Trade in India: The effects of tariff liberalization by Kairav Narendran

Abstract

This paper investigates the reasons for India's withdrawal from the Regional Comprehensive Economic Partnership (RCEP) and also investigates the reasons for the growing trade deficit between India and China. The paper compares India's economy to other emerging markets in the RCEP, like Vietnam, and highlights the benefits that Vietnam received from its involvement in the RCEP. This paper reviews the strengths and weaknesses of both the Indian and Chinese economies and explains concepts like consumer/producer surpluses and comparative advantages. Additionally, further research is done on the growing consumer market in India, which is primarily caused by India's growing labor force. The objective of this paper is to convince the reader that India should rejoin the RCEP, under certain conditions. The paper argues that reintegrating in the RCEP will reduce reliance on China for imports, while also protecting India's own industries by setting certain guidelines for the agreement.
Keywords: Trade deficit, comparative advantage, India, tariff liberalization

Introduction

India is one of the most heavily populated countries in the world, and they have one of the largest economies in the world. Their economy is supported by a large labor force and by their services industry. Another factor that makes India's economy so strong is its trade alliances with other countries. After 1991, India's economy began to show promise, with its markets becoming more open to foreign investment and tariffs on Indian exports being reduced (Singh). While India maintains good relations with most countries and is active in many different free-trade agreements, there is one trade partnership that India has chosen to withdraw from. This trade agreement is the Regional Comprehensive Economic Partnership (RCEP), and India chose to leave the agreement in 2019 due to concerns of trade deficits with countries like China. India's trade deficit was around $48.65 billion in 2019-20 (Jayaswal).

While India's economy has seen significant growth in the past 10-15 years, its withdrawal from the RCEP has limited its potential to expand its sectors and industries. India is involved in numerous trading agreements, bilateral and free trade, like the comprehensive economic partnership agreement with Japan and South Korea.

The RCEP is an important trade agreement because it involves 15 countries that represent 30% of the world's GDP and population, making it a great opportunity for India to export its goods and services without the threat of tariffs (Tseng & Shiojiri). Trading relations with India and China are very important because they can both benefit from trading with each other, with India gaining access to China's technological products and China gaining access to India's large labor force with lots of potential for expansion into the Indian consumer markets.

While India is always welcome to join the RCEP, they have chosen to avoid it since November 2019. India is classified as an emerging market, so having increased opportunities for importing and exporting their products is highly beneficial. Countries like Vietnam and Indonesia are also classified as emerging markets, and they have greatly benefited from joining the RCEP. Tariff liberalization was the primary focus of the trade agreement, and Vietnam's textile and agricultural industries experienced significant growth as a result of increased access to foreign markets.

Vietnam's income is projected to increase by 0.6% by 2050, which is around 245 billion, and an estimated 2.8 million jobs could be created, which helps reduce unemployment rates by a significant amount (*RCEP Creates New Growth Driver for Vietnam's Trade*). Vietnam's GDP is also set to increase by 4.9% in 2030, with exports increasing by 11.6% as well. Vietnam increased its total export turnover by 9.1% to around $61.2 billion in 2022, following a 2021 total of $55.9 billion.

All these improvements would not have been possible if Vietnam had not been in the RCEP, because the RCEP boosted Vietnam's export industry and made exporting costs a lot cheaper due to tariff liberalization. Around 90% of the products exported from Vietnam were exempt from tariffs, with the remaining 10% of products being tariffed to protect domestic industries. Nonetheless, 90% is a large amount, and the elimination of tariffs benefits small businesses the most, as they can scale up their businesses and influence the global supply chain.

Theoretical Framework

India's main reason to opt out of the RCEP was to avoid trade deficits with China and protect its domestic industries. However, since they have a large labor force consisting of highly skilled individuals, they would've been able to utilize it well. India's labor force is the largest in the world besides China, which gives it a comparative advantage over other countries like Vietnam or Indonesia. The RCEP would have allowed India to divert its resources to certain sectors that are more efficient, which makes production more efficient, lowers prices for consumers, and creates a consumer surplus. India already has a strong agricultural and manufacturing industry, and it can boost exports to other countries in the RCEP because the liberalization of tariffs will keep its export prices low.

However, allocating more resources to more productive sectors will temporarily disrupt the labor force, causing a short-term increase in the unemployment rate. Nonetheless, it will eventually return to its normal rate, and India's economy will greatly benefit from the increased exports.

