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# Impact of Domestic Factors on Foreign Policy Outcomes: The Case of India's Disengagement from RCEP

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*At the cusp of an economic reinvigoration of the Asia-Pacific region, India withdrew its membership from the Regional Comprehensive Economic Partnership. While the predominant narrative highlights the economic and geopolitical reasons behind this disengagement, this paper uncovers the strong bearing of domestic factors on the outcome of this decision. It analyzes the insufficiency of the current reasoning of geopolitical and economic factors used to explain New Delhi's final decision to disengage. Moreover, the paper will demonstrate how the central government was susceptible to strong lobbying of interest groups within the country, disallowing its participation in the economic bloc. The undertaken study will firstly highlight the strong retaliation of domestic interest groups and how they impacted the final decision of the Indian government. Secondly, the research uncovers the critical role played by domestic factors superseding the role of central leadership and bureaucracy in shaping foreign policy outcomes under certain conditions as in the case of India's decision to disengage from RCEP.*

## **Introduction**

After eight years and 31 rounds of negotiations, 15 countries from around the world came together on November 15, 2020, to sign the Regional Comprehensive Economic Partnership (RCEP). Accounting for 30 percent of the global GDP, 45 percent of the world's population, and roughly 26 percent of global FDI flows, RCEP forms the world's largest trading

bloc, surpassing the North American Free Trade Agreement (NAFTA).<sup>1</sup> The RCEP agreement between the ten ASEAN countries, China, Japan, Australia, New Zealand, and South Korea, aims at consolidating the Asian market by facilitating free trade. It enables deeper economic integration by establishing a common set of rules for the 15 countries, eliminating tariffs on 90 percent of goods, providing greater market access, etc.

India has actively participated in the RCEP negotiations for eight years, since the partnership's inception in 2012. India entered the negotiations under the leadership of Prime Minister Manmohan Singh from the Congress Party, the main opposition party of the country today. Within two years, the leadership in India shifted to the Bhartiya Janata Party (BJP), under Narendra Modi who was elected to power with a sweeping majority. Modi and his government pursued RCEP negotiations with vigor, with Modi stating on several occasions—including during ASEAN summits—his willingness to successfully conclude the deal with a “comprehensive and balanced outcome” for all.<sup>2</sup>

In his first leg of foreign diplomatic tours, Modi visited the ASEAN countries, expressing his intent to establish a closer economic and strategic relationship with the region. As a means to this end, the Modi government transformed the “Look East policy” of India into the “Act East policy” signaling the country's proactive commitment to strengthening regional integration in the Asia-Pacific.<sup>3</sup> Providing thrust to the initial policy, the new policy concentrated on regular and intensive interaction in areas such as trade, defense, culture, and tourism. Additionally, attracting a greater flow of FDI to India was the cornerstone of Modi's foreign policy during his first term as Prime Minister. Around 30 reforms were introduced by the BJP government in multiple sectors to eliminate the barriers that foreign investors face in India, such as gaining

1 Tobias Sytsma, “RCEP Forms the World's Largest Trading Bloc. What Does This Mean for Global Trade?,” *The RAND Blog*, December 9, 2020, <https://www.rand.org/blog/2020/12/rcep-forms-the-worlds-largest-trading-bloc-what-does.html>.

2 The Economic Times, “India has put forward reasonable proposals for RCEP deal: Prime Minister Modi,” *The Economic Times*, last modified November 2, 2019, <https://economictimes.indiatimes.com/news/economy/foreign-trade/india-has-put-forward-reasonable-proposals-for-rcep-deal-prime-minister-modi/articleshow/71863809.cms?from=mdr>.

3 K.V. Kesavan, “India's ‘Act East’ policy and regional cooperation,” *Observer Researcher Foundation*, February 14, 2020, <https://www.orfonline.org/expert-speak/indias-act-east-policy-and-regional-cooperation-61375/>.

permits and licenses.<sup>4</sup> This suggested that the foreign policy agenda laid out by the Modi-led government perfectly aligned with the outcomes sought by RCEP.

In the face of resistance during the RCEP negotiations, India redrew its demands to satisfy domestic and foreign audiences. The shift from a three-tier tariff reduction to a two-tier tariff reduction scheme is a case in point.<sup>5</sup> In the context of domestic concerns regarding flooding imports and RCEP member countries' demand for greater market access, the negotiators forwarded the auto-trigger mechanism (ATM) scheme.<sup>6</sup> The scheme would pacify both demands by allowing for market access while simultaneously protecting domestic markets by instituting safeguards when imports cross a certain threshold. More than 100 consultations were organized over eight years, engaging various stakeholders from key domestic interest groups to reach a negotiation outcome favorable for all.<sup>7</sup> This reflected India's willingness to accommodate and compromise to ensure a successful negotiation.

