



## India's Hesitancy in Joining RCEP

**For Prelims:** [World Bank](#), [Regional Comprehensive Economic Partnership \(RCEP\)](#), [Global Value Chains \(GVCs\)](#), [National Logistics Policy 2022](#), [FDI](#), [Free Trade Agreements \(FTAs\)](#), [National Electronics Policy 2019](#), [Production Linked Incentives \(PLI\) scheme 2020](#), [ASEAN](#).

**For Mains:** Regional Grouping and Its Impact on India, India's Concerns with RCEP

**Source:** [ET](#)

### Why in News?

Recently, the [World Bank's](#) latest **India Development Update: India's Trade Opportunities in a Changing Global Context** suggested India to re-consider joining [Regional Comprehensive Economic Partnership \(RCEP\)](#).

- An Indian think tanks **rejected the idea** saying it is based on **flawed assumptions** and **outdated projections**.

### What is the World Bank's Analysis of India Opting out of the RCEP?

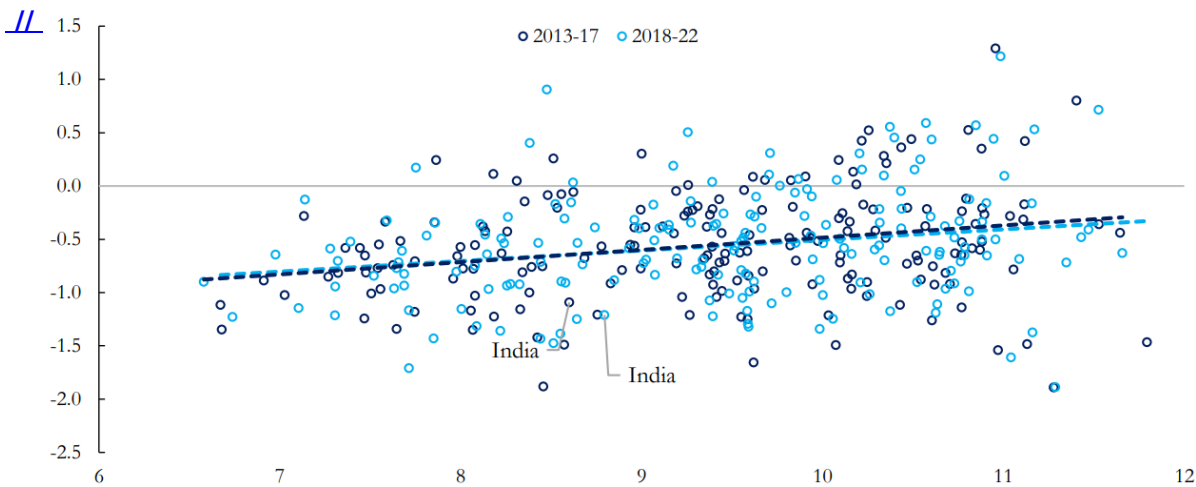
- **Income Gains:** According to a World Bank study, India's income will **increase by USD 60 billion annually** if it rejoins the agreement and will **fall by USD 6 billion** if it does not.
  - These gains would span **various sectors**, including raw materials, light and advanced manufacturing, and services.
- **Export Growth:** Expected **export gains** from joining RCEP could include **17% in services** like computing, finance, and marketing.
- **Denial of Economic Gains:** RCEP (without India) will add **USD 186 billion** to the world economy and **increase the GDP** of its members by **0.2% on a permanent basis**.
  - The major beneficiaries would be **China (USD 85 billion)**, Japan (USD 48 billion), and South Korea (USD 23 billion).
  - India will miss a major portion of economic gain which may accrue from RCEP.
- **Trade Diversion Risks:** By staying out of RCEP, **India could face trade diversion**, as the trade bloc members could shift supply chains and **increase competition among themselves**, potentially **harming India's exports to RCEP countries**.
- **Potential New Members:** South Asian countries such as **Bangladesh and Sri Lanka**, have recently indicated interest in joining **RCEP**.
  - In effect, India cannot fully remain out of the influence of RCEP as India has an **FTA with countries like Sri Lanka**.

