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India's Withdrawal from RCEP A Vantage For China in the Region?

Gargi L Shanbhag

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An Overview

In November 2019, India formally withdrew from the Regional Comprehensive Economic Partnership (RCEP), citing China's overarching presence and protective stances towards Indian markets and businesses, among others. New Delhi's genuine concern about existing trade deficit with Beijing and the downsides of zero tariffs on imports impacting domestic MSMEs has kept it away from the Indo-Pacific's biggest trade bloc. This brief intends to unpack the nuances of RCEP and understand India's position and its implications for New Delhi and Beijing's bilateral trade and foreign policy relations.

This brings us to the core argument of this brief, which looks into India's desire to avoid as well as balance China's influence in the growing trade order in the Indo-Pacific. Moreover, India also seeks economic autonomy, which RCEP does not guarantee. The imperative is, that New Delhi pursue its trade goals outside of RCEP but within its Act East Policy. This brings us to assess other ways India can trade with ASEAN nations. The objectives of this issue brief will be as follows:

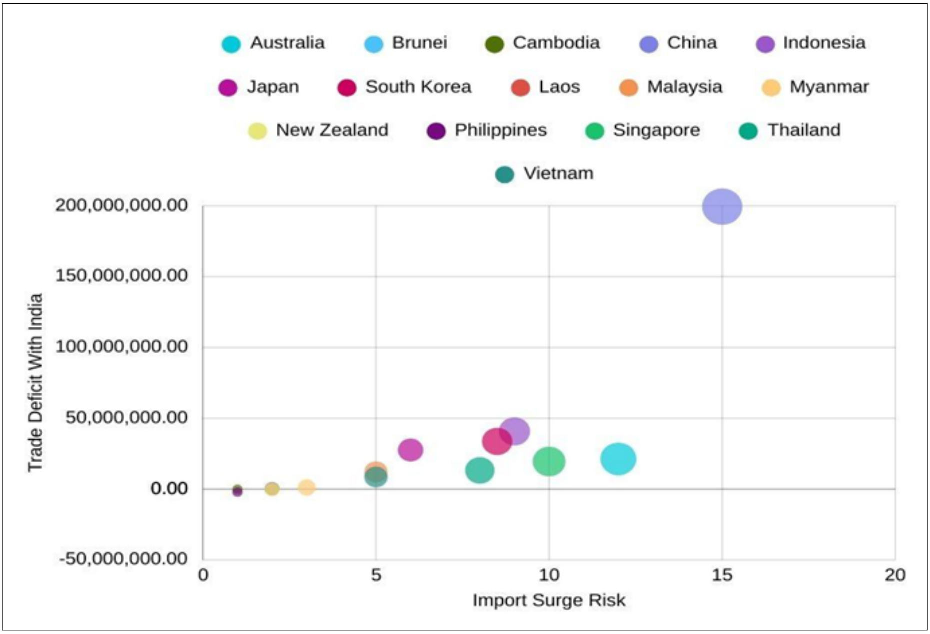
1. Introduction - Contextualising RCEP
2. Implications on India-China relations
    - Bilateral Foreign Policy
    - Trade
    - Indo-Pacific Geopolitics
3. Evaluating India's Safer Bet: Exit from RCEP
4. U.S.-China Decoupling and India's Way Forward

Introduction – Contextualising RCEP

Under UPA government, led by the Congress Party, initiated discussions on an India-China Free Trade Agreement (FTA) in 2007 and formally joined RCEP negotiations in 2011–12. The BJP government has since attributed India's unfavourable trade situation to these earlier decisions, arguing that they resulted in a structurally imbalanced agreement (Panda, 2019). Consequently, India's trade deficit with RCEP nations surged from $7 billion in 2004 to $78 billion in 2014, placing significant strain on domestic industries. Against this backdrop, India sought a more equitable outcome at the RCEP negotiations, advocating for a framework that safeguarded the interests of all member states and key economic sectors. However, the trade imbalance remained substantial.

