Issue Brief 10 2026

# Regional Comprehensive Economic Partnership (RCEP): China's Centrality & India's Geo-Economic Dilemma

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# Regional Comprehensive Economic Partnership (RCEP): China's Centrality & India's Geo-Economic Dilemma

*By*

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2026

## About the Author

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# Regional Comprehensive Economic Partnership (RCEP): China's Centrality & India's Geo-Economic Dilemma

## Introduction

The Regional Comprehensive Economic Partnership (RCEP) is the world's largest free trade agreement, covering 15 countries in the Indo-Pacific region. These countries account for roughly a third of the world's GDP and more than 2 billion people. The agreement was signed on 15 November 2020 and came into effect on 1 January 2022. RCEP aims to eliminate about 92 per cent of tariffs over the next two decades and to establish common trade rules across member countries. Beyond its sheer size, the RCEP agreement marks a tectonic shift in the economic order of the Indo-Pacific region, tilting the economic fulcrum towards a China-centred value chain. This issue brief provides a brief overview of RCEP's history, geopolitical implications, implementation status, pros and cons, China's dominant role, India's decision to withdraw from the agreement and India's possible alternatives.

## The Genesis of RCEP (2011–2012): An antidote to the 'Noodle Bowl' Problem

In Southeast Asia, the 'noodle bow' effect, a complex network of overlapping trade agreements with different tariff rates, standards and rules of origin, was a major concern.[1] It increased transaction costs for companies and complicated the economic regional integration in Southeast Asia.

In this context, the idea of RCEP was first proposed in 2011 at the 19th Association of Southeast Asian Nations (ASEAN) Summit in Bali, Indonesia. The ASEAN sought to strengthen its centrality and the ASEAN-based regional architecture in the Indo-Pacific region. Negotiations on the RCEP were formally launched in November 2012 at the 21st ASEAN Summit in Phnom Penh, Cambodia.[2]

Initially, 10 ASEAN members and six FTA (free trade agreement) partners of ASEAN (Australia, People's Republic of China, India, Japan, Republic of Korea and New Zealand) participated in the negotiating process. An all-Asian economic grouping was envisioned at the outset of the negotiations. While the RCEP was initially presented as an ASEAN-led initiative to rationalise the 'noodle bowl' problem in Southeast Asia, the logic of the negotiations soon gravitated towards Northeast Asia. The agreement diverges from the TPP's (Trans-Pacific Partnership, now known as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership or CPTPP) high-standard chapters on labour rights, environmental protection, state-owned enterprises (SOEs), and intellectual property.[3]

The RCEP, on the other hand, adopts a more practical, development-oriented approach and focuses on "at-the-border" liberalisation, i.e., tariff reduction and market access, rather than "behind-the-border" regulatory convergence. This served the interest of China's state-capitalist model. Beijing was able to present itself as a champion of multilateralism and regional integration without having to commit to politically sensitive domestic structural reforms to break SOE (State Owned Entreprises) subsidies or labour practices.

## RCEP Negotiation (2013–2020)

The first round of official RCEP negotiations was held from 9 to 13 May 2013 in Bandar Seri Begawan, Brunei. The second round was held in Brisbane, Australia, from 23 to 27 September 2013. In 2013-2014, six rounds of negotiations took place, establishing working groups on goods, services, investment, intellectual property, and dispute settlement. In the early years, the focus of the negotiations was to harmonise the various ASEAN+1 FTAs into a coherent and comprehensive regional agreement.

Between 2015 and 2019, several rounds of ministerial-level negotiations took place. In this phase of negotiations, countries identified and sought to address issues such as:

- Harmonisation of rules of origin to encourage value chain integration.
- Tariff reduction in sensitive sectors, such as agriculture.
- Expansion of services-sector coverage and upgrading of investment protection.
- Strengthening intellectual property rights enforcement.

Some rounds were also held in India (Hyderabad, 2017; New Delhi, 2014), which played a crucial role in the negotiations until India's exit in 2019.

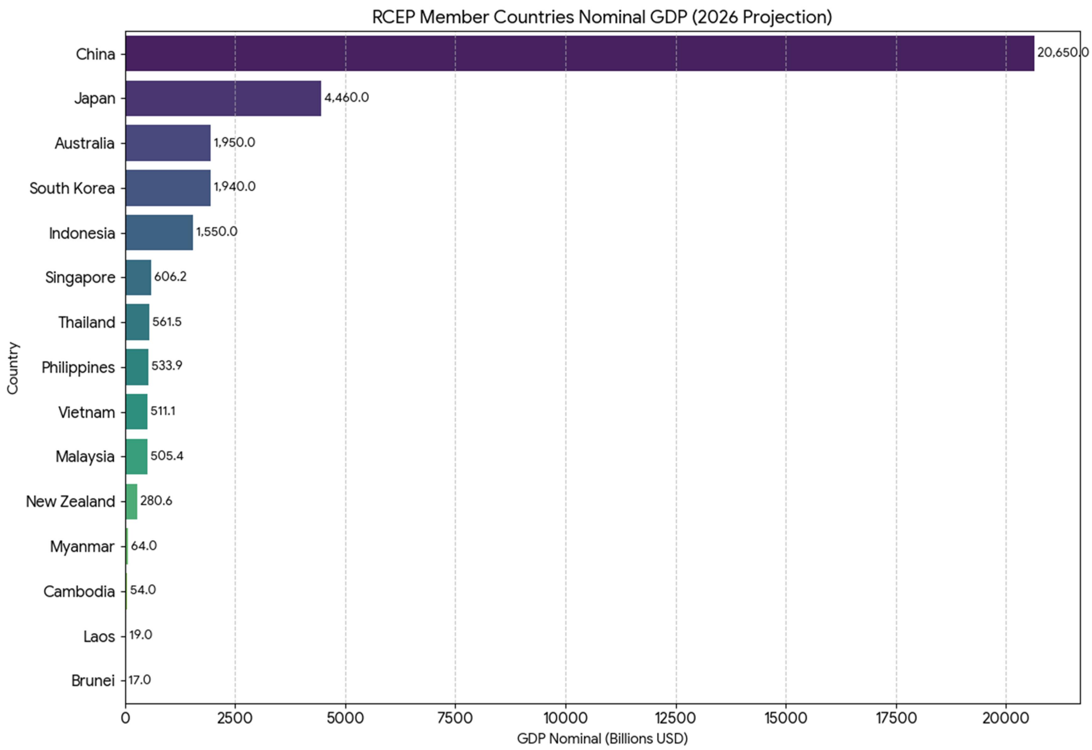
## Conclusion of Negotiations and Signature (2020)

The 3rd RCEP Summit was held in Bangkok in 2019. At the summit, India announced that it would not join the RCEP. India's decision was largely driven by concerns about India's trade deficits and lack of market access to China.[4] India also felt that the agreement failed to address its concerns regarding trade facilitation, services, and investment. By October 2020, the 15 remaining participating countries resolved the outstanding issues.

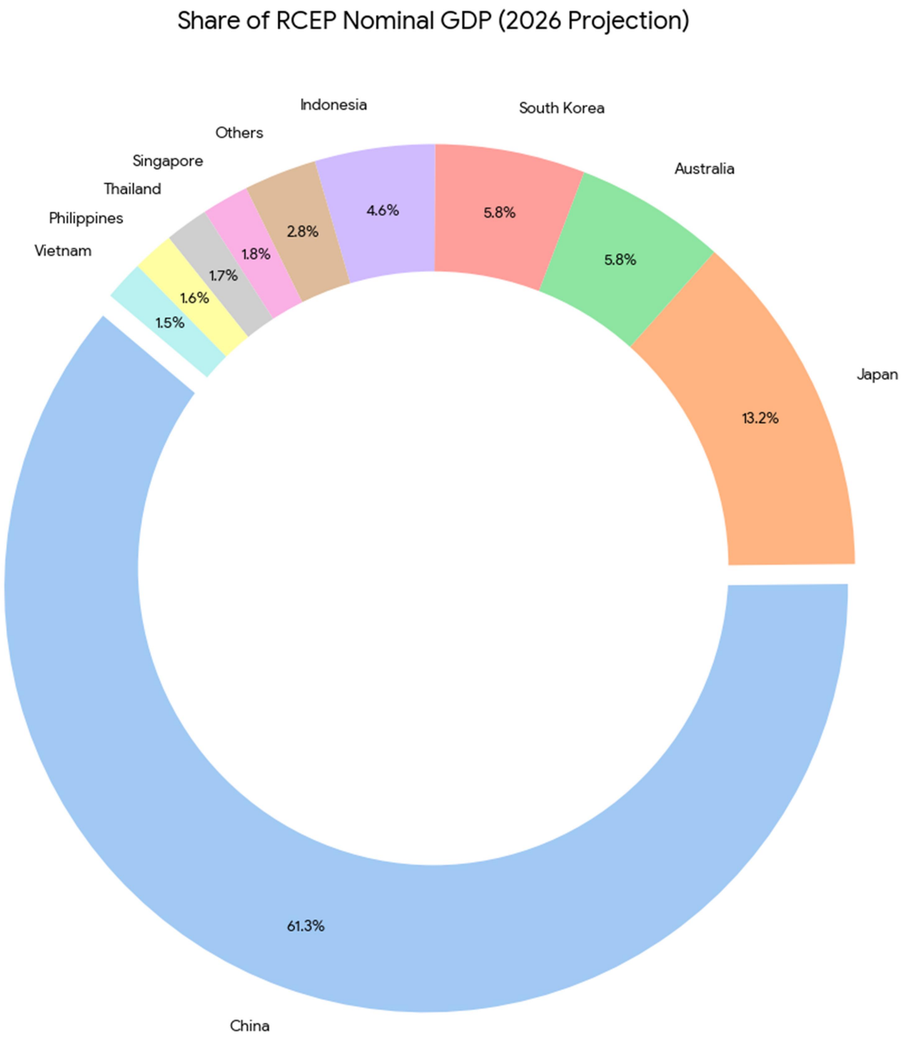
On November 15, 2020, the final RCEP agreement was signed. The agreement aimed to reduce tariffs to zero on 92 per cent of traded goods among member countries over 20 years.[5] The pace of liberalisation is gradual, allowing the least developed member countries in the grouping, such as Cambodia and Laos, sufficient time to adjust to the agreement. To illustrate the benefits of the agreement, before RCEP, a Chinese-produced auto part shipped to Indonesia would face different tariffs and customs requirements than the same part shipped to Japan. RCEP has now harmonised these requirements into a single market access condition. In future, RCEP will significantly reduce transaction costs and enable the emergence of a continental-scale market.