This argument is supported by the Hecksher-Ohlin theory, which states that a country's exports are heavily reliant on the most abundant production factors (Jones). For example, India's massive labor force can be used to their advantage, but their limited capital affects their exports of technological products and other products requiring capital. This would lead to India exporting labor-intensive products and importing capital-intensive products. India's exports and imports will only be furthered with the RCEP through tariff liberalization. However, if India were to join the RCEP, it would create trade deficits with countries like China, which are both labor and capital-intensive.

China has the largest labor force in the world, and it spends a lot more on the research and development of new technologies compared to India. China's research and development expenditure growth in 2023 was 8.7%, which was far higher than the United States, which only saw a 1.7% growth rate (OECD). The Chinese government granted almost 800,000 patents in 2022 alone, showing strong support for innovators and inventors (Asian Insiders). China also has over a billion users on the internet, and the online consumer market is rapidly growing, with over a billion transactions taking place in 2024. India's domestic industries would face extreme competition from the Chinese companies because the RCEP trade agreement would allow them to export their products to India without any tariffs, which is one concern that India had with the trade agreement.

There are some advantages to a trade deficit, like lower prices for consumers, a broader range of goods and services, and the potential to increase employment in the industries that import foreign goods. However, trade deficits cause the country's currency to depreciate, and if a country is too reliant on imports, then it could cause some instability in the economy.

India has a strong manufacturing, agricultural, and services industry. These industries are labor-intensive, so India should be doing well in those areas. For example, India's agricultural industry growth went from 2.4% in Q1 to 5.5% in Q4 of fiscal year 23 (Rao). Their manufacturing industry started strong with a 6.1% growth rate in Q1, and ended strong with a 4.5% growth rate in Q4 of fiscal year 23. India's 8 core industries are coal, oil, natural gas, refinery products, fertilizers, steel, cement, and electricity. They all saw a 7.7% growth rate in 2023, which represents 40% of the industrial production index. Lastly, India's inflation rate declined and went from 7.7% in April 2022 to only 4.7% in April 2023.

There is a clear advantage for India's economy, and these industries provide lots of employment in India, and they boost their exports. Another industry that India dominates is the services industry, specifically the technological services industry. India exported $106 billion worth of IT services in fiscal year 2021-22 (EY India).

Since India has an absolute advantage over other countries in terms of their labor force, it can produce labor-intensive goods in large numbers and export them. However, India should utilize their large labor force in certain sectors/industries where it can thrive, which can give it a comparative advantage over other countries. A comparative advantage is the ability of a country or group to produce goods at a lower opportunity cost than another country or group (Corporate Finance Institute). Comparative advantage differs from absolute advantage because it focuses on the efficiency aspect of production, instead of the overall production numbers. For example, if India had a large labor force that had to produce capital-intensive goods, the opportunity cost of producing those capital-intensive products would be significant, as they can utilize their labor force and low labor costs to produce labor-intensive products. Luckily for India, its IT services industry enjoys a comparative advantage on the labor-intensive side of the economy, as it benefits from a large workforce filled with highly educated individuals with great technical skills. Most of the Indian workforce can communicate in English, which gives India a comparative advantage over countries like China, where English speakers are harder to come across (*Asian Century Institute - India Squanders Its Comparative Advantage*). There are also other labor-intensive industries that India does well in, with their textile industry and construction industry rapidly growing.

Having a comparative advantage over other countries is important because it allows India to expand into that sector/industry and increase their exports. If India utilizes their comparative advantages in the clothing industry and the footwear industry, it would be able to take over these industries as they require an abundance of cheap labor. Countries like Bangladesh and Vietnam are taking advantage of their labor force by becoming increasingly competitive in these industries, and India should also become increasingly competitive in these industries, as they have both absolute advantage and comparative advantage over Bangladesh and Vietnam. While India has a large population, their domestic market is quite small, so increasing its exports is necessary to expand its economy. For example, the Organization for Economic Cooperation & Development (OECD) has around the same population as India, but around 20 times the GDP (Ahluwalia). India's domestic apparel market is valued at around $55 billion, whereas the valuation of the OECD's domestic apparel market is around $380 billion.