### What is the World Bank's Evaluation of India's Export Strategy and Trade Policy?

- **Need for Export Diversification:** Over the years, India's **trade in goods** as a **percentage of**

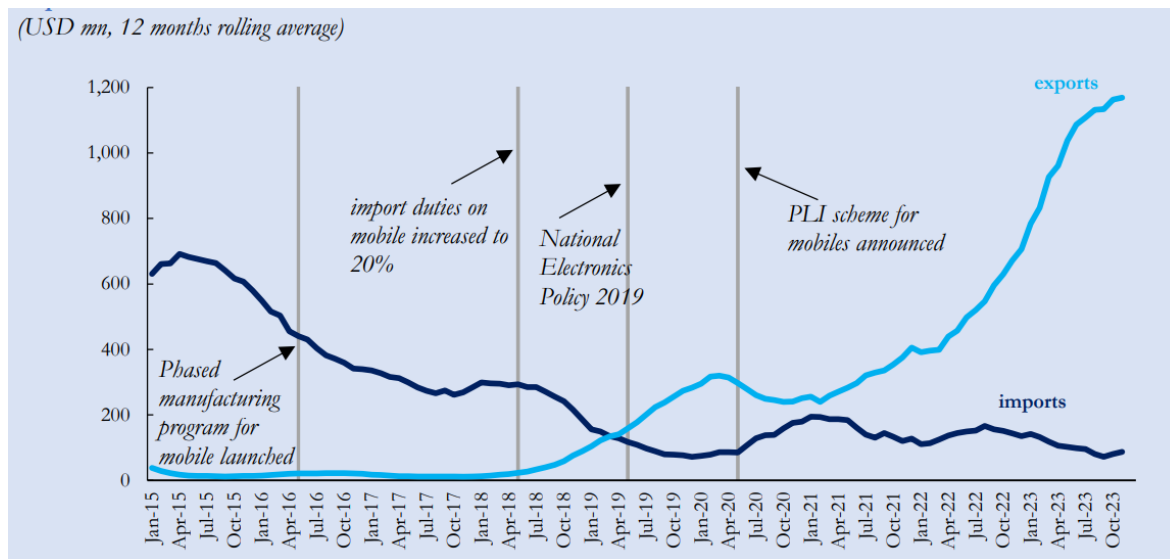
**GDP has declined**, and its participation in [Global Value Chains \(GVCs\)](#) has decreased.

- **Diversification** can be achieved by expanding into more labour-intensive sectors such as [textiles](#), [apparel](#), [leather](#) and [footwear](#).
  - India's share in global exports of Apparel, Leather, Textiles, and Footwear (ALTF) initially grew from **0.9% in 2002** to a peak of **4.5% in 2013**, but it subsequently declined to **3.5% in 2022**.



- **Increased GVC Participation:** By integrating into **GVCs**, India can:
  - **Expand the variety** of what it produces by participating in the production of higher-added value goods.
  - Enhance its **competitiveness** by gaining access to advanced technologies and global markets.
  - Increase flows of **FDI** by multinationals seeking to produce in India.
- **Balancing Liberalisation and Protectionism:** India's trade policy includes both **liberalising and protectionist** measures. For instance, initiatives like the [National Logistics Policy 2022](#) and [digital reforms](#) aim to lower logistics costs and improve trade facilitation.
  - Conversely, there has been a resurgence in protectionist measures, such as increased [tariffs and non-tariff barriers](#), which restrict India's trade openness.
- **Trade Agreements:** Recent [Free Trade Agreements \(FTAs\)](#) with countries like the UAE and Australia indicate a shift towards **preferential trade agreements**. However, India has avoided joining large trade blocs, like the **Regional Comprehensive Economic Partnership (RCEP)**, despite potential benefits.
- **Reevaluating India's Tariffs and Industrial Policies:** India has become a **net exporter of mobile phones** as exports have surged amid falling imports due to policies like [National Electronics Policy 2019](#), [Production Linked Incentives \(PLI\) scheme 2020](#).
  - However, recent **hikes in import tariffs on key intermediary inputs**, which brought average tariffs from 4% to 18% between 2018 and 2021, **threaten the sector's competitiveness**.
- **Opportunities for India:** Heightened perceptions of **geopolitical risks** have prompted companies to diversify their sourcing strategies.
  - This presents an opportunity for countries like India with an **abundant workforce** and a growing [manufacturing base](#).

