

# India must rethink RCEP stance

Nothing exemplifies the problems with India's strategic vision on trade as much as the pullout from RCEP does

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**THE DUST HAS** begun settling on India's withdrawal from RCEP. The decision has far-reaching consequences. It also reflects on the kind of strategic vision India has for its external trade.

Independent India has hardly had a trade policy. The annual export-import policies were more revenue policies than trade policies, with their focus largely on duty drawback. The only long-term foreign trade policy the country had was in 2014. This was a comprehensive policy, reflecting on strategies for expanding market access of Indian exports. Other than this policy, there has hardly ever been an official articulation of the strategic vision for India's engagement in external trade.

If the decision to disengage from RCEP reflects the strategic vision for Indian trade, one can safely assume that broad-based engagement in free trade agreements (FTAs) is not a part of this vision. The assumption draws strength from India's decisions, over the past few years, to pull back from several bilateral FTA talks, like those with Australia and Canada. India's decision to review its existing FTAs with ASEAN, Japan, and Korea, is also in line with the presumption of distancing prominently from efforts to engage in multiple FTAs.

It is interesting, though, that India is discussing the possibility of a bilateral trade deal with the US. India has also revived talks with the EU on the bilateral trade and investment agreement (BTIA) that it had discontinued earlier. These engagements, accompanied with the disengagement from RCEP, reveal a contrasting character of India's trade policy. The dichotomy points to India's intention of engaging in trade with 'some', not all. Looked at more closely, it reflects India's intention of developing closer trade ties with the West, as opposed to the East. If this is a part of the Indian strategic vision, then, unfortunately, it is very likely to prove counterproductive.

Backing out of RCEP and pushing on trade deals with the US and the EU,

among other factors, is guided by the notion of relative differences in regional competitiveness. It is a view held by several watchers of Indian trade that the country's lack of competitiveness vis-à-vis its Eastern neighbours should prevent it from pursuing FTAs with countries of East and Southeast Asia. Such a view, needless to say, has contributed to the decision to withdraw from RCEP. The counterpoint to this logic is brutally simple.

It is true that India is uncompetitive in most spheres of broad-based manufacturing, compared with its eastern neighbours. But, it is the markets in the East that its exports need access to. The world's fastest growing emerging markets are in Asia. A considerable part of the future global demand for various exports would be driven by fast-growing Asian economies like Indonesia, Vietnam, Thailand, and, of course, China. These economies would not just contribute significantly to global production but they would also become much bigger global consumers. In the process, they would figure at both, the upstream and downstream ends of several global production networks, depending on their competitiveness and capacities. RCEP would have given India an opportunity to become a part of this virtuous process. From being a consumer of most items, India could have also become a producer of many, even if, on occasions, by bits and pieces, depending on which value chains it fitted into, and where. By dropping out of RCEP, India has decided to stay out of the organic transformation taking place in global trade, which is churning out of Asia.

The other counterpoint on the

geography logic is obvious. Most experts feel Indian products would be able to dent American and European markets deeper with relative ease. They fail to note that in these markets and in most products, India would be competing with those so-called economies from the East that it is as competitive as. And, these economies would continue receiving preferential benefits in major Western markets through schemes like RCEP and EBA (Everything but Arms). The benefits are likely to wipe out access gains for Indian exports through FTAs that it might enter

with the US and the EU. Even 'stalwart' exports like gems and jewellery, pharmaceuticals would not be able to push into these markets. Exports to the US and the EU, which many feel are high-growth areas, would be with the EU and the US, which can fetch.

Ironically, being a part of RCEP could have strengthened India's prospects in these markets. FTAs with the US and the EU. It would have plugged India into Asian value chains running backward and forward across the Atlantic and Pacific. This is exactly what several Asian

countries, such as Japan, Korea, and Singapore, have done by engaging in simultaneous FTAs with other regional economies on the one hand, and Europe and North America on the other. Unfortunately, the current strategic vision for India's trade doesn't accommodate this virtuous possibility.

Nothing exemplifies the problem with India's strategic vision on trade as much as the pullout from RCEP does. The decision has been justified as a deal being better than a bad deal. Perhaps it is now important to re-evaluate that a faulty strategic vision is better than no vision.

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