## RCEP Members Composition and Economic Scale

The following table details the 15 member countries of the RCEP. The data highlights the immense diversity within the grouping, ranging from high-income advanced economies to emerging markets.




*Picture 1: RCEP Member Countries Nominal GDP*
*(Data from World Economic Outlook 2026 Projection)*

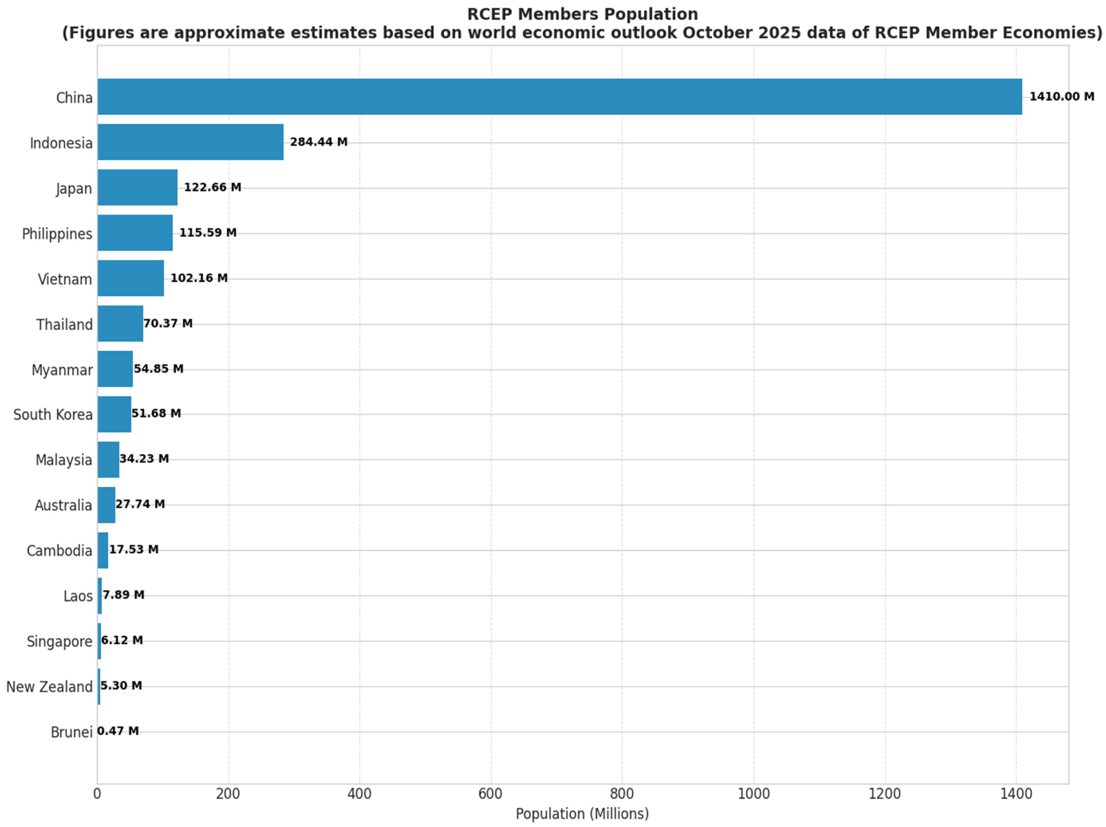



*Picture 2: The Pie Chart above illustrates the share of the total RCEP Nominal GDP for each member country based on the data from World Economic Outlook 2026 projections*

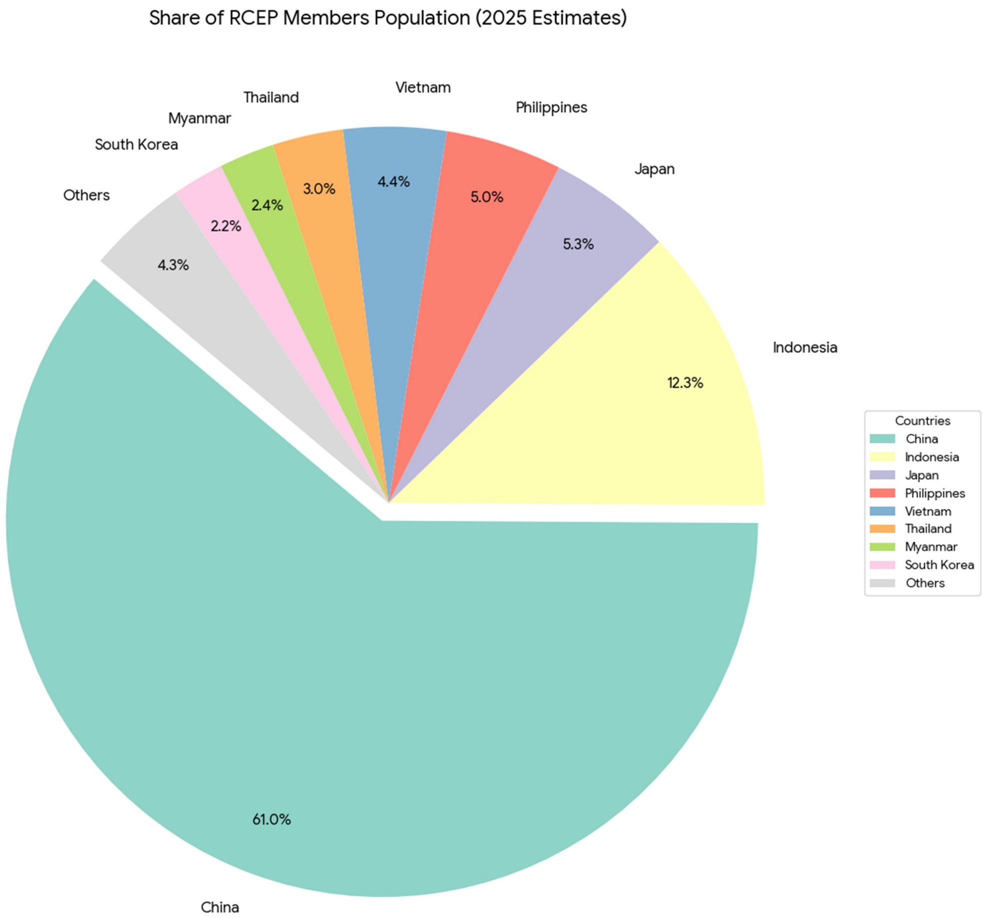
| Country | Population (2025) | GDP (Values in Billions of USD, Current Prices) | Key Economic Role |
|---|---|---|---|
| **China** | ~1.41 Billion | ~$20.65 Trillion | Manufacturing powerhouse; largest consumer market. |
| **Japan** | ~124 Million | ~$4.46 Trillion | High-tech manufacturing; major investor in ASEAN. |
| **Australia** | ~27 Million | ~$1.95 Trillion | Major supplier of minerals, energy, and agriculture. |
| **South Korea** | ~51.7 Million | ~$1.94 Trillion | Electronics, automotive, and semiconductor hub. |
| **Indonesia** | ~280 Million | ~$1.55 Trillion | Largest economy in SE Asia; vast natural resources. |
| **Singapore** | ~6.0 Million | ~$606 Billion | Financial center; logistics hub; high-tech services. |
| **Thailand** | ~71.8 Million | ~$561.5 Billion | Automotive hub ("Detroit of Asia"); tourism; agriculture. |
| **Philippines** | ~117 Million | ~$534 Billion | BPO services; electronics assembly; strong consumer base. |
| **Vietnam** | ~100 Million | ~$511 Billion | Rapidly growing manufacturing base; textiles; electronics. |
| **Malaysia** | ~34.7 Million | ~$505 Billion | Electrical & electronics; palm oil; oil & gas. |
| **New Zealand** | ~5.3 Million | ~$280 Billion | Dairy and agricultural exports; services. |
| **Myanmar** | ~55 Million | ~$65 Billion | Natural resources; labor-intensive industries. |
| **Cambodia** | ~17 Million | ~$51.5 Billion | Garment manufacturing; agriculture; tourism. |
| **Laos** | ~7.7 Million | ~$17.78 Billion | Hydropower ("Battery of SE Asia"); mining. |
| **Brunei** | ~0.45 Million | ~$16.46 Billion | Oil and gas production; high per-capita income. |
| **TOTAL** | **~2.3 Billion** | **~$33.7 Trillion** | **~30% of Global GDP & Population** |

*Table 1: Figures are based on the data from world economic outlook October 2025 data of RCEP Member Economies*

