



Reassessing India's Stance on RCEP

For Prelims: [World Bank](#), [Regional Comprehensive Economic Partnership \(RCEP\)](#), [Global Value Chains \(GVCs\)](#), [National Logistics Policy 2022](#), [FDI](#), [Free Trade Agreements \(FTAs\)](#), [Production Linked Incentives \(PLI\) scheme 2020](#), [ASEAN](#), [Comprehensive and Progressive Agreement for Trans-Pacific Partnership \(CPTPP\)](#), [NITI Aayog](#).

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

Source: FE

Why in News?

Recently, the CEO of [NITI Aayog](#), expressed support for India's inclusion in the [Regional Comprehensive Economic Partnership \(RCEP\)](#) and [Comprehensive and Progressive Agreement for Trans-Pacific Partnership \(CPTPP\)](#).

- His remarks reflect a shift from India's current stance on RCEP, aligning with recommendations from the [Economic Survey 2024](#), which advocates India's integration into the regional supply chain networks.

What is RCEP?

▪ About:

- The [Regional Comprehensive Economic Partnership \(RCEP\)](#) is a major economic agreement formed between the [Association of Southeast Asian Nations \(ASEAN\)](#) and their [Free Trade Agreement \(FTA\)](#) partners.
- RCEP is the **world's largest trading bloc**.
- It is designed to **promote economic integration, trade liberalization, and cooperation** among member nations.
- Its negotiations began in 2012 and it was officially signed in November 2020, marking a major milestone in regional trade. It was entered into force on 1st January 2022.

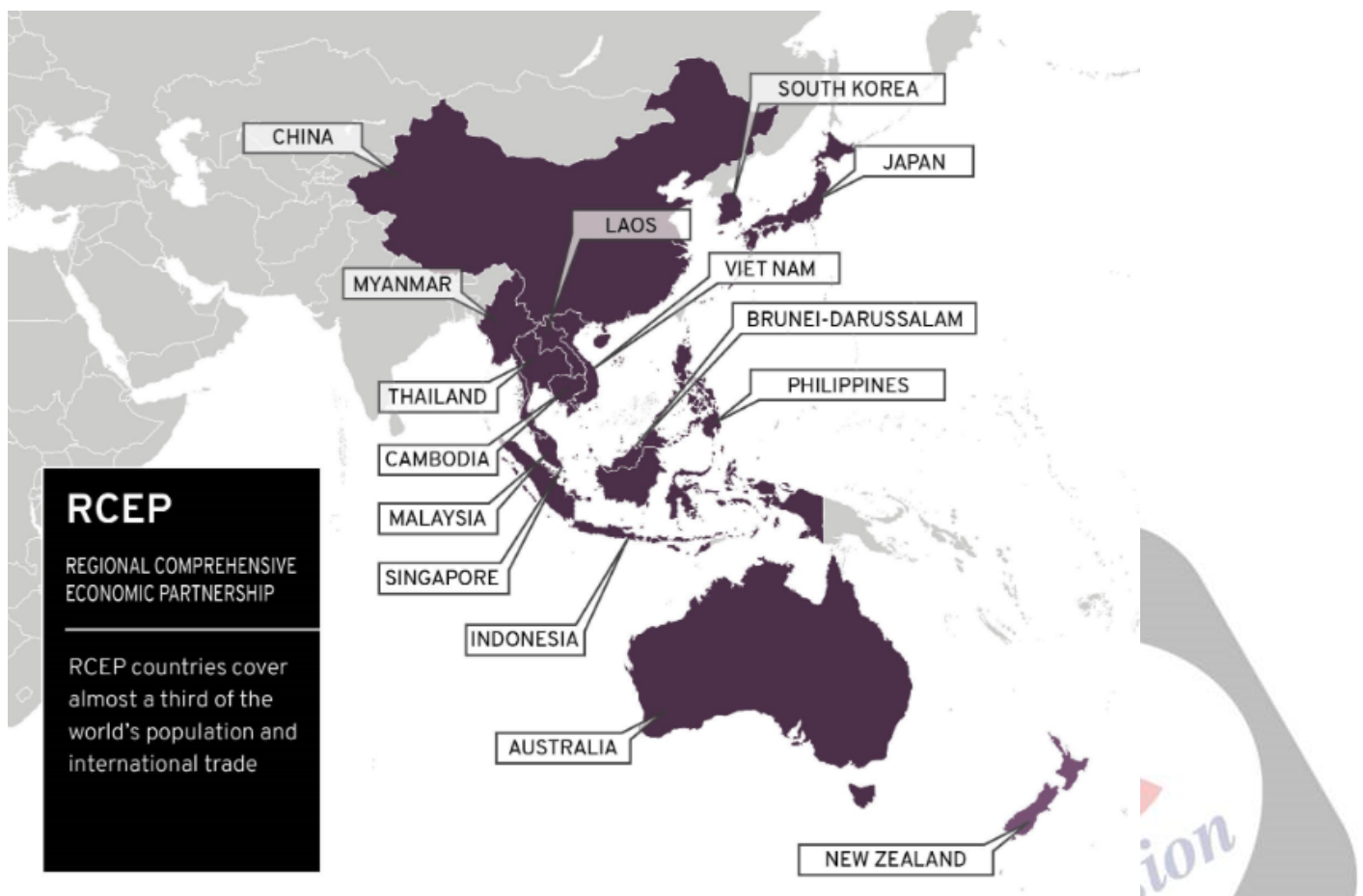
▪ Objectives:

- To facilitate trade and investment across member countries.
- To reduce or eliminate tariffs and non-tariff barriers to promote seamless trade.
- To strengthen economic cooperation and bolster regional supply chains.

▪ Member Countries:

- 15 countries signed RCEP in 2020: 10 ASEAN member countries (**Brunei, Cambodia, Indonesia, Malaysia, Myanmar, Singapore, Thailand, the Philippines, Laos, and Vietnam**) and their 5 [free trade agreement \(FTA\)](#) partners - **China, Japan, South Korea, Australia, and New Zealand**.

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▪ Coverage Areas:

- The RCEP agreement covers several key areas, including: Trade in goods and services, Investment and economic cooperation, Technical cooperation, Intellectual property rights, Competition policies, Dispute resolution mechanisms, E-commerce and Support for [small and medium enterprises \(SMEs\)](#).

▪ Trade Volume:

- RCEP member countries collectively represent **over 30%** of the global [Gross Domestic Product \(GDP\)](#) in 2019 and cover about **one-third of the world's population**.

▪ India and RCEP:

- India was initially a part of the RCEP negotiations but decided to **withdraw in 2019**.

Why did India Withdraw from RCEP?

▪ "China Plus One" Strategy:

- India's decision aligns with the global trend of the ["China Plus One" strategy](#), which aims to reduce over-reliance on China by diversifying supply chains and trade relationships.

▪ Growing Trade Deficits:

- Since the implementation of [RCEP](#), trade deficits have risen significantly for several member nations.
- RCEP would have exacerbated India's trade deficit, as seen in other countries. For example, ASEAN's trade deficit with China increased from USD 81.7 billion in 2020 to USD 135.6 billion in 2023.

▪ Dumping of Chinese Goods:

- India was concerned of an **influx of cheap Chinese products**, which could harm domestic industries. The country's **trade deficit** with China had already surged to USD 85 billion in 2023-24.

▪ Protection of Domestic Industry And Rules of Origin Norm:

- India's withdrawal from RCEP was partly due to concerns over **protection of domestic industries**, particularly in sectors like [dairy](#) and steel, where tariff reductions from 35% to

- zero would expose them to competition from Australia and New Zealand.
- Additionally, India was wary of the **rules of origin** provisions, fearing that products could bypass Indian tariffs by being routed through other countries, weakening safeguards for domestic industries.

What is CPTPP?

▪ About:

- The [Comprehensive and Progressive Agreement for Trans-Pacific Partnership \(CPTPP\)](#) is a [free trade agreement \(FTA\)](#) among **11 countries: Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, Peru, New Zealand, Singapore, and Vietnam.**
- The CPTPP was officially signed on 8th March 2018, in Santiago, Chile, marking a significant step in regional trade cooperation.

▪ Significance:

- The CPTPP **eliminates 99% of tariffs** on goods and services, promoting economic integration. It includes **strict environmental provisions** to curb [wildlife trafficking](#), protect vulnerable species, and regulate unsustainable logging and fishing, with penalties for non-compliance.
- All members are part of [APEC](#), which fosters economic growth in the Asia-Pacific region.

