nothing but a natural follow up of India's Act East policy. India's main strength lies in the services sector and it must therefore, ensure that RCEP includes unbridled access for Indian service providers as well as a liberalised visa regime for people working in these fields. Similarly, protection will need to be ensured for some sensitive industries crucial for national security. Some temporary protection may be required for certain sectors of agriculture, crucial for food security. RCEP is one sure shot way of forcing China to provide a level playing field. India has the largest arable land and one of the largest pool of scientists, engineers, technicians, so there is no reason for India to be concerned.

This is also one way of controlling China and keeping it in check. In a big grouping like this, China is unlikely to have its way, nor is it going to antagonise everyone. India's absence from RCEP will virtually handover this significant grouping to China, which is certainly not in India's interest. RCEP is a huge opportunity which India should not miss.

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