The RCEP would highly benefit India's export industries, but India would have to utilize their comparative advantages for these labor-intensive industries to be successful in foreign markets. India is already seeing a strong export industry in their IT growth, so expanding into industries like the apparel industry will greatly benefit the economy. Countries like Japan, South Korea, Taiwan, and China have all rapidly expanded their economies by prioritizing their export turnover, so there is a lot of potential for India to grow their exports.

There are both advantages and disadvantages to tariffs. Tariffs restrict foreign products from being able to compete with domestic products, which limits the number of goods/services in that market. This affects the consumer as their access to quality goods/services is limited. However, these tariffs protect domestic industries from getting outcompeted. When there are advantages and disadvantages to tariffs, it is important to look at how the consumer market is affected by them.

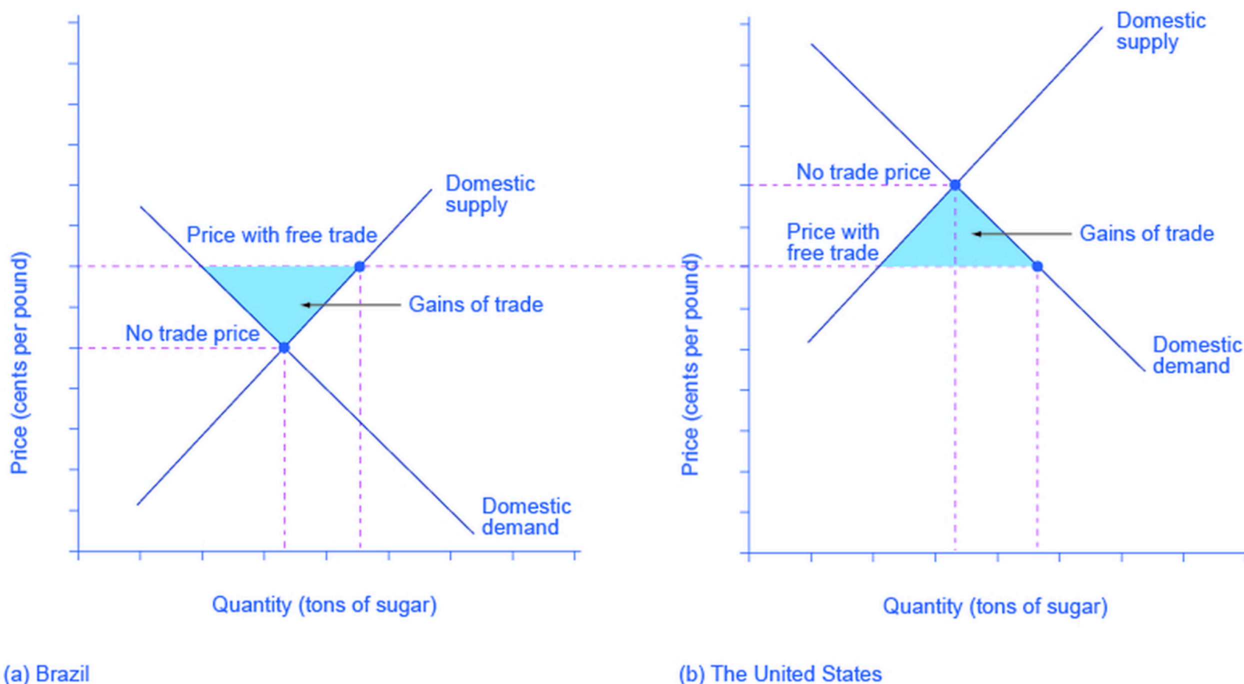
India's consumer market is rapidly growing, with a 46% projected growth rate by 2030, and an estimated $4.3 trillion in consumer spending, which is up from $2.4 trillion in 2024 (Asian News International). This sudden surge in consumer spending is due to a substantial increase in India's middle and upper-middle class income, which greatly increases the purchasing power of consumers. The Indian population also has a median age of 28, which is far less compared to countries like China and the United States, where the median age is 39 and 38. More women are also starting to join the workforce, with the percentage of women in the workforce going from 23% in 2018 to 42% in 2024. Not only are women becoming more active in the workforce, but there is a rise in dual-income households, which creates a larger demand for luxury goods and services. Additionally, the dependency ratio of India's population will go from 47% in 2023 to only 31% by 2031. The dependency ratio is the sum of the population under 15 and over 65 years old relative to the working population, which is between 15-64 years old (*WISH: Age Dependency Ratios*).