▪ India's stand:

- **India did not join the CPTPP** due to concerns over stricter **labor and environmental standards**, narrowly defined **investment protection** clauses, and detailed **transparency requirements** that could limit India's regulatory autonomy.

What are the Major Benefits for India in Joining RCEP and CPTPP?

▪ Access to Expansive Markets:

- Joining **RCEP** and **CPTPP** would grant India access to larger markets, particularly in the Asia-Pacific region, boosting exports, especially from MSMEs that contribute **40% of India's exports.**
- Reduced tariffs and trade barriers would enhance MSME competitiveness, while easier access to technology and resources would support scaling up production under initiatives like "[Make in India.](#)"
- It would boost **India's supply chain integration, reduce logistics costs, and improve manufacturing efficiency.**

▪ Utilizing the "China Plus One" Strategy:

- India, with its skilled workforce and growing industrial base, is well-placed to attract foreign investment as part of the "[China Plus One](#)" strategy. Countries like Vietnam, Indonesia, and Malaysia have benefited significantly from this shift.
- By joining **RCEP**, India can capitalize on the shift of multinational companies seeking alternatives to Chinese manufacturing, positioning itself as a key manufacturing hub in the region.

▪ Improved Trade Competitiveness and FDI:

- Joining RCEP would enhance India's global trade competitiveness by reducing [tariffs and non-tariff barriers](#), making its products more price-competitive, particularly in markets like Japan, South Korea, and Australia.
- It would also attract [FDI](#) by providing better market access and clearer trade terms, boosting investments in infrastructure, manufacturing, and technology, thereby driving economic growth and job creation.

▪ Strengthening Trade Negotiating Power:

- It would **enhance India's trade negotiating power**, enabling it to influence trade rules and negotiate favorable terms in sectors like agriculture, technology, and services, while protecting domestic interests and **boosting exports.**

▪ Innovation and Knowledge Exchange:

- RCEP promotes [intellectual property rights](#) and **technology exchange**, offering India access to advanced technologies and fostering collaboration with countries like Japan and

South Korea which would enhance innovation, boost competitiveness, and strengthen India's technological capabilities

Impact of India's Current Tariff Structure on its Global Trade Competitiveness

- **Average Applied Tariffs:**
 - India's average applied tariff stands at around **13.8%**, which is significantly higher than **China's 9.8%** and the **United States' 3.4%**.
 - Although it is lower than some other economies when considering trade-weighted averages, India's tariffs remain a constraint on its trade relations.
- **High Bound Tariffs:**
 - India's bound tariff rates, particularly on agricultural products, are among the highest globally, ranging from 100% to 300%.
 - These high tariff rates create substantial **barriers for foreign exporters**, making Indian markets **less attractive and limiting India's integration** into global supply chains.

Way Forward

- **Bilateral Free Trade Agreements (FTAs):** India should prioritize finalizing comprehensive FTAs with key partners like the United Kingdom and the [European Union](#) to expand market access.
- **Strengthening Regional Groupings:** India must continue advocating for regional integration within [SAARC](#) and enhance ties with [BIMSTEC](#), which connects South and Southeast Asia.
- **Trade Agreements with Gulf Countries and Africa:** Active negotiations with [Gulf Cooperation Council \(GCC\)](#) countries and African nations should be pursued, with a focus on sectors such as energy, infrastructure, and digital cooperation.
- **Indo-Pacific Economic Framework (IPEF):** By participating actively in [IPEF](#), India can further its "Act East Policy," promoting regional cooperation in trade, supply chain resilience, clean energy, and fair economic practices.
- **Self-Reliant India:** To boost exports and manufacturing, the government should focus on strengthening domestic capabilities through initiatives like [Make in India 2.0](#) and [Production Linked Incentive \(PLI\) Schemes](#).

Drishti Mains Question:

Evaluate the potential benefits and challenges for India in joining the RCEP in the context of trade deficits and competition with China.

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)

Q. With reference to the 'Trans-Pacific Partnership', consider the following statements: (2016)

1. It is an agreement among all the Pacific Rim countries except China and Russia.
2. It is a strategic alliance for the purpose of maritime security only.

Which of the statements given above is/are correct?

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) Neither 1 nor 2

Ans: (d)