According to the data shown above in Table 1, three countries - China, Japan, and South Korea- combined account for approximately 80% of the RCEP bloc's total GDP, underscoring the significance of bringing these three countries together in a single FTA for the first time. By contrast, there is a significant disparity in income levels, with per capita GDP ranging from over $90,000 in Singapore to approximately $2,600 in Cambodia and $1500 in Myanmar.[6] RCEP addresses this disparity via "Special and Differential Treatment" provisions in the agreement.[7]




*Picture 3: Figures in the above graph are based on the data from World Economic Outlook October 2025*




*Picture 4: The Pie Chart above illustrates the share of the total RCEP Population for each member country based on the data from World Economic Outlook 2025*

## Tariff Elimination Schedules

The tariff elimination schedule in RCEP is the key to the market access mechanism. In contrast to other comprehensive agreements, which aim for nearly 100 per cent duty-free trade from the start, RCEP has adopted a practical, phased approach to tariff reduction that recognises the diverse levels of development among its member countries. Overall, RCEP promises to cut or eliminate duties on 92 percent of goods traded within the region over 20 years. RCEP members did not agree to a common tariff elimination schedule but use multiple country-specific schedules that generally follow the following pattern:

1. **Immediate Elimination:** Duties were set at zero for a substantial share of products (approximately 65 per cent) in many countries, effective immediately upon the agreement's entry into force (January 1, 2022).[8]
1. **Gradual Reduction of Tariffs:** Duties are reduced linearly over a fixed number of years (10, 15, or 20) to allow local industries in member countries time to adapt to increased foreign competition.
2. **Partial Reductions:** Duties are partially reduced but not necessarily eliminated for some sensitive products.
3. **Exclusions (Negative List):** Entire sectors, such as agriculture (rice, beef, dairy for Japan) or heavy industry for some ASEAN countries, are excluded from duty reductions altogether.
4. **Asymmetrical Concessions:** Due to differences in levels of development, less developed member countries are given more time to implement the agreement.

## Unified Rules of Origin (RoO) in RCEP:

The Rules of Origin (RoO) act as the transmission system for the RCEP, just as tariff reductions serve as its engine. Before RCEP, the noodle bowl effect in Southeast Asia created a complex web of overlapping and diverging bilateral FTAs between ASEAN and its six Dialogue Partners (ASEAN-China, ASEAN-Japan, ASEAN-Australia, etc.), with differing RoO that forced companies to maintain parallel supply chains and obtain multiple certifications to meet different RoO criteria for each export market. RCEP has now simplified this by establishing a common set of RoO to define which products can benefit from the reduced tariffs provided by RCEP. In contrast to the earlier ASEAN+1 FTAs, the RCEP agreement's harmonisation of rules allows companies to integrate supply chains across borders, simplifies certification to ensure products meet the required regional content, and enables production networks in which components may cross several borders.

The rules of origin have two purposes: to define a product's "economic nationality" and to prevent circumvention, in which third countries (e.g., the United States or the European Union) seek to avoid paying tariffs by shipping goods through an RCEP member state.[9] Standardisation (a single rulebook for all) and cumulation (the ability to share "origin" across member states) are the two building blocks of the RoO system in RCEP.

The RCEP agreement sets a common Regional Value Content (RVC) requirement of 40 per cent, meaning that as long as 40 per cent of a product's value is added within the 15 participating countries[10], the final product can enter tariff-free in any other member countries.

Cumulation enables companies to use intermediate products from other signatory countries as if they originated domestically. Regional cumulation across the entire region is the most significant innovation of RCEP and a key differentiator from other FTAs. It allows companies to treat the entire region as a single production area. For example, any inputs from other RCEP Participating Countries (PCs) are now considered to be of local, not foreign, origin. RCEP's Regional Cumulation encourages firms to procure supplies entirely from other RCEP member countries. This rule will divert trade away from countries outside RCEP, such as the United States or the European Union. For instance, Vietnam can assemble a vacuum cleaner using an engine imported from China, plastic imported from Thailand, and an electronic control device imported from Japan. Provided that the value of these RCEP-sourced inputs is above 40 percent, Vietnam can export the finished vacuum cleaner duty-free to Australia, South Korea, or any other RCEP member country.

## Services and Investment: Transitioning to Negative Lists

RCEP seeks to facilitate the free flow of trade in services and investments.

- **Negative List versus Positive List:** RCEP shifts to a "negative list" system for services. In a negative list system, all sectors are open to foreign service providers unless specifically excluded. Under a negative list approach, countries cannot restrict foreign investment unless specifically stated. The RCEP framework distinguishes between signatory countries based on their readiness to apply the negative list to services.

  Group A countries, including Australia, Brunei, Indonesia, Japan, Malaysia, Singapore, and South Korea, adopted a negative list system upon the RCEP's entry into force.

  Group B countries, which include Cambodia, China, Laos, Myanmar, the Philippines, Thailand, and Vietnam, initially applied a positive list system but have now agreed to shift to a negative list within six years of RCEP's entry into force in 2028.

- **Investment Protection:** The investment provisions in the RCEP agreement include standard provisions on investment protection, including the right not to expropriate investments and an obligation to accord investments fair and equitable treatment. Notably, it also prohibits imposing performance requirements, such as technology transfer or domestic content requirements, on foreign investors.

## The absence of Investor-State Dispute Settlement (ISDS):

One key provision that is absent from RCEP is the dispute settlement mechanism. This is a major omission as ISDS is a cornerstone of most modern free trade agreements (FTAs) and allows companies to take governments to international arbitration panels.[11] The absence of ISDS in RCEP reflects the fact that the governments of the RCEP member countries are no longer wedded to its inclusion. Moreover, the signatory countries have agreed to consider negotiating ISDS in the next few years, though they are under no obligation to do so.

## Limitations in RCEP

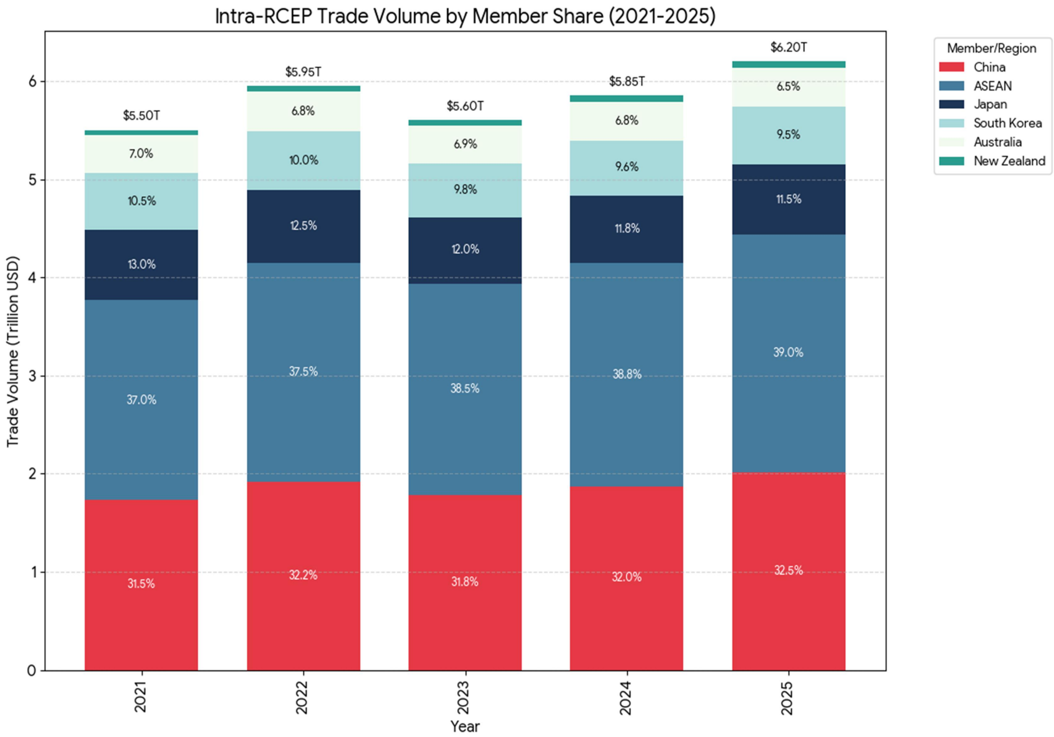
Unlike CPTPP, the RCEP does not include:

- Provisions on labour standards, and therefore allows different wage and labour union regulations to apply
- Environmental provisions (allowing varying degrees of sustainability)
- Provisions to restrict government subsidies (allowing state funding of strategic industries in particular, Chinese state-owned enterprises)

The absence of these provisions is the result of a compromise needed to keep all 15 member countries on board and points to different governance systems within the RCEP.

## RCEP Trade Performance Following Implementation (2022–2025)

The RCEP trade data for the first four years of its existence is now in the public domain, enabling analysis of RCEP performance. 2022 was a boom year in the aftermath of the pandemic, while 2023 was a bust year as the global economy slowed. 2024 and 2025 have since seen a return to more stable, supply-chain-driven growth.[12] Tariff cuts were only modest over the first four years, but the structural shift in the supply chain, specifically the China+1 trend, was the main driver of RCEP. As of 2026, RCEP has delivered a self-sustaining Asian supply chain. It hasn't delivered a massive consumption-led boom. But it has helped to isolate and stabilise the Asian factory floor from periodic bouts of chaos in the West. According to UN Trade and Development (UNCTAD), China will be the biggest winner in absolute terms under RCEP, followed by Japan and South Korea.[13] These three countries had no prior FTAs with each other. The gains for ASEAN are more modest because they already have FTAs with all these countries and so don't benefit from the tariff cuts. The gains for ASEAN come more from the investment creation effect. Investing FDI in an ASEAN country has now become more attractive because ASEAN countries now have duty-free access to the whole RCEP region.

