

Who Will Be The +1 In China+1?

India has many advantages over Southeast Asian countries while RCEP membership is their major advantage. We must counteract this by joining the trade group CPTPP

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With steadily rising tensions between the United States and China, the race to become the +1 in the China+1 contest is now in full swing. Contestants in the big league are countries in Southeast Asia, mainly Vietnam, Indonesia, Thailand, Malaysia, the Philippines and Cambodia, and in South Asia, principally, India and Bangladesh. Japan, South Korea, Taiwan and Singapore have also been occasional China+1 hosts but they are not big league players in view of their high wages.

Within the big league players, India is at an advantage for at least four reasons.

- First, it has by far the largest workforce. The UN Population Division estimates that working age population (those in 15-64 age group) in India stood at 950.2 million in 2021. The corresponding figure for the entire Southeast Asia was 456.6 million. The gap is predicted to rise over time. Between 2021 and 2040, Southeast Asia would add only 50.8 million to its working age population compared with India's 152 million.

- A closely related second advantage India has is its lower wage both because of the much larger workforce and the lower per-capita income. With as much as 45% of the workforce still in agriculture and the working age population predicted to grow more than in Southeast Asia, this wage advantage will persist for many years.

- India's third advantage is that internally it is a single market. What this means is that there are no barriers to the movement of goods and services within it. Components produced in different locations within the country can move freely to where they are needed.

Countries in Southeast Asia, though joined by a free trade area agreement, nevertheless remain separated by national borders. To cross the border free of custom duty, products must satisfy the rules of origin of the free trade area



(FTA) agreement. One may also argue that infrastructure in India still has some catching up to do. But it is fast catching up with the other countries.

- The fourth and final advantage India enjoys is its large internal market. India's GDP at \$3.4 trillion in 2022 is already significantly larger than \$3 trillion of Southeast Asia minus Singapore which is in Southeast Asia but not a competing China+1 location. More importantly, India is growing significantly faster than Southeast Asia and is predicted to maintain this margin for many years to come. Furthermore, Southeast Asia is not a single, borderless market.

These are considerable advantages that India enjoys over its competitor countries. These advantages will only grow in importance over time. But India also suffers one major disadvantage.

The countries in Southeast Asia are members of the Regional and Comprehensive Economic Partnership (RCEP) which additionally includes almost the entire East Asia, Australia and New Zealand. The presence of China in RCEP gives them a major advantage since the existing supply chains are over-

products. Even setting aside the China+1 race, India's limited engagement with Asia is a cause for concern. With three of the five largest economies of the world already in Asia, the economic centre of gravity of the global economy is now in this region. India needs deeper engagement with it.

During his early years in office, PM Modi had given a major boost to India's engagement with Asia by upgrading its "Look East" policy to "Act East". But the momentum generated in those years has suffered, especially since the deterioration of our relationship with China. But this souring of relations should be all the more reason for us to forge tighter ties with the remainder of Asia.

Given that China is a member of RCEP, we are unlikely to consider joining it. This leaves only two main avenues to deepening the engagement with Asia: strengthening the existing FTA with the Association of Southeast Asian Nations (Asean) and seeking the membership of CPTPP.

It is unfortunate that we have instinctively rejected joining CPTPP without giving it due consideration. Whatever the potential cost of concessions on non-trade components of this agreement, it requires our urgent closer scrutiny.

If we wait till China, which already has a membership application pending with the grouping, has acquired membership, we would end up with an RCEP-like situation in this case as well. Becoming the world's third largest economy and Asia's second largest and still staying out of both existing large free trade blocs in the region cannot be to our advantage.

We must back our ambition to become a developed country by 2047 by courage to modernise our regulatory systems and laws. Joining CPTPP with a 20-year implementation period negotiated as a part of the deal potentially offers us the opportunity to do this. Simultaneously, gaining duty-free access to this large market is bound to make us the number one China+1 destination.

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Malaysia and Thailand are also members of the Comprehensive Progressive Trans-Pacific Partnership (CPTPP), which accounts for one-sixth of the world GDP. Canada, Mexico, Chile and Peru from the Americas are among the members of CPTPP.

Absence of India from these two large free trade area arrangements in Asia is a major handicap especially when considered in conjunction with its significantly higher tariffs on most