

Policy Analysis Focus 25-2
Impact of tariff removals among RCEP countries with and without India¹

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I. Introduction

In August 2012, 16 economies endorsed the Guiding Principles for Negotiating the Regional Comprehensive Economic Partnership (RCEP). These included 10 ASEAN member states and six ASEAN Free Trade Agreement (FTA) partners—Australia, China, India, Japan, Korea, and New Zealand. RCEP-16 was projected to represent 50% of the world’s population, 30% of global GDP, and over 25% of total exports.

Despite its potential to lower trade barriers, India withdrew from RCEP, citing economic concerns. On November 4, 2019, at the East Asia Summit in Bangkok, Prime Minister Narendra Modi stated, “When I measure the RCEP Agreement with respect to the interests of all Indians, I do not get a positive answer”. India’s main concerns included a rising trade deficit, particularly with China, and a lack of competitiveness in key sectors such as agriculture, metals, and automobiles.

In this study, the impact of India’s withdrawal of RCEP is estimated using the standard GTAP version 7 model. The base data for simulations used the GTAP 11 Database.² To estimate the impact of India’s withdrawal from RCEP, this paper compares the two simulation results: One with India as a member of RCEP (RCEP-16) with a 100% tariff reduction. The other simulation also eliminates 100% tariff rates but across only 15 official members of RCEP (RCEP-15). After getting the results of the simulations, we can compare the impact of RCEP with and without India on each interested region’s real GDP and production output in each sector.

¹ The modelling studies in this paper largely benefit from Spring 2024 GRIPS Course “Selected Topics in Policy Studies (International Economic Policy Analysis)” instructed by Professor Kenichi Kawasaki. That said, the views expressed in this article are the author’s own and do not represent those of GRIPS or other organizations to which the author belongs.

² The data for this study was sourced from the Global Trade Analysis Project (GTAP) and is based on the version 11b GTAP Data Base, with 2017 as the base year. Additionally, the model employed for this study is incorporating a dynamic effect with capital accumulation. The model is solved by RunGTAP software.

II. Impact by economy

A total reduction in tariff rates among RCEP economies shows positive impacts on all member economies in both scenarios in terms of real GDP change (Table 1). For India, the economy of interest of this study, the impact is the most striking between whether or not it is a member of RCEP. When India is not a member, a total reduction in tariffs among RCEP economies would result in a net loss to India's real GDP of 8.347 billion USD (equivalent to 0.31% of its total GDP in 2017). When India is a member of RCEP, it would receive a net gain of 5.311 billion USD (equivalent to 0.2% of its total GDP in 2017). Notably but not surprisingly, India is the only region that experiences a change in the impact sign (from negative to positive) due to a 100% reduction in tariffs among RCEP countries.

All RCEP-15 regions in the simulation consistently gain from RCEP, but they can be divided into two groups. The group that gains more when India joins RCEP includes Australia and New Zealand (0.23% gain in RCEP-16 versus 0.18% gain in RCEP-15), China (0.42% gain in RCEP-16 versus 0.39% gain in RCEP-15), and Vietnam (1.27% gain in RCEP-16 versus 1.23% gain in RCEP-15). Vietnam is the economy that witnesses the highest real GDP increase from RCEP in both scenarios even though it is a member of ASEAN. The reason for the positive gain from India joining RCEP for China, Australia, and New Zealand could be from the fact that these regions did not have preferential tariff treatments in place with India before RCEP. So the total reduction in tariff with India can create substantial effects on these regions.

On the other hand, Japan, Korea, and the rest of ASEAN countries receive less positive impact on real GDP when India becomes a member of RCEP. Among these regions, Japan has the highest change in real GDP between the two scenarios at 0.08%

Table 1 Change in real GDP in two scenarios

Region	(million USD)			
	RCEP-15		RCEP-16	
Australia and New Zealand	2,764	0.18%	3,452	0.23%
China	47,558	0.39%	51,489	0.42%
Japan	21,573	0.44%	17,884	0.36%
Korea	11,509	0.71%	10,556	0.65%
Vietnam	2,759	1.23%	2,836	1.27%
Rest of ASEAN	1,418	0.06%	54	0.00%
India	-8,348	-0.31%	5,311	0.20%
United States	-13,144	-0.07%	-17,694	-0.09%
European Union	-45,944	-0.31%	-54,203	-0.37%
Rest of the world	-76,612	-0.36%	-91,642	-0.43%

Source: Author's simulations.