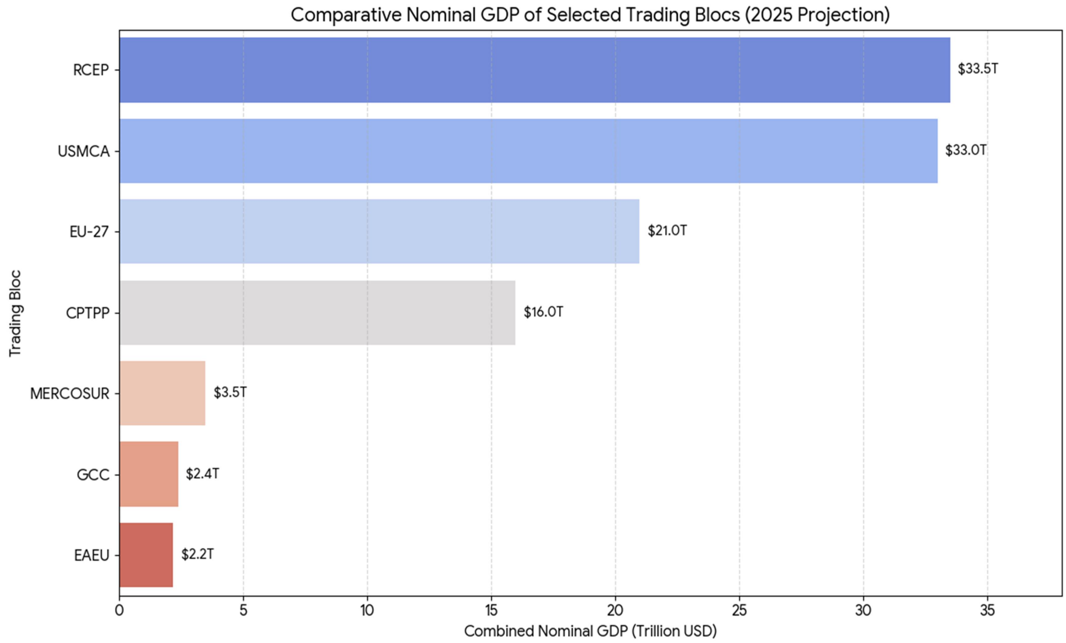



*Picture 5: The chart above shows the Intra-RCEP trade volume (exports + imports) by the share of RCEP member economies from 2021 to 2025.*

## Impact of RCEP on Global Trade Architecture

We are living in a bifurcated world of trade. The RCEP has sought to create a self-contained economic area that is less dependent on Western markets than it was earlier. Until the RCEP, Asia was the world's workshop, but it still needed the US and EU as markets for its goods. RCEP has now become its own market. The size of the RCEP market has allowed its member countries to ride out the Western recessions of 2023-2025. Intra-RCEP trade is now a greater driver of global growth than Trans-Pacific trade.[14]

RCEP also eroded US economic leadership in the Indo-Pacific. The US withdrawal from TPP in 2017 – and the latter's revival as CPTPP among 11 Pacific members – undermined America's agenda-setting ability in the Indo-Pacific region. RCEP has tried to fill this vacuum, writing trade rules that favour China rather than Western governance, labour rights, and climate. RCEP has cemented China's status as the economic hub of the Indo-Pacific, defeating US attempts to decouple.




*Picture 6: The above chart compares the world's major trading blocs that have formal Free Trade Agreements, data based on the World Economic Outlook October 2025*

## Tariff Implementation Progress in RCEP:

As of January 2026, 4 years after the RCEP pact took effect in January 2022, the RCEP region has introduced and operationalised the first four rounds of annual tariff reductions. Of the 18,000 tariff lines it covers, 86% are at 0% or on track to reach 0% by the end of 2026, with only 14% still above 5% (dairy, tobacco, petrochemicals, etc.). Implementation is staggered according to the country's level of development: more developed RCEP members such as Japan, South Korea and Australia have moved more quickly, while the least developed members like Cambodia, Laos and Myanmar have extended transition periods that can stretch up to 20 years for sensitive sectors.[15]

## RCEP's Implementation Successes

As of January 2026, the utilisation of RCEP tariffs has shown a clear Two-Track pattern. The usage rate has been soaring in Northeast Asia, where there was no pre-existing FTA among the three members - China, Japan and South Korea - before RCEP, while it has been modest in Southeast Asia, where enterprises prefer to stick to an older (and simpler) agreement. Before RCEP, the three industrial powers - China, Japan and South Korea - did not have any FTAs among themselves. So RCEP was the only way to reduce tariffs. Almost 60% of Japanese enterprises exporting to China use RCEP certificates of origin.[16] This is mainly for automobile parts, chemicals, electronics, etc., where tariffs have declined from ~10% (2021) to ~6% (2025). China's certificates of origin (CO) for the RCEP also grew by 20% year on year in 2025, as Chinese manufacturers actively used the pact to keep their goods competitive in Japan despite rising production costs.[17]

- **Supply Chain Integration Success:** The single biggest success of RCEP is not tariff reduction but supply chain unification. RCEP has effectively made Northeast Asia and Southeast Asia a tariff-free production zone, where companies can fragment production across countries without incurring penalty tariffs. For example, a shirt can be made from Chinese fabric, sewn in Vietnam with Korean buttons, packaged in Thailand, and sold duty-free in Japan or Australia. This has further cemented East Asia's competitive advantage in the global garment trade and crowded out non-bloc members like India. Over the past four years, regional value chain integration has advanced significantly, with intra-regional intermediate goods trade reaching over 50% of RCEP members' global trade in sectors such as electronics, automotive, textiles and new energy. The unified rules of origin have enabled efficient production networks across multiple countries, allowing parts and components to move freely, thereby strengthening the "Factory Asia" model.
- **Investment & Capacity Building:** There has been a huge spike in FDI inflows over the past four years, with manufacturing investments shifting to RCEP-optimised locations. Vietnam, Indonesia and Thailand have emerged as new manufacturing powerhouses with FDI from Japanese, South Korean, and other multinationals seeking to take advantage of RCEP preferences. These investments have created jobs for millions and transferred technology and know-how to regional economies.
- **Digital Trade Expansion:** Although RCEP started from a low base, it has facilitated a rapid expansion of digital trade. Intra-RCEP e-commerce usage has already climbed to 35% and is expected to reach 40-50% by 2035.[18] The digital partnerships between China and ASEAN enabled by RCEP (through the e-commerce cooperation framework and other initiatives) have established digital corridors for cross-border digital transactions, helping platform and small and medium-sized enterprises (SMEs) alike.
- **Customs Modernisation and Trade Facilitation:** All RCEP member states have implemented streamlined customs procedures as per the RCEP agreement. This includes a maximum time allowed for clearance, replacing the uncertainty of days or weeks of waiting that was a hallmark of trade in some parts of Asia. Under RCEP, countries aim to release normal goods within 48 hours of arrival (provided all paperwork is in order). For perishables like fruit, vegetables or seafood, they aim to release in 6 hours.[19] This certainty

has allowed companies to keep lower inventory (just-in-time production) because they know their imported parts won't be stuck at a port for weeks. Mutual recognition of authorised operators and simplification of documentation have minimised logistics logjams and working capital tied to customs procedures, especially for SMEs.

| Reporting Economy | Total Exports to RCEP ($B) | Total Imports from RCEP ($B) | Top RCEP Export Destination | Top RCEP Import Source | Key Growth Sector (2025) |
|---|---|---|---|---|---|
| **China** | **$985.00** | **$1,012.00** | ASEAN, Japan, South Korea | ASEAN, South Korea, Japan | EVs, Lithium Batteries, Green Tech |
| **Japan** | **$345.00** | **$380.00** | China, Australia, Thailand | China, Australia, ASEAN | Semiconductor Equipment, Chemicals |
| **South Korea** | **$290.00** | **$265.00** | China, Vietnam, Japan | China, Japan, Australia | Logic Chips, Petrochemicals |
| **Australia** | **$260.00** | **$145.00** | China, Japan, South Korea | China, Thailand, Japan | LNG, Iron Ore, Critical Minerals |
| **ASEAN** | **$810.00** | **$890.00** | China, Japan, Intra-ASEAN | China, Intra-ASEAN, Japan | Electronics, Agri-products, Textiles |

*Table 2: The above table highlights RCEP Member countries exports and imports from Intra-RCEP trade as well as the destination of export and source of import and key growth sector in 2025*

**Source: General Administration of Customs, People's Republic of China*

## RCEP's Implementation Challenges and Drawbacks

Although RCEP has successfully interlinked supply chains, its implementation has exposed serious structural issues. In 2026, the RCEP bloc faces a "Two-Speed" phenomenon. The mature economies have optimised their benefits, while the smaller countries are still catching up on compliance and competition. The "Noodle Bowl" Paradox is still alive and kicking. RCEP was supposed to streamline trade, but for many companies it has introduced another level of complexity. For instance, a Thai exporter has to decide whether to use RCEP, ATIGA, or the ASEAN-China FTA.[20]

Many companies, especially SMEs, use older agreements because the documentation is more familiar, which results in relatively low utilisation of RCEP in Southeast Asia compared to Northeast Asia. RCEP has hastened the hollowing out of a few manufacturing sectors in some of the smaller ASEAN economies. As tariffs have fallen, Chinese-manufactured goods (steel, plastics, machinery) have flooded into the markets of Indonesia and the Philippines. Local industries in these countries are unable to compete on price. This has widened ASEAN countries' trade deficit with China, creating political frictions and calls for Non-Tariff Barriers to protect local jobs.

