

India's Withdrawal from RCEP: Two-Level Games Analysis and Policy Recommendations

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Introduction

On November 4, 2019, at the 3rd Regional Comprehensive Economic Partnership (RCEP) Summit held in Bangkok, Indian Prime Minister Narendra Modi announced India's withdrawal from RCEP negotiations after seven years of engaging in RCEP negotiations (Hardar & Raghavan, 2019). During his speech at the RCEP Summit, Modi explained that "when I measure the RCEP agreement with respect to the interests of all Indians, I do not get a positive answer. Therefore, neither the Talisman of Gandhiji nor my own conscience permits me to join RCEP" (Laskar, 2020). It could be seen from the address that India's domestic considerations and interests had an important impact on India's international negotiations, which is consistent with the two-level game theory proposed by Putnam (1988), indicating that the attitudes of domestic constituencies may influence how their negotiator interacts with foreign counterparts. As India is expected to be the most populous country in the world with over 140 million citizens (United Nations, 2022), its large domestic market has attracted many countries to trade with it. Hence, it seems crucial for countries to understand India's concerns and try to find reciprocal conditions so that all parties are willing to engage in and thereby benefit from international trade. Therefore, this article will use two-level game theory to analyze how domestic interests limit India's room for negotiating the RCEP trade agreement for countries that expect to trade with India and provide policy recommendations for the Indian government to illustrate how it can expand its win-set in further trade negotiations.

Background

RCEP was initiated by the ten member states of the Association of Southeast Asian Nations (ASEAN). At the 19th ASEAN Summit in November 2011, ASEAN passed the

"ASEAN Regional Comprehensive Economic Partnership Framework", inviting the People's Republic of China, South Korea, Japan, India as well as Australia and New Zealand, which had already signed free trade agreements with ASEAN, to jointly negotiate, with the goal of strengthening and deepening regional economic integration with ASEAN as the core (Ministry of Foreign Affairs Republic of China [Taiwan], n.d.). After negotiating for 8 years, with the exception of India, which declared its exit from the negotiations in 2019, the remaining 15 countries signed the agreement via video conference at the 4th RCEP Summit held by Vietnam on November 15, 2020. The signatories aimed to to facilitate regional trade in goods and services, investment, and improve regional supply chains efficiency (Ministry of Economy, Trade and Industry, 2020). The pact came into effect on January 1, 2022, and has been successfully ratified by 7 ASEAN countries, Thailand, Singapore, Cambodia, Brunei, Laos, Vietnam, Myanmar, and Malaysia. Additionally, the 5 dialogue countries included China, Japan, Australia, New Zealand, and South Korea (Ministry of trade and industry Singapore, n.d.). Encompassing 15 signatory countries, the agreement would cover around 30% of the world's population and contribute about 30% to global GDP as per data from the World Bank, becoming the world's largest free trade agreement (ASEAN, 2022).

India's concerns

One of the main reasons why India decided to opt out of RCEP was that the agreement would sacrifice the interests of multiple domestic industries. Specifically, many agricultural and industrial sectors in India believed that the goods they produce did not have comparative advantages over those produced by RCEP member countries. Once the Indian market was opened up after joining RCEP, less competitive industries would be negatively affected. For instance, due to the fear of competition with more competitive and industrialized dairy industries

in Australia and New Zealand, Indian dairy farmers were especially resistant to opening their market to foreign producers (Palit, 2020). Furthermore, constituents from the Indian textile industry claimed that China would dump its textile products at cheaper prices after having access to the Indian market with zero duty, causing domestic producers to face severe setbacks (The India Express, 2019). As the Modi administration did not provide feasible solutions to solve the potential losses for these businesses, it appears to be understandable that the Indian government's proposal to concur to remove tariffs on around 90% of ASEAN's imports and more than 74% of China's imports was opposed by these industries in 2018 (Kipgen & Dikshit, 2019).

In addition to facing dissatisfaction among core domestic industries, the pact was also met with opposition from Indian political parties and entities. Both Indian National Congress, the main opposition party in India, and Rashtriya Swayamsevak Sangh (RSS), an influential volunteer organization that strongly supports the Modi-led Bharatiya Janata Party (BJP), considered that joining RCEP was not the best option for India in terms of national interests (Choudhury, 2019). In order to express discontent with the agreement, several protest campaigns were organized within India. For example, RSS's affiliate, Swadeshi Jagran Manch (SJM), held a 10-day nationwide demonstration against RCEP in October 2019 before Modi's declaration of exit from RCEP at the RCEP Summit (Varma, 2019). As a democratic society, if India's ruling party does not implement policies in line with public opinion to win the votes of domestic constituencies, it could potentially face consequences in the next election. Therefore, given the public resistance to RCEP, it seems understandable that SJM stated that the BJP's chances of parliamentary elections would be undermined if the Modi government had committed to signing agreements that did not enjoy the support of the public (Iwanek, 2020).