Having a decreased dependency ratio is beneficial to India's consumer market as it would create an increase in disposable income. Disposable income is income after taxes and other deductions, so there would be more people willing to spend on premium goods and services (*What Is Disposable Income?*). Massive transformations to India's consumer market aren't only occurring for wealthier individuals, and even rural parts of India are seeing more urbanization efforts and efforts to transition to a digital landscape. Demand for goods and services in the more underdeveloped parts of India has been steadily increasing, and it has resulted in an 8.7% compound annual growth rate for India's per capita income since 2015. Despite all these factors expanding India's consumer market, there is still a lot of potential for it to grow even more. The transition from unbranded to branded retail products is noticeable, and retail spaces in India are becoming more organized. This massive transition is projected to increase consumer spending by around $600 billion, which is significant for the Indian consumer market.

The main objective of the RCEP is to liberalize tariffs for imported products, allowing them to enter foreign markets and compete against domestic products. Countries that are not in such trade agreements will not have the benefit of improved trade access, so products from those countries are limited to which markets they can trade in. Similarly, a country that restricts import volume by placing tariffs on imported products will suffer because it would reduce the consumer surplus in the consumer market. A consumer surplus is the difference between the price a consumer is willing to pay for a good and the actual price that they pay (*Consumer*

Surplus and Producer Surplus). For example, if the price of a dozen eggs in India is $1.27, and the customer pays $1 instead, there is a consumer surplus of 0.27 cents.

Consumer surpluses are highly beneficial to the consumer market as they increase the consumer's purchasing power. Consumer surpluses are related to trade agreements because consumer surpluses are more evident when there are more products on the market. For example, in the United States, they would sell clothes manufactured in the United States at a higher price compared to apparel made in India or China, where labor is cheaper. If both products are similar, the customer would be more inclined to buy the cheaper product, creating a consumer surplus.



Figures 1 (a) and (b) show the benefits of free trade, which include increased surpluses and increased gains overall in Brazil and the United States, respectively. However, shifts in income distribution are evident. (*Demand and Supply Analysis of International Trade | Macroeconomics*)

The horizontal line in **Figure 1(a) and (b)** represents the world market price, which is lower than domestic prices that don't involve trade. Imports are there to cover the gap between the demand at a lower price and the supply of domestic producers. The extended consumer surplus is highlighted in blue, and it represents the benefits of paying less for more, which is given to the consumer. **Figure 1(a)** shows that Brazilian sugar producers are able to sell at higher prices, and **Figure 1(b)** shows the benefits that American consumers receive, which are lower prices and higher supply of sugar. For the RCEP, their consumer markets would benefit from a surplus as Indian goods will be available at a cheaper price. However, if a certain good like textiles in figure 1 had lots of tariffs applied to it, it would become more expensive than the product manufactured in RCEP countries, making it uncompetitive in their countries, reducing the consumer surplus. Although increased market access for foreign companies would affect domestic industries, it would provide a greater range of consumer products for the Indian

consumer market and allow it to expand even further, as it would create a larger consumer surplus and increase their purchasing power.

Since India's consumer market could benefit from tariff liberalization, what's the benefit for India's manufacturers? Tariffs are meant to protect these domestic industries from foreign competition, but they also limit market access for the domestic industries. Industries that have access to more markets globally will benefit from a producer surplus. A producer surplus is when a producer can sell a good/service at a higher price than what they were willing to sell for. Producer surpluses mean increased profits for businesses, and they will drive up production for those businesses. When tariffs are lifted through trade agreements like the RCEP, it allows foreign competitors to compete equally with domestic producers. Although tariff liberalization creates a consumer surplus, it also restricts producers from achieving a producer surplus due to the increased market competition.

With trade agreements like the RCEP, more foreign products would be able to enter the Indian consumer market, which gives consumers more options for goods/services, keeping prices lower. Even for goods/services that are inelastic, there would be more products on the market for consumers, so it would be harder for producers to achieve a producer surplus. Inelastic goods/services are required for daily life or survival. Examples of inelastic goods/services would be utilities like electricity and gas, and prescription drugs like insulin.