RCEP is often criticised as a shallow agreement compared to CPTPP. While it slashes tariffs, it has no binding enforcement of Labour Rights, Environmental Standards, and Subsidies. It allows member states to use technical standards (such as sudden changes in food safety rules) as a form of hidden protectionism. If China or Japan blocks imports on a technicality, the dispute-resolution mechanism is slow and often ineffective. RCEP has brought together geopolitically hostile economies (such as Japan and China). Hence, strategic distrust is overtaking economic logic. Japan and Australia are actively trying to diversify away from China (through the IPEF Supply Chain agreement) while continuing to trade with China under RCEP. This has created a volatile business environment in which supply chains are efficient but politically fragile.

## Geopolitical Analysis and Strategic Implications

RCEP is not just a trade deal, but a grand strategic play that has transformed the geopolitical and geo-economic map of the Indo-Pacific. It has brought the economies of Northeast Asia and Southeast Asia together, hastened the trajectory of the economic centre of gravity towards the east, and laid bare the U.S. absence.

ASEAN was the diplomatic driver of RCEP, but China is now at the economic heart of the agreement. For the first time, China has written the rules of a major multilateral trade agreement, rather than its usual role as a rule-taker under the WTO. Secondly, RCEP is a hedge for China against U.S. decoupling and containment efforts. By integrating its supply chains with Japan, Korea and ASEAN, China has raised the costs for other countries to fully join U.S.-led efforts to decouple and contain it. Finally, China is positioning itself as the champion of globalisation and free trade amidst rising protectionism in the West.

RCEP has exposed the lack of an economic strategy for the U.S. in Asia. Following America's 2017 pullout from the Trans-Pacific Partnership (TPP), the U.S. no longer had a vehicle for setting Asian trade rules. The Indo-Pacific Economic Framework for Prosperity (IPEF) can be seen as a U.S. response to standards (labour, digital), but it doesn't bring market access (tariff reductions) to the table. RCEP is seen as a better economic deal for Asian countries, while IPEF is seen only as a soft political arrangement. The Indo-Pacific is thus divided geopolitically and geo-economically – reliant on the U.S. for security alliances but on China/RCEP for economic prosperity.

## China's Centrality

RCEP has served as an effective geo-economic tool for China in countering US efforts to decouple from China. By formalising its economic relationship with its neighbours, China has created economic interdependence among them, thereby increasing the opportunity cost of toeing the US line on security matters. In geo-economic terms, RCEP has given China structural power by converting its market size into leverage. It has linked the regional economic well-being of the remaining 14 RCEP countries to China, thereby circumventing US efforts to contain it.

## China's Dual Circulation Strategy

China's joining RCEP is closely linked to its "Dual Circulation" strategy, announced in its 14th five-year plan (2021-2025).[21] The dual circulation can be explained as follows:

- **Internal circulation:** Where China focuses on its domestic consumption and self-sufficiency in technology (Made in China 2025 initiative)
- **External circulation:** Where China focuses on sustaining through export markets and securing imports of resources. RCEP legally ties up the Asian economies in a preferential trade agreement with China, thereby guaranteeing that even as China shifts to domestic consumption, the external sector of its economy, the exports, is not impacted. This becomes particularly critical as the US has already shown its intent to decouple from China.

In 2025, China's trade with RCEP countries has buttressed the idea of an "Asian supply chain fortress"[22]. While the rest of the global economy has imposed tariff barriers on Chinese exports, trade with RCEP countries (particularly ASEAN) has become the anchor of stability for China's external sector. As per the latest data released by China's General Administration of Customs (GAC) in January 2026[23], the total trade volume between China and other RCEP member countries rose further in 2025, mainly due to the further expansion of "intermediate goods" trade. The overall size of China's trade with RCEP is estimated at approximately $2.0 trillion USD in 2025, and China-ASEAN trade also reached $1 trillion USD for the first time in 2025, making ASEAN as China's largest trading partner (surpassing both the EU and the US).[24] The rate of growth of intra-RCEP trade is higher than that of trade between China and the EU or the US, reflecting the "trade diversion" effect, where Chinese exporters sought to "re-orient" themselves towards Asian markets. Thus, in a way, RCEP has insulated China from Western protectionism and tariffs. The reduction in Chinese exports to the US (due to tariffs/decoupling) was mathematically compensated by an increase in exports to RCEP countries. This is a significant geo-economic reorientation of China's trade geography, shifting it from the west to its periphery.

## China's 'Double Engine' Regional Economic Strategy

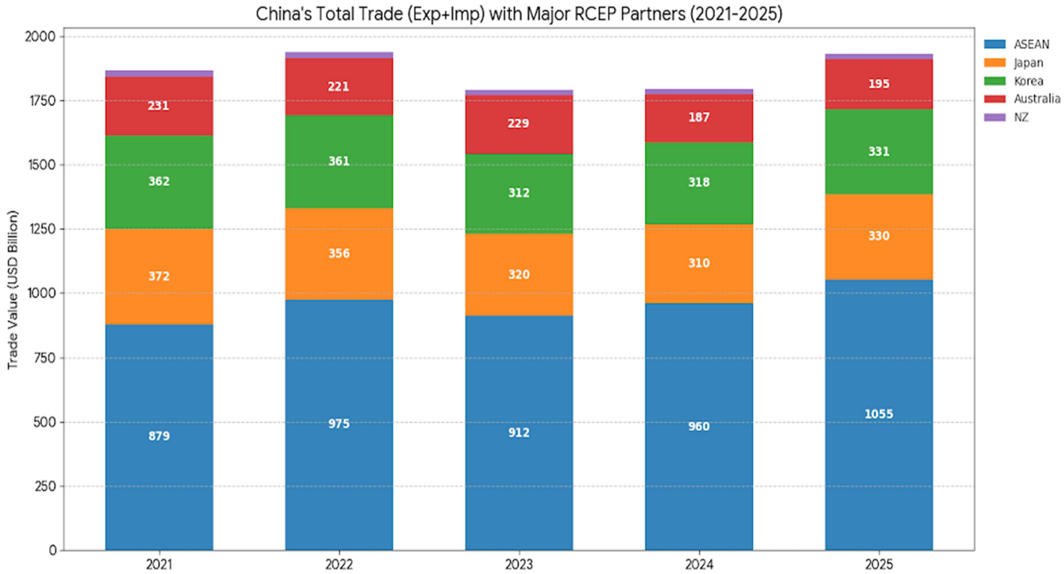
China's twin-track strategy for regional economic hegemony involves using the Belt and Road Initiative (BRI) and RCEP.[25] While on one hand China develops physical infrastructure (ports, railways and highways) under BRI to improve connectivity and transportation, on the other hand, the RCEP provides the institutional trade architecture that enables the free movement of goods across the infrastructure developed under BRI. The integration of BRI physical connectivity with RCEP-based trade liberalisation has created an overarching architecture for China to develop transportation and logistics that skew towards Chinese exports, as well as a preferential trade architecture in which China, through zero-tariff market access, integrates the Indo-Pacific economies' supply chains with Chinese manufacturing centres.

## The "China+1" Conundrum

One of the least understood aspects of the geo-economic impact of RCEP is the manner in which it has intertwined itself with the "China+1" strategy.[26] Western companies (under pressure to "de-risk" supply chains) are shifting the final assembly point away from China to Vietnam, Thailand, Malaysia, India, and other countries.[27]

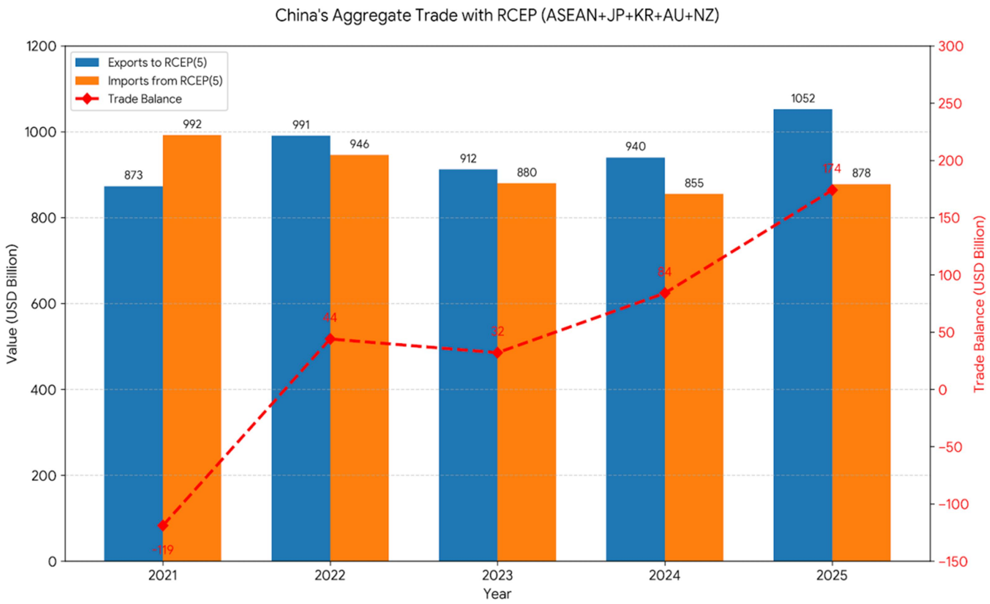
At first glance, this seems to be a setback for China. However, RCEP has ensured that China has effectively internalised the gains from this diversification. For example, as Vietnam's exports of finished electronics and textiles to the US have increased, its imports of intermediate goods (fabrics, electronic components, machinery) from China have increased exponentially. The rules of origin under RCEP allow Chinese inputs to be imported into Vietnam (for value addition) and then exported to Japan or Korea as "RCEP originating" goods. In effect, the supply chain is not "leaving" China but being "extended" into Southeast Asia.[28] Chinese FDI into ASEAN has also increased as Chinese companies are increasingly setting up "offshore" production bases to circumvent US tariffs (solar panels and steel) and leverage the RCEP agreement.[29]

To take an example from the electric vehicle sector (EV), Chinese companies such as BYD and Great Wall Motor are setting up factories in Thailand to integrate the Thai automotive sector into the Sinocentric value chain.