(USD mn, 12 months rolling average)



## Why is India Hesitant to Reconsider Joining RCEP?

- **Flawed Assumptions in World Bank's Suggestion:** The World Bank study projected income gains of **USD 60 billion by 2030**, but it does not consider that most of these gains would come from **increased imports, leading to trade imbalances.**
- **Trade Deficits Among RCEP Members:** Since the RCEP became operational, **ASEAN's** trade deficit with China grew from **USD 81.7 billion in 2020 to USD 135.6 billion in 2023.**
  - Similarly, **Japan's** trade deficit with China increased from **USD 22.5 billion in 2020 to USD 41.3 billion in 2023.**
  - South Korea may also face a trade deficit with China for the first time in the year 2024.
- **Overdependence on China-Centric Supply Chains:** The rising trade deficits of RCEP members highlight a growing dependence on **China-centric supply chains.**
  - This dependency presents significant risks, especially in the context of global supply chain disruptions, such as those experienced during the **Covid-19 pandemic.**
- **Unfair Competition:** By not joining RCEP, India maintained the flexibility to explore other trade agreements that do not disproportionately favour China or threaten its **economic interests.**
  - India's trade deficit with China rose to **USD 85 billion in 2023-24**
- **Alternative Trade Agreements:** India already has several functional **Free Trade Agreements (FTAs)** with 13 out of 15 RCEP members, **except New Zealand and China.**
- **"China Plus One" Strategy:** India's decision to not join RCEP aligns with the global trend of adopting the **"China Plus One" strategy** to mitigate risks associated with dependence on China.

## What is Regional Comprehensive Economic Partnership (RCEP)?

- RCEP is a **trade agreement** between the **10 ASEAN countries** and their five Free Trade Agreement (FTA) partners: **China, Japan, South Korea, Australia, and New Zealand.**
- RCEP was introduced during the **19<sup>th</sup> ASEAN Summit in November 2011**, and negotiations began in **November 2012.**
  - RCEP entered into force on **1st January 2022.**
- It is the **world's largest FTA** when measured by **combined GDP (26 trillion dollars), population (2.27 billion)** and **total export value (5.2 trillion dollars)** of signatory parties.

# 15 Countries Sign World's Biggest Free Trade Deal

Key facts about the Regional Comprehensive Economic Partnership free trade deal



Countries  
**15**

Population  
**2.2 billion**

Combined GDP  
**\$26.2 trillion**

Share of global trade  
**28%**

Share of global economic output  
**30%**

## Way Forward

- **Bilateral Free Trade Agreements (FTAs):** Negotiations for a comprehensive FTA with new partners like the United Kingdom and [European Union](#) should be concluded at earliest.
- **Trade Agreements with Gulf Countries and Africa:** India should actively negotiate and expand trade agreements with [Gulf Cooperation Council \(GCC\)](#) countries and African nations, focusing on energy, infrastructure, and digital cooperation.
- **Strengthening Existing Regional Groupings:** India should continue to advocate for regional trade integration within [SAARC](#) and focus on strengthening [BIMSTEC](#), which connects South and Southeast Asia.
- **Indo-Pacific Economic Framework (IPEF):** India should complement its "Act East Policy." by actively participating in [IPEF](#) to enhance regional cooperation in four key areas: trade, supply chain resilience, clean energy, and fair economy.
- **Self-Reliant India:** Government should enhance domestic manufacturing capabilities and exports by boosting domestic manufacturing. Schemes like [Make in India 2.0](#) and [Production Linked Incentive \(PLI\) Schemes](#) should be given a renewed push.

### Drishti Mains Question:

Q. Critically analyse India's decision to opt out of the Regional Comprehensive Economic Partnership (RCEP).

**UPSC Civil Services Examination Previous Year Question (PYQ)**

**Prelims**

**Q1. Consider the following countries: (2018)**

1. Australia
2. Canada
3. China
4. India
5. Japan
6. USA

**Which of the above are among the 'free-trade partners' of ASEAN?**

**(a)** 1, 2, 4 and 5

**(b)** 3, 4, 5 and 6

**(c)** 1, 3, 4 and 5

**(d)** 2, 3, 4 and 6

**Ans: (c)**

**Q2. The term 'Regional Comprehensive Economic Partnership' often appears in the news in the context of the affairs of a group of countries known as(2016)**

**(a)** G20

**(b)** ASEAN

**(c)** SCO

**(d)** SAARC

**Ans: (b)**