

# **Why India Should Join, or Not, the RCEP: Pros and Cons**

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## **PSM's Speaking Note with Questions for the Speakers**

**The signing of the Regional Comprehensive Economic Partnership for Asian and the Pacific on 15<sup>th</sup> November 15 this year is being touted as a new beginning in the realm of global trade. This reflects the intent of some major economies in Asia and the Pacific to re-play their role in trade-led cooperation.**

**The RCEP is the largest trading bloc globally, covering 2.2 billion people and US\$26.2tn of global output. That accounts for about 30 per cent of the population worldwide. It took eight years and 31 rounds of negotiation to reach this agreement.**

**From the very beginning, there were a number of contentious issues. While some of them were softened to accommodate both offensive and defensive interests of the negotiating parties, India chose to opt-out because it did not sufficiently address its concerns.**

**Some outstanding issues include: inadequate protection against import surges, huge bilateral trade deficits, exclusion of services agenda, circumvention of rules of origin.**

**With respect to India's decision, China looms large while India already has free trade agreements with other partners except Australia and New Zealand.**

**Here, it is to note that India's trade with China is like that of the colonial times. The fact that India, the greatest of all civilisations, exports raw materials to China to manufacture idols of Hindu gods scares the Indian gut.**

**Furthermore, as highlighted by a number of studies including those conducted by India's foreign and economic policy establishment, it had discouraging experience with regards to existing FTAs. Our low level of utilisation of FTAs is primarily because of stringent non-tariff measures that exports face, and our own capacity and competitiveness related constraints.**

**Nevertheless, it is encouraging that the RCEP partners have left the door open for New Delhi to join at a later date. In particular, in the recent past, Australia and Japan have stated that India's inclusion is to balance China in this grouping.**

**However, India's move was highly criticised by many former policymakers, economists and academicians. Accordingly to them, India is turning its back on trade. While the Indian domestic market is huge, one of our former Chief Economic Adviser, Arvind Subramanian, put it in a recently published co-authored op-ed that "foreign demand will always be bigger than domestic demand". This means that India needs to resist "the misleading allure of the domestic market".**

**In this context, whether we realise or not, the recent consensus around the need for encouraging domestic investment and domestic demand with Atmanirbhar Bharat as a philosophy for a human-centric globalisation will require more openness than less of it. This is because historically it has been observed that high growth periods have coincided with high export periods.**

**Also, we have to keep in mind that global trading order has been disrupted by the US-China trade wars and the Covid-19 pandemic. New supply chains are being explored; new connections are being made; trading infrastructure that will last for decades is being built.**

**If India misses out on attracting some of those supply chains, connections and infrastructure opportunities, it could be locked out of many years of growth and an opportunity to be on the negotiating table when mechanisms and guidelines for “new trade normal” are being formulated.**

**Therefore, today we have gathered for a healthy debate on “Why India Should Join, or Not, the RCEP”.**

**We have an excellent panel and let me start with Montek with this question:**

**Montek – Do you think that India will have to bear a huge opportunity cost by opting out of RCEP because it seems that a de facto consensus among our trade bureaucracy is more protectionist than before as we haven’t gained competitiveness in many sectors even after more than three decades of reforms?**

**Amita – I am yet to come across a figure showing this much would have been the gains that would have accrued to India had it joined the RCEP. Have we not done this kind of an exercise? Should we not do them before initiating trade negotiations?**

**Gopal – What is it that you think the government should do for making India an attractive choice for foreign direct investment? Do you think that it is time for an industrial strategy? If so, how do we convergence our trade and industrial policy instruments?**

**Rajeev – Do you see an erosion of multi-stakeholder consultative process while negotiating trade deals? Why it is necessary and what should be done to arrive at a broad-based consensus that trade benefits us?**

**Ashwani – How do you envisage the role of the government in engaging the civil society while negotiating trade deals? While there will be winners and losers from any trade deal, what are your thoughts for a comprehensive trade adjustment programme to help those who will be the losers?**

**Naushad – Isn't it a pity that even after more than three decades of economic reforms the Indian industry is not competitive enough to play a larger role in global business? What type of long-term growth prospects do you see for our manufacturing sector by joining or not joining the RCEP? How do you see the future of the supply-chain resilience initiative as envisaged by Australia, India and Japan?**