*Picture 7: The graph above shows country-wise data of China's total trade with remaining 14 Member countries of RCEP*

**Source: General Administration of Customs, People's Republic of China*




*Picture 8: The above graph above shows the total trade data of China's trade with remaining 14 Member countries of RCEP*

**Source: General Administration of Customs, People's Republic of China*

## India's RCEP Dilemma - Why India Walked Away from the World's Largest Trade Bloc

India was not a passive observer in the RCEP process; it was a founding member of the negotiations in 2012 and spent seven years actively shaping the deal. India entered the negotiations with a clear strategy to leverage its massive market size to gain access for its professionals (IT and Services) in the Asian markets, while accepting some increase in goods imports. India aggressively pushed for a liberalised movement of professionals. The goal was to make it easier for Indian IT workers, accountants, and teachers to work, especially in ASEAN countries and Australia. This was India's primary interest to balance out the inevitable trade deficit in goods. Indian negotiators worked hard to tighten the "Rules of Origin" criteria. India wanted to ensure that goods from ASEAN partners (such as Vietnam or Thailand) actually originated there, rather than Chinese goods simply repackaged to bypass tariffs. India actively proposed a unique "differential tariff" structure.[30] It offered deeper tariff cuts to ASEAN nations (with whom it had existing ties) while offering smaller cuts to China, reflecting its strategic unease with Beijing. As the world's fourth-largest economy, a major manufacturing power, and a significant services provider, India's presence would have fundamentally transformed RCEP's character and economic impact. Yet India's withdrawal from the RCEP agreement in 2019—despite participating in almost 7 years of negotiations—reflects deeply embedded concerns about its implications for India's economic interests and strategic autonomy.[31] India's engagement with RCEP during the negotiation phase demonstrated a country caught between a willingness for regional integration and legitimate economic concerns. India's withdrawal in 2019 was less about a refusal to trade and more about the failure of all member nations to build consensus on India's demands (especially in the service sector), which were ignored, while India's requests for protection in the agriculture and manufacturing sectors were also ignored.

### What were India's Negotiating Demands:

- Extended phase-out periods for sensitive sectors (agriculture, textiles, electronics), recognising India's competitive disadvantages
- Sectoral exemptions for agriculture, preserving policy space for domestic support programs
- Stricter rules of origin to prevent Chinese circumvention
- Greater market access for Indian services (IT, pharmaceuticals, business services) in the RCEP member countries' markets
- Investment protections limiting foreign investor rights in strategic sectors
- Technology transfer commitments from developed RCEP members

- Auto-Trigger Safeguard Mechanism (ATSM) that would allow India to automatically restore tariffs on specific products if imports from a partner country (implicitly China) exceeded a certain threshold or caused "injury" to the domestic industry[32]

## What India got after negotiations:

- India's demands for extended phase-outs of tariffs were largely rejected by RCEP members, who were eager to finalise the agreement early.
- Rules of origin provisions remained weak by India's standards
- Liberalisation commitments under services provided limited concrete gains for Indian exporters.
- Agricultural exemptions were insufficient for India given the widespread subsidisation by China, Vietnam, Thailand
- Refusal by other RCEP member countries for an Auto-Trigger Safeguard Mechanism (ATSM)

At the 2019 East Asia Summit, India provided a formal justification for its withdrawal. The Indian government stated that the negotiated RCEP text does not fully reflect the basic spirit and agreed guiding principles of RCEP. The government of India stated that the agreement does not satisfactorily address India's outstanding issues and concerns and that it failed to provide adequate safeguards for India's interests in agriculture, manufacturing, and services. At that time, the Indian Commerce Minister, Mr Piyush Goyal, emphasised that India would not compromise on protecting domestic industries, small enterprises, and the agricultural sector, even under regional pressure.[33]

By opting out of RCEP, India signalled that it would no longer sign "umbrella" deals on China's terms. Instead, it shifted to the current strategy, in which India pursues Bilateral FTAs (Free Trade Agreements) only with friendly democracies like Australia, New Zealand, the UAE, and the UK, where it can negotiate terms that specifically exclude Chinese goods.

Domestic politics in India also played a decisive and perhaps veto-wielding role. The Indian dairy sector, represented by the powerful cooperative, launched a vehement lobbying campaign against RCEP. The dairy industry, which supports over 100 million rural families in India, mostly smallholder farmers with 2-3 cattle, feared that duty-free access for India's dairy and agricultural sectors to RCEP countries would collapse domestic milk prices and negatively impact the Indian agricultural sector.[34]

## India's Calculated Decoupling from China:

- **Trade Deficit Risk:** India's trade deficit with China stood at $100 billion in 2025.[35] India's participation in the RCEP would have allowed Chinese goods to enter India's market duty-free, while Indian goods would not have the same ease of access to Chinese markets, especially in terms of price competition.
- **Manufacturing Competitiveness:** The Indian industry would have been at a disadvantage with Chinese producers, who are cheaper. The removal of tariffs in the RCEP agreement would have exposed the Indian industry to Chinese prices.
- **Geopolitics:** India is locked in a strategic rivalry with China, and the recent tensions on the Line of Actual Control (LAC) meant India could not risk binding itself too closely to a strategic opponent.
- **Supply Chain:** India's participation in the RCEP would have forced India to become part of supply chains dominated by China and left it dependent on Chinese cooperation.

## India's Geo-Economic Options and the Indo-Pacific Trade Balance:

India's policy response to the Indo-Pacific trade balance after the RCEP pull-out has matured into a policy of selective engagement and defensive diversification. After rejecting the Big-Tent approach of RCEP in 2019, India is now building a trade order that avoids China and binds friendly democracies in the Indo-Pacific closer to India. Rather than participating in a large grouping where India has relatively less say (like RCEP), India is now engaging in one-on-one or bilateral negotiations where it can set the terms. India is renegotiating the ASEAN-India Trade in Goods Agreement (AITIGA) with ASEAN.[36]

The negotiations were accelerated in late 2025, with particular focus on modernising the Rules of Origin (RoO). India's policy response to China in 2026 has shifted from "blocking imports" to "managing dependence".[37] India has moved to using the Production-Linked Incentive (PLI) schemes to incentivise the production of essential goods and gradually reduce import dependence on China.[38] India is moving towards replacing "finished goods" imports with "intermediate goods" imports, while conceding that it still needs Chinese inputs to produce its exports.

## Post-Withdrawal Economic Realities for India (2020-2025)

It has been six years since India withdrew from RCEP negotiations. At the time of withdrawal, the Indian government had justified it in the name of protecting national interest. With the benefit of hindsight, it can be said that India avoided a potential import shock but paid an opportunity cost in terms of trade and investment diversion.

- **Trade Diversion:** Because India is not part of RCEP, it has faced trade diversion problems in the past few years.[39] All RCEP countries can now trade with each other at zero duty, making Indian exports relatively costly in these markets. For example, in the past four years, Vietnam's textile exports have grown sharply. This is because it can now source fabric cheaply from China and export apparel to Japan and Korea at zero duty under RCEP. On the other hand, India's textile exports have remained stagnant (in the $13-15 billion range) because it still faces tariffs in these markets. Effectively, Vietnam has replaced India as the go-to alternative to China in the apparel sector within the RCEP region. A similar story is unfolding in the Steel and Chemicals sector also. Indian exports of steel and chemicals into RCEP countries now face a tariff disadvantage. For example, Japan can export steel into Vietnam at zero duty, but Indian steel still attracts a tariff. This makes Indian steel less competitive in the ASEAN region, which was traditionally one of the biggest markets for Indian refined petroleum and basic metals.[40]

- **Investment Diversion:** The harmonised Rules of Origin under RCEP are also attracting Foreign Direct Investment (FDI) into the region. MNCs seeking to derisk their supply chains by setting up a China+1 destination are using RCEP countries (because of the ease of transporting parts and components across the region). Although, it is true that India has managed to attract some marquee investments (for example, Apple, Micron etc.) but the broader manufacturing investments under the China+1 strategy in the post-pandemic era are largely going into countries such as Vietnam, Thailand and Malaysia because they offer the twin advantage of being an alternative to China while remaining intimately connected with the Chinese ecosystem through RCEP. Modern manufacturing (for example, in electronics) requires the rapid movement of parts and components across borders. India's absence from the common RCEP rulebook makes it harder for the country to integrate with these regional value chains. Firms from RCEP countries that produce in India cannot count India-made components towards the 40% value-addition required to export at zero duty to other RCEP countries (such as Korea, Japan, or Australia), and hence prefer to set up their export-oriented units elsewhere.[41]