In November 2019, India formally withdrew from the final negotiations of the RCEP, citing China's dominant presence in rule-making being a primary factor (Panda, 2019). A key consideration for New Delhi was its existing trade deficit with Beijing, as well as with nearly all RCEP signatory countries. The current government knew that joining RCEP would significantly impact India's domestic manufacturing sector by exposing it to an influx of low-cost imports. To mitigate this, India is expected to seek specific safeguards for its industries and agricultural sector, particularly against a surge in Chinese imports.

In 2018–19, India's total imports from RCEP countries stood at $172.9 billion. Exports amounted to only $67.8 billion, resulting in a trade deficit of $105.1 billion (Mishra, 2019). In the following year, 2023–2024, India's imports from ASEAN totalled $79.67 billion, constituting approximately 11 per cent of the country's global trade. Key imports from the region include palm oil, rubber, and natural gas, underscoring the economic interdependence between India and ASEAN nations (Dutta Mishra, 2024).



The above graph supports India's rationale for opting out of RCEP as it succinctly elaborates the import surge risk posed by ASEAN member nations, along with China and Australia.

Due to this, the Modi government had expressed concerns over the terms of previous FTAs, stating that past negotiations did not sufficiently protect & prioritise India's economic interests. As a result, there is a renewed emphasis on reassessing India's trade pacts with ASEAN and other RCEP member countries, including Australia, South Korea, and Japan. Additionally, India is seeking to advance trade negotiations with partners where progress has been limited in recent years, such as the European Union. New Delhi is also aiming to diversify its import sources through ASEAN to mitigate supply chain vulnerabilities and reduce reliance on any single trade partner.

China, Japan, and South Korea are the primary beneficiaries of RCEP, accounting for over 80 per cent of the bloc's GDP. The agreement facilitates trade liberalisation by eliminating 90 per cent of tariffs over 20 years and establishing the first-ever FTAs between China-Japan and Japan-South Korea (Global Trade Research Initiative, 2024). Their complementary economies, geographic proximity, and integrated supply chains strengthen regional trade flows, particularly in manufacturing and technology. RCEP is projected to generate significant economic gains, with China expected to benefit the most ($85 billion). Additionally, analysts suggest that RCEP will shift the economic centre of gravity towards Asia, allowing China to shape regional trade rules in the absence of U.S. participation.

Moreover, the absence of major global players like the United States, Russia, and India in RCEP has created a power vacuum, allowing China and other regional powers to shape the bloc’s trade rules and strategic direction. Finally, RCEP lacks commitment to internationally recognised labour standards and omits any provisions related to climate change, raising concerns about the agreement's broader socio-economic and environmental repercussions (Ranald, 2020).

Implications on India-China relations

Understanding China's 'double-engine' strategy—comprising the Belt and Road Initiative (BRI) and RCEP—is essential to understanding its broader geo-economic ambitions in the Indo-Pacific and its repercussions on India. The two frameworks are complementary, with the BRI focusing on infrastructure development to enhance connectivity and facilitate the movement of goods, services, and data within the RCEP region (Our China Story, 2024). RCEP, in turn, provides a structured mechanism for trade and investment, reinforcing China's influence over multilateral economic governance.

Furthermore, RCEP aligns with China's 'dual circulation strategy' (DCS), which prioritises domestic consumption while maintaining global economic engagement. DCS is a key pillar of China's 14th Five-Year Plan (2021–2025), with a strong focus on fostering 'internal circulation' as the primary engine of economic development (Herrero, 2021). This approach seeks to reduce reliance on external markets and technology, strengthen self-sufficiency, and drive economic growth through an internally driven market. While emphasising domestic resilience, China continues to attract foreign direct investment (FDI), diversify import sources, and expand export markets, particularly in emerging economies (Nakazawa, 2023). The results of these are quick to follow. Following RCEP implementation, China has seen an enhancement in its trade surplus with ASEAN member nations. It will be safe to say that China has made RCEP its' playground, where it sows and reaps the benefit.