Therefore, if India were to enter the RCEP trade agreement, their pharmaceutical companies would be competing with other pharmaceutical companies for a lower surplus. If producer surpluses for inelastic goods are affected, then elastic goods like luxury clothing or jewelry would have a harder time competing in the Indian consumer market, as buyers aren't required to purchase them.

India's consumer economy is growing rapidly, so demand for goods/services is rapidly increasing. The RCEP would help foreign countries access this growing consumer market and potentially outcompete domestic companies. Although India's concerns over trade deficits with China are legitimate, joining the RCEP would benefit its exporters, specifically those involved in global value chains (GVCs). Since 1995, India has been increasing its involvement in global value chains, and it is evident with an increase in foreign parts used in Indian exports.

For India's economy, the percentage of exports using parts made in India went down from 90% to 80% (Narayanan et al.). This indicates an increase in the utilization of foreign parts used in Indian exports. Additionally, in 2017, India also received $7.2 billion from China, Japan, and Australia for parts and materials for their exports. India had left the RCEP agreement in 2019, so India benefited from this major investment from other RCEP countries when they were in the agreement. This grant for Indian exports represented 1.8% of India's total exports.

This is known as a backward linkage which describes the relationship between a firm/industry and its suppliers (Corporate Finance Institute). For example, if demand for foreign parts on cars increases in India, countries like China or Japan will supply these parts so that they can export the final product. Backward linkages are highly beneficial to an economy as they stimulate economic activity in various other sectors. In this case, backward linkages also benefit countries that are providing such materials to India, as India is paying them for it. On the contrary, India also benefits from forward linkages.

Forward linkages describe the connection between different industries where one industry's output is used for another industry's input. For example, India exported petroleum products to Singapore because there was demand for those products in Singapore. India exported $6.93 billion worth of petroleum products to Singapore in fiscal year 24 (*Exploring India*

Singapore Trade and Economic Relations). Bunkering fuel is used for thousands of ships that pass through Singaporean ports, and these products are mainly imported from India. India has the largest oil refinery in the world, and it is the Jamnagar refinery, which Reliance Industries owns. India also supplies mass amounts of Aviation Turbine Fuel to Asia, with around 2.7 million barrels exported in November 2024.(Reuters & Business Standard). Singapore received over half of those barrels. Additionally, Singapore imports refined fuel from India for its petrochemical manufacturing plants on Jurong Island. The oil refining industry on Jurong island was capable of refining 1.5 million barrels of oil per day in 2014 (Lim). Singapore uses India's fuel to create products like lubricants, plastics, and even industrial chemicals. These products are then exported to other countries. Additionally, Singapore exported $57 billion worth of refined petroleum products in 2024 (ASEAN Briefing). Singapore is considered as a regional hub in Asia for refined oil products, and it will import the refined oil from India, store it, use it, and then export it to other countries.

This trading relationship with India is highly beneficial to India because it creates demand for refined oil from India, and India is able to sell it to countries like Singapore, which turns it into value-added products. Similarly, when demand for certain parts and materials is there in India, countries like China and Japan can supply those parts to Indian exporters, which benefits the Indian economy. India's concerns about trade deficits with China are understandable, but there is a lot of potential for India to reduce its trade deficit. After India left the RCEP, their trade deficits with China only grew from there. Joining the RCEP would give India better access to Global Value chains, and this would highly benefit their export businesses and improve their trading relationships with China.

India left the RCEP agreement because they were experiencing a major trading deficit with other RCEP countries. In 2016, the value of Indian exports was around $46 billion, whereas their imports were valued at around $130 billion (Naryanan). However, this trading deficit was with all of the RCEP countries. India is heavily reliant on China, with over half of its merchandise imports coming directly from China, valued at around $60 billion in 2016. India's exports to China decreased from $16.66 billion in 2023-24 to only $14.25 billion in 2024-25 (Jayaswal). India's trade deficit has only continued to increase since its exit from the RCEP, with a $99.2 billion trade deficit with China in 2024.

The trade deficit is increasing due to reduced Indian exports and increased Chinese imports. In 2024-25, merchandise imports from China were valued at $113.4 billion, which is an 11.5% increase from the previous year, where merchandise imports were valued at $101.73 billion. Additionally, Chinese imports in March 2025 increased 25% year on year, with a majority of Chinese imports being electronics, solar cells, and electric batteries (Kumar). China also became India's 2nd largest trading partner in 2024-25, with a two-way trade of $127.7 billion.