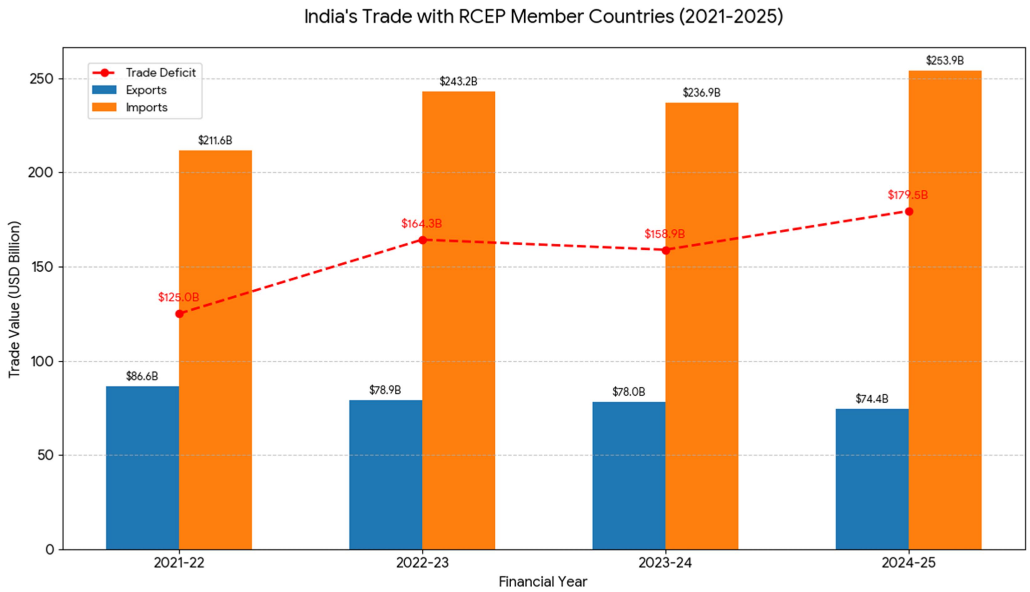
## Sectoral Impact (2020-2025 Trends)

| Sector | Impact of RCEP on Members (e.g., Vietnam, China) | Impact on India (Non-Member) |
|---|---|---|
| **Textiles** | **High Gain:** Vietnam exports surge >15% annually using Chinese inputs. | **Stagnation:** Exports plateaued; market share lost to RCEP member countries like Vietnam. |
| **Electronics** | **Integration:** Deep Global Value Chains integration; intra-regional trade up 20%. | **Mixed:** High growth in assembly (PLI) but high component import dependency. |
| **Dairy** | **Competition:** New Zealand gaining share in ASEAN. | **Protected:** Domestic stability; import threat neutralized. |
| **Steel** | **Rationalization:** China dominates exports to ASEAN infrastructure projects. | **Pressure:** Exports face barriers in ASEAN; domestic market protected by anti-dumping. |

*Table 3: The above table highlights the comparison of Sectoral Impact on RCEP Member countries and on India because of increase in Intra-RCEP trade*

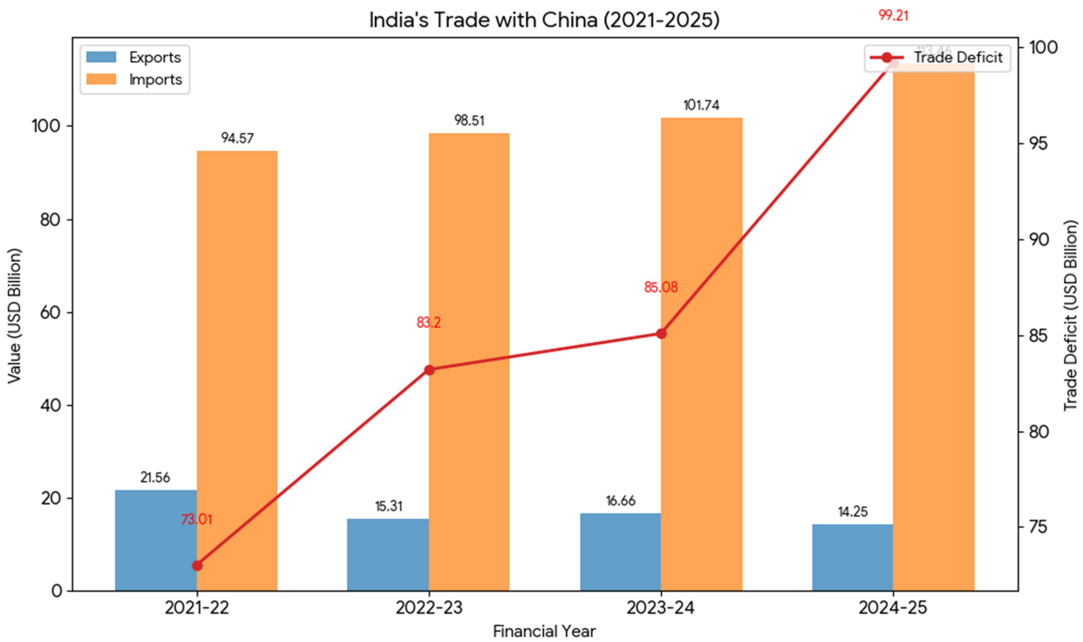
## Structural Problem of India's Chronic Trade Deficits:

Contrary to India's expectation, exiting the RCEP has not avoided India's trade deficits with other RCEP member countries. India recorded the largest trade deficit with China in 2025, reaching $100 billions, while its trade deficit with ASEAN also increased. India still relies heavily on imports of intermediates from China (e.g., active pharmaceutical ingredients, electronic parts, etc.), which are essential for Indian production.[42] India pays for importing those intermediates to keep its economy running, but it is unable to export its value-added products to other RCEP member countries with zero tariffs.




*Picture 9: India's Trade data (Export and Import) with RCEP Member countries along with Trade deficit*

**Source: Department of Commerce, Ministry of Commerce and Industry, Government of India*

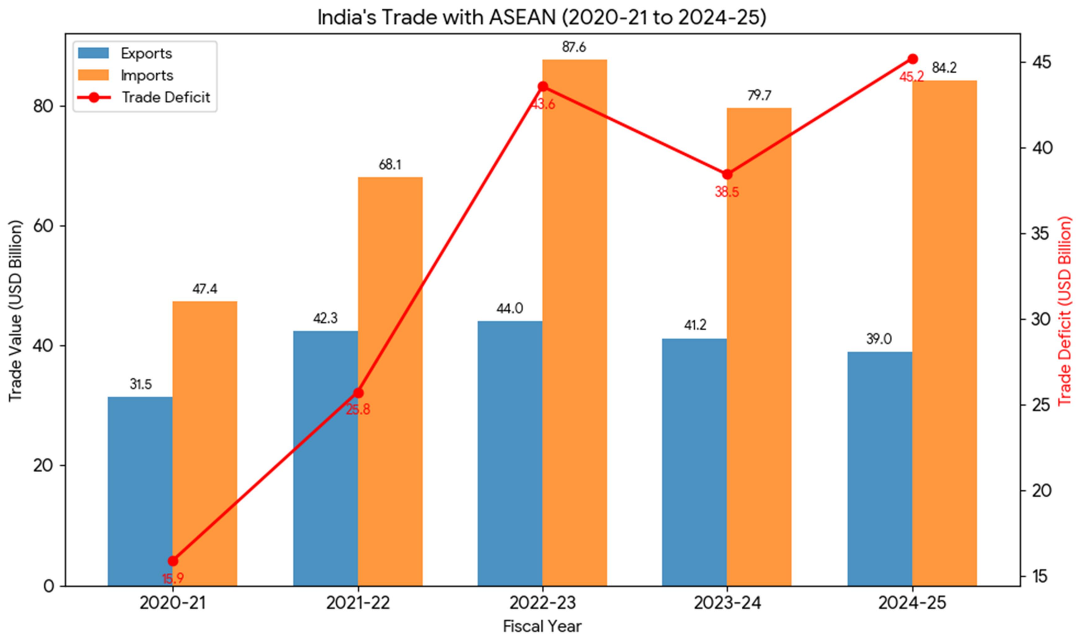



*Picture 10: India's Trade data (Export and Import) with China along with Trade deficit*

**Source: Department of Commerce, Ministry of Commerce and Industry, Government of India*

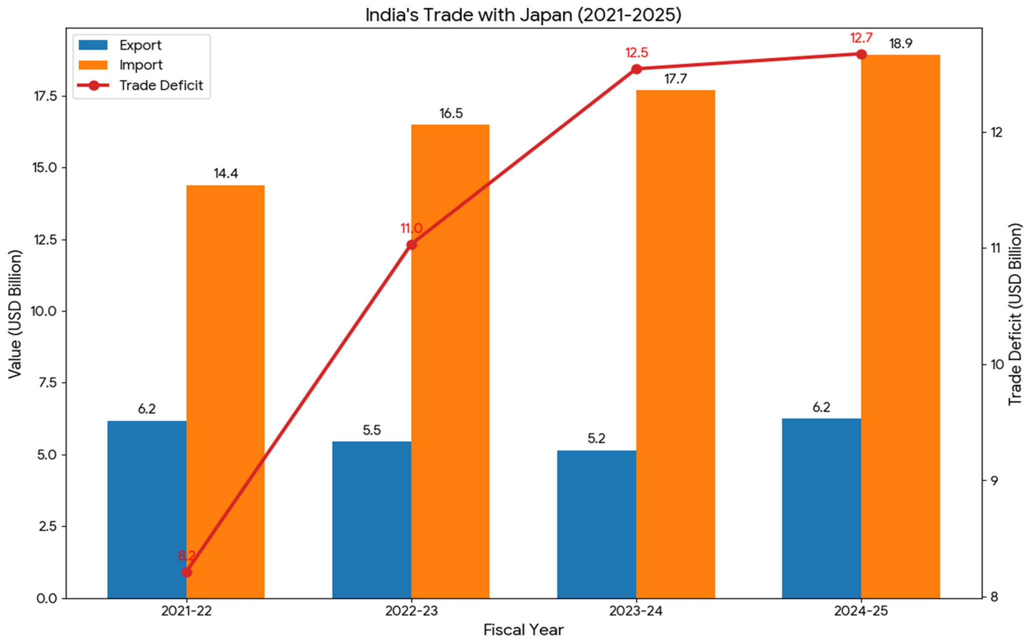
## The RCEP Minus China Option for India:

India cannot afford isolation and, hence, New Delhi's recent efforts to strike bilateral trade deals with Australia, the UK, the EU, etc., are part of a "RCEP minus China" framework.[43] New Delhi has been actively negotiating and signing FTAs with RCEP member countries since 2021. In this context, the India-Australia ECTA (2022) is a groundbreaking early harvest deal that removed duties on 96 per cent of Indian exports to Australia.[44] India gained access to Australian critical minerals (lithium, cobalt), which are key to India's EV ambitions and are largely imported from China. It has created a supply chain conduit bypassing China. India's exports to Australia grew by 8 per cent post-implementation. As of December 2025, India and New Zealand have concluded negotiations for a forward-looking FTA. The India-New Zealand agreement provides an unprecedented duty-free access for Indian exports to New Zealand while adequately protecting India's sensitive sectors, promoting economic resilience, and inclusive growth aligned with India's national priorities. Thus, India's bilateral agreements with Australia, New Zealand, Japan (CEPA), Korea (CEPA), and ASEAN (AITIGA) allow India to retain preferential market access in non-China markets in the Indo-Pacific.[45]




*Picture 11: India's Trade data (Export and Import) with ASEAN along with Trade deficit*

**Source: Department of Commerce, Ministry of Commerce and Industry, Government of India*

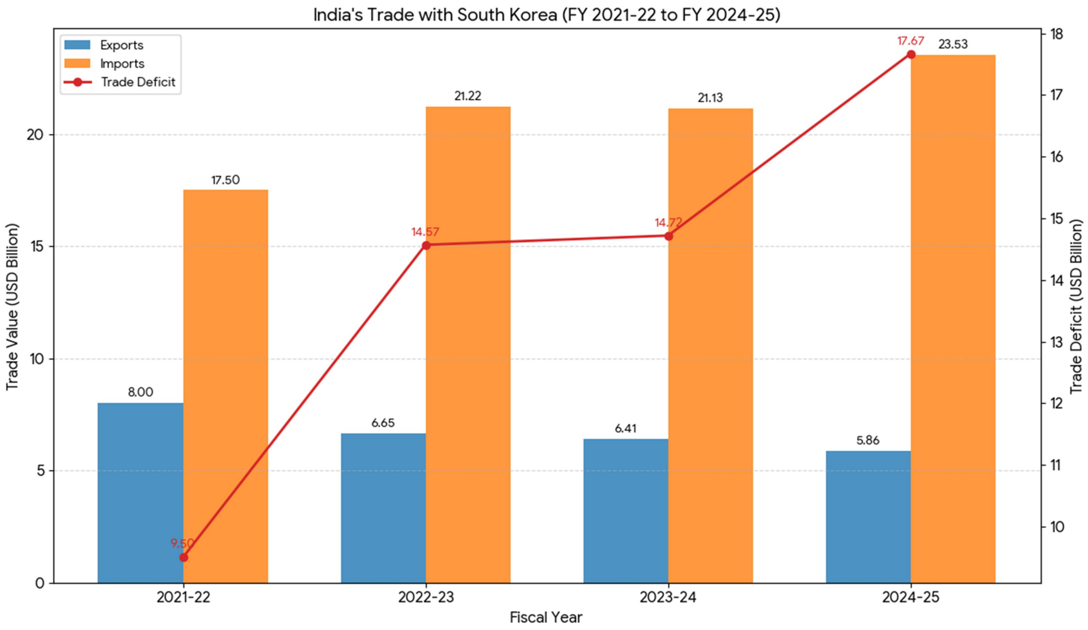



*Picture 12: India's Trade data (Export and Import) with Japan along with Trade deficit*

**Source: Department of Commerce, Ministry of Commerce and Industry, Government of India*

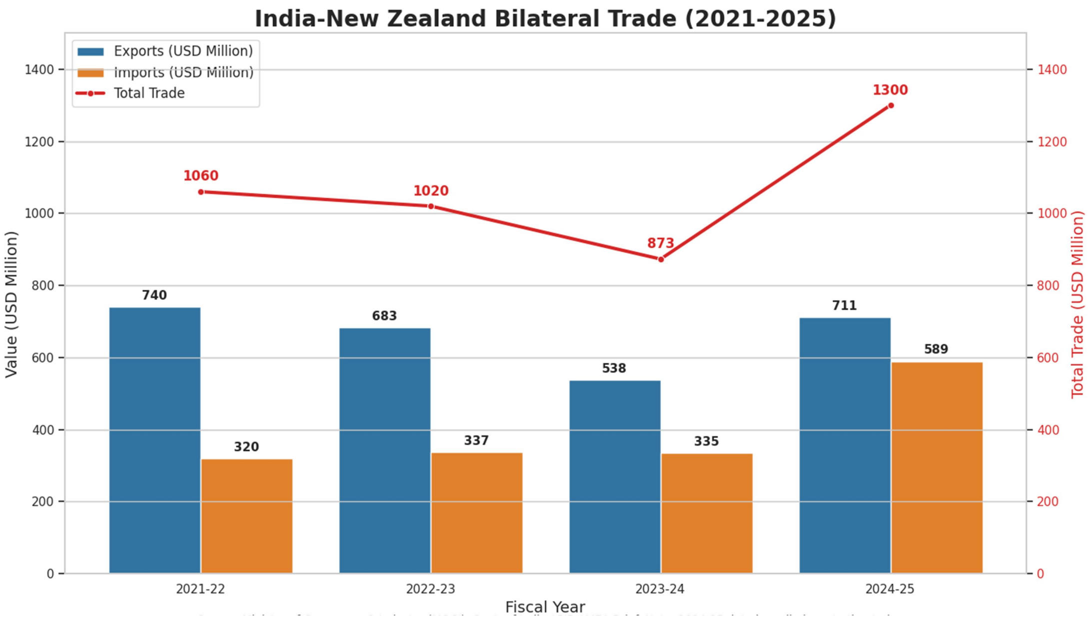

*Picture 13: India's Trade data (Export and Import) with Australia along with Trade deficit*

**Source: Department of Commerce, Ministry of Commerce and Industry, Government of India*




*Picture 14: India's Trade data (Export and Import) with South Korea along with Trade deficit*

**Source: Department of Commerce, Ministry of Commerce and Industry, Government of India*




*Picture 15: India's Trade data (Export and Import) with New Zealand along with Trade Surplus*

**Source: Department of Commerce, Ministry of Commerce and Industry, Government of India*

## India’s New Trade Pivot: The Indo-Pacific Economic Framework (IPEF)

In May 2022, India joined the Indo-Pacific Economic Framework (IPEF) led by the US. IPEF offers India another opportunity to engage economically with like-minded democratic countries while maintaining a safe distance from China.[46] IPEF allows India to benefit from the non-China supply chain network (by attracting “China Plus One” investments) without having to liberalise tariffs or accept labour and environmental standards that could harm Indian industries. India joined the US-led IPEF in May 2022. Unlike RCEP, IPEF is not a trade liberalisation agreement (it does not offer preferential market access). Instead, it addresses regulatory standards across four pillars: Trade, Supply Chains, Clean Economy, and Fair Economy.[47] India chose to opt out of the Trade Pillar (citing concerns over data localisation, labour, and environmental standards that could be used as non-tariff barriers) but has joined the rest. IPEF’s supply chain agreement (which came into force in 2024) has an “Emergency Response Network” to coordinate during a crisis. For India, it is a political mechanism to integrate into trusted supply chains without the risk of Chinese dumping. However, in the absence of any tariff liberalisation, IPEF does not offer the commercial stimulus for supply chain relocation. Unlike RCEP, it may not significantly alter trade patterns.

## Conclusion:

RCEP works wonderfully for multinational giants (like Toyota and Samsung) moving parts across borders, but for small businesses and farmers in developing countries, it has intensified competition without any safety nets. The RCEP marks a tectonic shift in the Indo-Pacific’s economic order, effectively tilting the region’s fulcrum towards a China-centred value chain. By establishing unified Rules of Origin, the RCEP has consolidated “Factory Asia,” enabling Beijing to internalise the benefits of supply chain diversification and counter U.S. decoupling efforts through deep economic interdependence with RCEP member countries.

For India, the withdrawal from RCEP prioritises “strategic autonomy” and domestic protectionism over trade integration, accepting the costs of trade and investment diversion to shield its economy from Chinese dominance. Ultimately, RCEP has formalised a bifurcated geopolitical landscape where the Indo-Pacific relies on the U.S. for security alliances but remains increasingly tethered to China for economic prosperity. As of 2026, the RCEP has not only delivered a self-sustaining Asian supply chain but has also solidified China’s status as the undeniable economic hub of the region.

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*Printed and published by:*
**India Foundation, New Delhi**
contact@indiafoundation.in