

1. Forging Trade Alliances

Context:

- ▶▶ There is a huge debate in India over joining Regional Comprehensive Economic Partnership (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.

What is RCEP?

- ▶▶ RCEP is proposed between the ten member states of the Association of Southeast Asian Nations (**ASEAN**) (Brunei, Burma (Myanmar), Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, Vietnam) and the **six states with which ASEAN has existing FTAs** (Australia, China, India, Japan, South Korea and New Zealand).
- ▶▶ RCEP negotiations were formally launched in **November 2012 at the ASEAN Summit in Cambodia**.
- ▶▶ RCEP **aims to boost goods trade by eliminating most tariff and non-tariff barriers** – a move that is expected to provide the region's consumers greater choice of quality products at affordable rates. It also seeks to liberalise investment norms and do away with services trade restrictions.

Why RCEP Assumes Significance?

- ▶▶ 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 16 countries with the largest GDP, six belong to the proposed RCEP.

Why industry is concerned over RCEP?

- ▶▶ 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.
- ▶▶ There is a **tendency in Indian industry to seek protection**, whenever any steps towards globalization are taken. The '**Bombay Club**' long used for protectionism, protested when liberalization was introduced and tried to prevent imports for as long as they could.
- ▶▶ The apprehensions about China's non-tariff barriers are not unfounded. But, China's track record shows that it has scrupulously followed multilateral arrangements.

Opportunities that India get from RCEP:

- ▶▶ 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.
- ▶▶ More significantly, opening up markets and reducing tariffs will benefit consumers. The **automobile, telecom and even IT boom would not have been feasible without liberalization**. Similarly, the recent spurt in solar power generation is directly a result of the availability of **cheap imported solar films**.
- ▶▶ 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 economics 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 multinational's shifting their production facilities from China to India**, as that would enable them to access Chinese markets. This could also bring huge investments from 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 Policy**.

What India should keep in Mind?

- ▶▶ 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 liberalized 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.

Conclusion:

- ▶▶ RCEP is one sure shot way of forcing China to provide a level playing field. India has the largest arable land one of the largest pool of scientist, 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, not is it going to antagonize everyone. **India's absences from RCEP will virtually handover this grouping to China, which is certainly not in India's interest**. RCEP is a huge opportunity which India should not miss.