Contrary to opposition from agriculture and manufacturing, the service industry tended to embrace RCEP. India has a well-developed service industry, especially the information technology (IT) sector. It was believed that the IT sector would be a beneficiary of joining RCEP by having access to export services to the markets of RCEP member countries (Gupta & Ganguly, 2020). Moreover, the Indian government also expected to supply its emerging skilled IT talents to the 15 participating countries of RCEP through service exports to partially meet the employment needs of a million people entering the labor market per month (Nataraj, 2016). However, a consensus on the movement of professionals was never been reached as the proposal encountered the greatest resistance in many countries due to fears that foreign service providers would threaten national jobs (Anuradha, 2019). Therefore, the fact that it was not feasible to compensate for losses in imported goods with gains from export services became one of the strong reasons for India's decision to withdraw from the agreement (Ray et al., 2021).

Policy Recommendations

The Indian government could improve its manufacturing competitiveness by strengthening economic ties with Taiwan. Taiwanese companies have key production techniques in both the labor-intensive manufacturing industry and the technology industry. For example, Eclat, a leading Taiwan textile company, has several fabric patents for producing sportswear and is a critical supplier to Lululemon and Nike. In terms of Taiwan's contributions to the technical industries, Taiwanese companies supply chips, CPU processors, smartphone camera lenses, medal cases, headphone components, and assembly to Apple, playing a pivotal role in Apple's supply chain (Fulco, 2015). In the context of the US-China trade war, cross-strait tensions, and rising labor costs in China, if the Indian government could establish trade ties with Taiwan to lower existing trade barriers and favor Taiwanese enterprises' investment, Taiwanese companies

would be willing to bring their production skills into India as what they had done in China thirty years ago and assisted Indian industrial development. On the one hand, India can integrate into the global supply chain. Taiwanese companies, on the other hand, can diversify their production base. Therefore, expanding economic ties between India and Taiwan could prove to be a mutually beneficial strategy. By entering the global supply chain, India would not resist but embrace regional trade agreements to sell more Indian-made products overseas.

In addition to trade cooperation, Taiwan can also fulfill India's concerns about talent flow. Taiwan's semiconductor industry occupies a pivotal position in the world. Taiwan Semiconductor Manufacturing Company, one of the biggest chip makers, supply around 55% of the global chip demand in 2021 (Miller, 2022). Despite its outstanding performance, it is facing a serious talent shortage due to Taiwan's declining birth rate. According to the statistics of 104 Job Bank, a Taiwanese online human resources company, in the first quarter of 2022, the talent gap in Taiwan's semiconductor industry reached about 35,000 people per month, and the gap is expected to increase due to the higher demand for R&D talents by local chip companies (Hsu, 2022). To solve this problem, semiconductor companies have held job fairs overseas to attract more international talents to work in Taiwan. The Taiwanese government has also launched a gold card policy to streamline application procedures and make it easier and more convenient for international professionals to come to Taiwan (Taiwan Gold Card, n.d.). Considering that India has a considerable amount of human capital with English communication skills and science and engineering capacity, Indian professionals have become one of the recruitment targets of Taiwanese technology companies. Therefore, India could cooperate with Taiwan in the export of Science, Technology, Engineering, and Mathematics (STEM) talents, so that India's surplus of high-skilled labor can make up for Taiwan's shortage. Since Taiwan can help India solve some of

its surplus IT talents, India, therefore, does not need to insist on this condition in trade negotiations, which expands its win-set and can have more room to reach the agreement.

Conclusion

From the address that Prime Minister Narendra Modi delivered at the 3rd RCEP Summit, it could be noted that India's domestic interests, specifically the potential loss in agricultural and manufacturing sectors and lower-than-expected gain in the service sector, inhibited the Modi government from joining RCEP. India was not willing to open up its market to cheaper goods coming from member states of RCEP, which echoes Putnam's two-level game theory that the attitude of domestic constituencies would affect the interaction of negotiators. To improve India's position in international trade, the suggested policy is to strengthen cooperation with Taiwan.

Taiwan can enhance the competitiveness of India's manufacturing industry and help India reduce the excess supply of professionals in its labor market. On the other hand, India should provide favorable policies for Taiwan's investment and encourage its talents to work in Taiwan.

Although the recommended policies merely benefit Indian manufacturing and STEM professionals, they could greatly ameliorate India's current problems in international trade. Over time, Indian-made products would be competitive enough to compete with Chinese goods and unemployment among Indian professionals would decrease. Most importantly, the India market would be sufficiently integrated within the broader global supply chain.

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