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India & RCEP

Why in news?

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- The trade deficit of India with its RCEP partners is rising.
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- The multilateral trade agreement like Trans Pacific Partnership (TPP) and Transatlantic Trade and Investment Partnership (TTIP) between the European Union and the US seems threatened under the present dispensation in US.
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What is RCEP?

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- The Regional Comprehensive Economic Partnership (RCEP) is a mega-regional economic agreement being negotiated between the 10 ASEAN (Association of South-East Asian Nations) governments and their six FTA partners: Australia, China, India, Japan, New Zealand and South Korea.
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- In the absence of the TPP, the RCEP will emerge as the largest regional trading bloc in the world, accounting for nearly 45 per cent of the world's population and with a combined gross domestic product of $21.3 trillion.
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- The RCEP has chapters on intellectual property, investment, goods, services, telecommunications and e-commerce, and goods and services.
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What is India's experience with trade agreements?

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- Within the RCEP, India has existing FTAs in merchandise goods with ASEAN, South Korea and Japan.

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- With all the three it has witnessed a higher trade deficit after signing the FTA.
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- Post-FTA, bilateral trade volumes did increase, but imports from partner countries have increased at a faster pace than India's exports with partners.
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- India also has a trade deficit with Mercosur (Common Market of the South).
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- Afghanistan, Nepal, and Bhutan remain largely inconsequential given the size of those markets.
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- The only bright spot has been Sri Lanka and Singapore, where India has been successful in achieving a positive trade balance.
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What are the problems for India in RCEP?

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- The RCEP concept when mooted by ASEAN was an alternative to the TPP.
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- This might turn detrimental for India given the size of the trade deficit it has with the proposed bloc. Overall trade deficit with RCEP is of $97 billion in 2015.
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- India has a huge trade deficit with China alone. During the last ten years, it has increased from around $7.8 billion in 2006 to $52 billion in 2015 i.e 54% of total deficit with RCEP.
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- This is despite the fact that India has frequently used anti-dumping duties, safeguard duties and other countervailing measures to protect the domestic industry from unfairly low-priced imports from China.
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- Some of the RCEP members have already refused to agree to India's three-tier approach to tariff reduction over a period of time.
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- Under the ambit of RCEP, countries like China, South Korea and Japan are manufacturing powerhouses, and Australia and New Zealand have strengths in processed foods, wine, and dairy products, while Asean has comparative advantages in plantations, electronics and auto-components.
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- Therefor sectors of India such as plantations, automobiles, textiles,

pharmaceuticals, and engineering goods would be impacted negatively.
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How can India benefit from RCEP?

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- While consumers would benefit from FTAs, the Indian manufacturing sector which remains relatively uncompetitive vis-à-vis the RCEP countries, would be at a disadvantage.
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- RCEP should not convert India into a dump yard for cheap imports from the Asia-Pacific, particularly China.
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- Sanitary & phytosanitary issues and technical barriers to trade measures are the most frequently used against Indian exports. Thus the non-tariff barriers in RCEP countries should be negotiated transparently before negotiating market access.
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- RCEP has the East Asian economies as partners, who have thrived on export-led growth model, unlike India whose domestic economy is its strength. Therefore India should choose a model that will complement this setup.
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- India also needs to introspect as to what it can get from negotiating the proposed RCEP that it has not already obtained from prevailing trade agreements.
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- India has achieved significant success in services, and hence should seek greater liberalisation of trade in services, including pushing for greater access for its professionals in these markets.
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Source: Business Line

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