Bilateral Foreign Policy

Foremost, being the China-Pakistan Economic Corridor (CPEC) which it is vehemently against, due to border and sovereignty conflicts with Pakistan. Even though there is a perceived thaw in New Delhi-Beijing relations, not all is okay. Direct air connectivity between these two neighbours has been resumed after a gap of almost five years (Afzal, 2025). Apart from this, multiple significant border skirmishes at Doklam, Depsang Plains (Northern Ladakh), Pangong Tso, Hot Springs, and baseless claims on Arunachal Pradesh pose major hiccups in their bilateral foreign policy (Sharma, 2024). Additionally, India banned several Chinese applications like TikTok and Tencent, but continues to heavily rely on Chinese technology and software systems, posing a major national security threat. It is a no-brainer that in the coming months, China will rise to become an imperialistic predator thanks to RCEP (Ghosal, 2025).

Trade

India's reluctance to join RCEP stems from concerns that the agreement would exacerbate its trade deficit, particularly by facilitating an influx of Chinese goods and undermining anti-dumping measures (The SAIS Review of International Affairs, 2020). Even ASEAN's trade deficit with China has widened significantly, from $81.7 billion in 2020 to $135.6 billion in 2023, reinforcing India's apprehensions. By staying out of RCEP, India retains strategic autonomy over its supply chains, enabling a more assertive response to economic pressures from China. However, having said that, despite the political tensions, trade between India and China remains significant. India can, however, aim to reduce its dependence on China by diversifying its trade partners and boosting domestic manufacturing. It can also prioritise bilateral and regional trade agreements, including FTAs with the UK and the EU, while strengthening economic ties within SAARC and BIMSTEC.

The following table gives a snapshot of the trade deficit which India had (as of the year 2020), with China and other ASEAN-FTA nations.

Trade Deficit	Source Report	Inference
With China: $63 billion	The RCEP Minus India: Reasons and Implications	Highlights India's existing trade deficit with China, which influenced its decision to withdraw from RCEP.
With FTA countries: $105 billion (2018-19)		Indicates the increase in India's trade deficit with countries with which it has FTAs.
Trade deficit growth: $54 billion (2013-14) to $105 billion (2018-19)		Shows the doubling of India's trade deficit over six years, emphasizing concerns about future deficits under RCEP.

(The SAIS Review of International Affairs, 2020)

Indo-Pacific Geopolitics

With the return of Trump to the White House, there surely will be noteworthy developments in the Indo-Pacific. However, India's rise as a Great Power and China's hegemonic growth due to its 'double-engine' strategy will impact Indo-Pacific geopolitics, in matters of security, multilateral forums, economy, etc. This development will also lead to a strong geopolitical contestation between the two Asian giants. With RCEP enabling Beijing to broaden its sphere of influence, New Delhi has to look for alternate channels to redeem and build what RCEP cannot offer. Moreover, this trade bloc will also push New Delhi to assert its economic and military presence in the Indian Ocean Region (IOR) and the South China Sea region.

Exit from RCEP: Zero-Sum Game?

If one has to analyse India's Look East policy, subsequently manifested in the 'Act East' policy, where it intends to focus on India's North-Eastern states and developing connectivity with South-East Asia. This has been a mixed bag of outcomes. However, the Modi government criticised the ex-PM Manmohan Singh government for initiating RCEP negotiations in 2011–12 and exploring an India-China FTA in 2007 (Panda, 2019). The current government argues that these decisions contributed to an unfavourable trade balance, as India's trade deficit with RCEP nations surged from $7 billion in 2004 to $78 billion in 2014.

Hence, under the Modi government, FTAs with ASEAN countries need severe damage control. Part of the reason India has made no net gains from past trade agreements is its own inverted duty structure, which taxes imported finished goods at a lower rate than raw materials, making Indian-manufactured goods less competitive. India's decision to opt out of the trading bloc has been strategically sound for several reasons:

- **Protecting Against Trade Imbalances:** RCEP's gains are disproportionately skewed toward China, leading to unfair competition. Had India joined RCEP, it would have faced zero-tariff imports from China, risking further imbalance, as India already has the largest trade deficit and trust issues with China.
- **Avoiding Import Surges:** India was concerned that opening its market to China, another RCEP member, would lead to a flood of cheap Chinese goods crowding out Indian-produced products. Additionally, imports from ASEAN have outpaced India's export percentage.
- **Marginal Benefits Due to Existing FTAs:** India already has FTAs with 13 out of 15 RCEP members, excluding New Zealand and China. Consequently, the expected benefits from RCEP would have been marginal for India. Moreover, ASEAN is India's fourth-largest trading partner, replacing the EU with a total trade of more than USD 47 billion during April-June 2022-23 (Global Trade Research Initiative, 2024).
- **Maintaining Policy Flexibility:** RCEP also included proposals that go beyond WTO rules for intellectual property. Two particularly controversial proposals included demands for data exclusivity and patent term extensions, which would have hurt one of India's major exports: generic pharmaceutical products.
- **Focus on Domestic Reforms:** Modi's decision to opt out of the agreement entirely was hailed by the steel, auto, copper, and aluminium industries in particular. India needs to reform its domestic policies and streamline its existing free trade agreements so it can reap the intended rewards. New Delhi also had to consider the fear Indian farmers face from foreign agricultural products, and dairy farmers share similar concerns about heightened competition from the Australian dairy industry. Lastly,

FTAs with Japan, South Korea, and ASEAN have led to the decline of manufacturing in India.

- **Validating Concerns Over Economic Imbalances:** India's decision to opt out of the RCEP was strategically sound, as subsequent developments have validated its concerns over potential economic imbalances, which increasingly favour China over other member nations.

Beyond these, several other disadvantages pushed India to stay out of the bloc. More so, MEA S. Jaishankar opined that trade deals have led to deindustrialisation in sectors like electronics and light manufacturing (Outlook Business, 2024). Addressing these concerns, regarding the trade imbalance with China, EAM Dr. S Jaishankar stated:

“The big concerns of India are of course, one, its relationship with China because we have an enormous trade deficit with China.”

(The Economic Times, 2019)

By not joining RCEP, India has also successfully avoided trade diversion (Sundaram, 2022). How? By not being part of RCEP, India can protect its domestic industries from competition with less efficient producers within the bloc that could arise due to diverted trade flows. India can pursue a more strategic trade policy that focuses on bilateral agreements and partnerships that align better with its economic interests, rather than being constrained by the terms of a disadvantageous agreement like RCEP.

There are also some dubious policies underlying this China-led trade bloc. Concerns exist that multinational enterprises in high-income RCEP member states might shift production from high-cost environments to lower-cost locations, potentially raising questions about ethical labour laws, practices, and pay parity. Interestingly, the Australian government refused to commission an independent study of the economic or social costs and benefits of RCEP in Australia for unknown reasons (Ranald, 2020).

India’s Way Forward

Moving on, what South Block can in fact do is, explore other pathways to collaborate with ASEAN on an economic front. Policymakers should take note of the fact that RCEP might be one of the biggest blocs, but it is not the only one. Forums like AITIGA, ASEAN-India Summit, ASEAN-India Economic Ministers' Meeting, and the ASEAN-India Business Council (AIBC) and others provide ample space for India-ASEAN trade to blossom without the presence of other extra-regional players like China, Japan, South Korea etc. AIFTA can be also reworked by tweaking certain clauses which are mutually beneficial. FTAs in their current form do more harm than good to the Indian economy, businesses and MSMEs. India-initiated connectivity projects like the India-Myanmar-Thailand Trilateral Highway (IMTTH), Kaladan Multi-Modal Transit Transport Project (KMMTTP), Mekong-India Economic Corridor (MIEC), etc. These corridors facilitate participant countries to develop infrastructure, enhance their economic base, and reduce transit distance between India and ASEAN countries. This will subsequently serve as a regional alternative to Chinese transit supremacy, thus India becomes an answer to ‘China Plus One’ in the transit sector. Moreover, India should also focus on becoming the option provider to ‘China plus one’ in the Indo-Pacific region, thus assisting other nations to de-risk their economy, supply chain routes, etc by providing them with alternative options. For this, India should exploit other existing India-ASEAN forums.

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