Moreover, India's rising exports in pharmaceutical products, engineering products, and electronics goods could lead to an increase in Chinese imports as China provides certain components for these exports. Even though India is increasing their exports in these areas, it still relies on China to provide it with parts, as they have a backward linkage with China. Ajay Srivastava, the founder of the global trade initiative, said that Chinese imports to India could increase by 20% to India as China is redirecting its exports to other markets to circumvent tariffs from the United States (Kumar). Joining the RCEP would help India combat these issues by allowing India to develop regional networks with other RCEP members, reducing their reliance on Chinese imports. India has a strong demand for electronic components like lithium cells, semiconductors, and circuit boards, and it can import these parts from countries like Japan,

South Korea, and Taiwan, further reducing their dependence on Chinese imports (*India Heavily Reliant on Imports for Component Manufacturing and Design Capabilities in Electronics: Niti Aayog Report*).

Furthermore, India could source pharmaceutical products from countries like Thailand and Vietnam, which are heavily investing in the manufacturing of pharmaceutical products. Lastly, India could import highly specialized engineering equipment like computer numerical control (CNC) machines and automation systems from countries like South Korea and Japan, which will further reduce imports from China. These machines can heavily boost India's domestic manufacturing, specifically in its auto industry, aerospace industry, and electronics industry. Indian manufacturers aren't able to fully utilize these imports as there are import duties placed on precision machinery from South Korea and Japan, but if India joined the RCEP, it would lead to a reduction in tariffs on such equipment, allowing Indian manufacturers to benefit from lowered capital costs.

Micro, small, and medium enterprises in particular will benefit from lowered capital costs, and it will eventually lead to increased technological advances in India and higher productivity in Indian factories. The automobile industry in India would greatly benefit from reduced tariffs, as it can upgrade its manufacturing plants by importing more technological equipment from countries like Japan and South Korea. Although the trade deficit with China and India continues to grow, its growth rate can be restricted by expanding trade to other countries, which reduces their reliance on China for imports.

When India initially left the RCEP in 2019, it lost major trading partners and access to one of the largest trading blocs in the world. Although their concerns about trade deficits with China were legitimate, they were limiting their export potential and access to foreign markets. For India to join the RCEP, there would need to be a certain way for them to join. India would need a transitory phase, where it slowly integrates into the RCEP while also protecting their industries/sectors. For India to successfully protect their sectors, it would need to set their guidelines for the RCEP. Micro, medium, and small enterprises may not be able to compete with foreign goods if India reduces tariffs on imports. Additionally, certain industries like the dairy industry and the textile industry are also vulnerable to foreign competition.

Therefore, India should gradually decrease tariff rates on imported products over 10-20 years. This would mitigate damage to domestic industries due to foreign competitors outcompeting them. India should also have preventative measures that ensure complete protection of vulnerable industries. Having the ability to temporarily increase tariffs to deter imports from the Indian consumer market is crucial, as it will prevent an increase in the trade deficit. Additionally, India should place a minimum tariff limit on certain goods/services throughout their time in the RCEP, to ensure that their most vulnerable sectors aren't affected. These guidelines for the RCEP will allow India to develop better trade partnerships within the RCEP, gain access to more foreign markets, and protect their domestic industries from Chinese imports, minimizing the increase in their trade deficit with China.

Policy Proposal

India is known as an emerging market, and they have one of the largest labor forces in the world, driving exports in various industries that are labor-intensive. India has seen strong growth in its textile, agricultural, and IT service industries, which are all labor-intensive. Additionally, India's labor force is rapidly growing. According to the Employees' Provident Fund Organization (EPFO), 1.91 million jobs were added in 2025, which is a 1.17% annual increase.

Additionally, around 961 million people in India were of working age in mid-2024, with India's unemployment rate at a 5-year low (Indo-Asian News Service). To support India's growing labor force, India needs to diversify their sectors by investing in high-value sectors. Certain industries like the pharmaceutical industry, the electric vehicle industry, and the renewable energy industry are driven by technology and innovation.

These industries have a lot of potential in terms of exports, and they provide India with strong industrial growth and self-reliance in technological sectors. The RCEP will benefit India's technological industries by reducing imports of machinery that is used to export their technological products. For India's technological sectors to benefit from the RCEP, India will need to introduce policies that fuel technological advancements. Increased funding towards research & development through government subsidies can help India compete at a global scale. India's spending on R&D was only between 0.6% to 0.7% of its GDP, which is significantly lower than China's budget of 2.4% and the United States budget of 3.5% (Mohan).