GDP. Since all of these regions already have preferential tariff treatment with India, tariffs on the most important goods cannot be reduced significantly bilaterally between them and India. Therefore, the potential gain from having India in RCEP is compromised.

The simulation results consistently show that non-member regions experience negative effects on real GDP due to RCEP. The most pronounced loss occurs in the rest of the world region, followed by the European Union, and finally, the United States. Specifically, these regions face a reduction in real GDP when India does not join RCEP.

III. Impact by sector

To look at the impact of India's withdrawal from RCEP on its real GDP in more detail, Table 2 presents the change in commodity price and output volume for India in the two scenarios. When India becomes a member of RCEP, prices of all goods and services all decrease further than the level when India is not a member. It means that Indian consumers will enjoy cheaper commodities and this would create an income effect for the Indian economy.

Looking at the change in production output for India in Table 2, the difference between RCEP-15 and RCEP-16 scenarios is quite striking. GTAP simulation results show that in the case India is not a member of RCEP, India's production output will decrease in 6 sectors: agriculture, textiles, chemicals, motor vehicles, other machinery and equipment, and services. Among these sectors, the reduction in output for textiles is the most significant, at -2.69%. For the remaining 4 sectors, output gains are marginal, around 0.11% (mining) to 0.15% (electronics). The results for changes in output for the

Table 2 Change in India's commodity price and output

Sector	(%)			
	Price		Output	
	RCEP-15	RCEP-16	RCEP-15	RCEP-16
Agriculture and food	-0.76	-1.69	-0.18	-0.48
Mining	-0.33	-0.52	0.11	0.45
Textiles and apparel	-0.57	-1.84	-2.69	1.67
Other manufacturing	-0.45	-1.70	0.13	1.07
Chemical products	-0.40	-1.39	-0.27	0.38
Metals	-0.31	-1.64	0.13	0.85
Motor vehicles	-0.47	-1.55	-0.55	0.54
Other machinery and equipment	-0.46	-1.39	-0.01	-0.32
Electronic products	-0.32	-1.37	0.15	1.17
Services	-0.58	-0.91	-0.30	0.25

Source: Author's simulations.

RCEP-15 scenario are consistent with the estimated fall in India's real GDP of -0.31% or -8.25 billion USD.

Under the RCEP-16 scenario, India enjoys output growth in 8 of the 10 sectors. Between the 2 sectors that experienced production reduction, the agriculture sector has further declined to -0.48% compared to -0.18% in the RCEP-15 scenario. Other machinery and equipment sector suffers a decrease of -0.32% in the RCEP-16 instead of -0.01% in the RCEP-15 scenario. Of the 8 sectors that benefited from India becoming a member of RCEP, the textiles sector shows the most prominent change in output between the two scenarios, from the biggest loser to the biggest winner: (-2.69% to 1.67%). Interestingly, the second-highest gain in output in the RCEP-16 scenario belongs to the electronics sector with a 1.17% increase despite the initial sceptical view of competition with China.

IV. Conclusions and Remarks

Despite India's withdrawal from the mega trade agreement, RCEP was finally signed on November 15th, 2020 among 15 member states. Evaluating India's decision impacts on member economies is crucial to estimating the potential gains and losses for the remaining member economies. Using the CGE model with GTAP trade data and simulation package under a total reduction in tariff, this study reveals that despite India experiencing higher trade deficits, particularly with China, its real GDP would still benefit positively if it were a member of RCEP. In the real scenario of RCEP without India, a total reduction in tariffs among RCEP economies would decrease India's real GDP.

This outcome was unfortunate for the largest South Asian economy. Despite being one of RCEP's founding member states, the Indian government gave in to high political and civil pressures. International trade negotiations always require a delicate balance between economic benefits and international relations considerations. Future research can look into the impact of this new bilateral free trade agreement between Australia and India to compare with the potential gain for India in RCEP.