Government grants and subsidies towards research & development will incentivize both private & public sectors to invest. Additionally, partnerships between startup companies and universities can boost growth in technological sectors. India should create innovation clusters near universities to promote collaboration between entrepreneurs, investors, engineers, and scientists. These clusters can foster an environment of creativity and innovation by having various experts collaborate and develop new technologies. Having these clusters will attract foreign investment, as these R&D hubs are filled with highly qualified individuals with various types of expertise. Offering tax subsidies for companies to construct research hubs near universities will improve India's technological advancements and boost its economic activity. Countries like the US and China can have their universities collaborate with corporations to produce groundbreaking research and cutting-edge products.

For example, Silicon Valley in California was able to become a technological hub due to the support from venture capitalists and Stanford University, where they had lots of connections to various industries (Clarke). Another example would be in Shenzhen, China, where they were able to transform a small fishing village into a technological center by creating special economic zones near universities (*Fishing Village That Took Over the Tech World | Minut*, n.d.). India does have some tie-ups between their industries and universities, and the level of research and innovation that comes from these linkages can be drastically improved if India increases funding towards research and development.

To further support their entrance in the RCEP and their growing labor force, India should create skill development programs in highly specialized fields of occupation. The RCEP is able to bring Indian innovation to a global scale, but a strong labor force is needed to expand these technological industries. Due to India's large population and high demand in labor-intensive industries, there aren't enough specialists to support the growing industries. According to the Economic Survey 2024-25, only 8.25% of graduates in India are employed in jobs that match their qualifications. 63.28% of workers in highly specialised fields are properly qualified for the job's responsibilities (Chettri). Additionally, only 3.8% of India's workforce received proper vocational training in 2022-23, signifying the lack of skill development programs in India (Sharma & Mehrotra).

To combat this issue, India should scale up initiatives like NAPS (National Apprenticeship Promotion Scheme), which focuses on scaling up formal training in the Indian workforce. The NAPS trained 258,000 apprentices in their designated trades department in 2022-23 (*Shri Dharmendra Pradhan Launches DBT in NAPS to Strengthen Apprenticeship*

Ecosystem in India). 931,406 apprentices joined the program in 2023-24, which represents a 74.76% compound annual interest growth rate (CAGR) over 5 years (Uniindia News Service).

If India continued to fund programs focusing on skill building, it would attract the attention of thousands of businesses and highly benefit the private sector looking for talented individuals. Those private sectors will then be able to use their talent to advance their technological discoveries, creating revolutionary products that can be exported due to reduced tariffs from the RCEP.

Lastly, in order for India to maximize the benefits of rejoining the RCEP, it would need to use their diplomatic influence to reshape the framework of the trade bloc. Currently, the RCEP is focused on tariff liberalization for goods instead of services. India has a strong service industry, so it can advocate for balanced negotiations. The World Trade Organization global trade outlook confirmed that India is the 4th largest exporter of digital services in the world. India exported $257 billion worth of digital services in 2023, representing a 17% increase from 2022 (WTO).

As one of the world's leading digital exporters, India can advocate for the implementation of rules in the agreement relating to data localization, data privacy, and intellectual property rights. Having increased protection of user data and balanced IPR frameworks will allow India to protect their sovereignty and protect their firms by reshaping the framework for intellectual property rights in the RCEP.

Conclusion

Although India’s decision to withdraw from the RCEP was a safe option, it let a lot of opportunities go to waste. Protecting domestic industries is crucial in promoting national security and sheltering the job market. However, completely rejecting an opportunity to liberalize trade with 15 countries will have long-term consequences. India is always welcome to join the trade bloc, and they should join the RCEP on their terms. Creating policies that protect their industries, like gradual tariff cuts or minimal tariff rates on certain products, will allow India to further their exports to foreign markets while keeping their domestic industries safe from foreign competition. Integration in the RCEP will allow India to scale up their technological advancements and compete at the global scale with developed countries like China and Japan. India can use the RCEP as a resource for long-term economic growth through their geopolitical influence. India should return to the RCEP, but this time, it needs to find the right balance between their protectionist measures and their willingness to invest in the future.

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