In 2019, the Prime Minister remarked, "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."<sup>8</sup> Subsequently, India disengaged from RCEP negotiations in November 2019 stating that its "outstanding and domestic concerns" remained unresolved. It is puzzling that despite

4 Richard M. Rossow, "India's FDI Reforms Under Modi: Once a Fountain, Now a Drip," *Centre for Strategic & International Studies*, August 15, 2017, <https://www.csis.org/analysis/india%E2%80%99s-fdi-reforms-under-modi-once-fountain-now-drip>.

5 Asit Ranjan Mishra, "India's new stance at RCEP may benefit China," *mint*, last modified August 9, 2016, <https://www.livemint.com/Politics/qGEPZqVoHO4U4YYvfBgCNP/Indias-new-stance-at-RCEP-may-benefit-China.html>.

6 Rajaram Panda, "A Step Too Far: Why India Opted Out of RCEP," *Global Asia*, December 2019, [https://www.globalasia.org/v14no4/feature/a-step-too-far-why-india-opted-out-of-rcep\\_rajaram-panda#:~:text=For%20the%20time%20being%2C%20India,the%20interests%20of%20domestic%20industry](https://www.globalasia.org/v14no4/feature/a-step-too-far-why-india-opted-out-of-rcep_rajaram-panda#:~:text=For%20the%20time%20being%2C%20India,the%20interests%20of%20domestic%20industry).

7 T.V. Narendran, "Premature membership of RCEP would not serve Indian interests," *mint*, last modified December 2, 2020, <https://www.livemint.com/opinion/online-views/premature-membership-of-rcep-would-not-serve-indian-interests-11606924603861.html>.

8 The Statesman, "Neither Talisman of Gandhiji nor my own conscience permit to join RCEP: PM Modi," *The Statesman*, November 5, 2019, <https://www.thestatesman.com/india/Neither-talisman-of-gandhiji-nor-my-own-conscience-permit-to-join-rcep-pm-modi-1502817753.html>.

this alignment of goals between the foreign policy agenda and the trade deal, as well as Modi's keen interest in successfully concluding the negotiations and the redrawing of win sets to accommodate Level I & II demands,<sup>9</sup> India still withdrew from the trade deal in the eleventh hour.

This paper attempts to address the pertinent question arising from this puzzle: "Why did India disengage from RCEP negotiations?" This question has been the focal point for various scholars who have put forth various explanations. The existing arguments can be grouped under the systemic level of foreign policy analysis. Under this umbrella, economic and geopolitical factors are popularly proposed as the answer to the aforementioned question. This paper will highlight the gaps in the existing arguments and propose a domestic-level factor that more accurately explains the subsequent foreign policy decision. Through the independent variable of domestic politics, characterized by the strong lobbying by interest groups, this paper seeks to explain the dependent variable of India's decision to withdraw from RCEP. An extensive review of existing literature, news reports, official documents, speeches, and public statements will be undertaken to conduct this research.

### **Systemic Factors**

The two major ramifications of RCEP for India are "economic" and "geopolitical," which are the popular reasons cited for the country's exit. While both reasons are valid, they are insufficient in explaining the outcome, as will be discussed in the following sections.

#### **A. Economic Factors**

Under the paradigm of liberalism, commercial liberalism argues that economic interdependence does not ensure peace among states. Rather, it's the distribution of these economic gains that is critical. Commercial liberalism assesses the cost and benefits involved in transnational economic exchange, which subsequently curtails or facilitates the participation of individual states. Economist Dani Rodrik argued that "trade liberalization generates domestic

9 Robert D. Putnam, "Diplomacy and domestic politics: the logic of two-level games," *International Organization* 42, no. 3 (1988).

distributional shifts totaling many times aggregate welfare benefits.”<sup>10</sup> It argues against the assumption that markets always incentivize states to cooperate. Commercial liberalists claim that it is the structure of markets and domestic distribution that will dictate the course of action-cooperation or protectionism.<sup>11</sup> The asymmetrical impact of free trade produces winners and losers which go on to shape state preferences and actions.

Commercial liberalism provides the rationale behind the arguments forwarded by scholars who state economic factors as reasons propelling India's decision. The economic argument revolves around India's experience with Free Trade Agreements (FTAs) and the country's massive trade deficit. Out of the 15 RCEP countries, India registered a trade deficit of US\$105 billion in FY 2018-2019 with eleven RCEP member countries, a substantial rise from US\$54 billion in 2013-2014.<sup>12</sup> Keeping in line with the commercial liberalist argument, scholars argue that the asymmetrical market access ushered in by FTAs has resulted in a massive rise in imports, but sluggish Indian exports.<sup>13</sup> Scholars argue that a cost-benefit analysis of India's past FTAs has revealed unfavorable gains for the country. A positive correlation has been noted by Akarsh Bhutani between FTAs and trade deficits,<sup>14</sup> citing the example of bilateral trade agreements with ASEAN, South Korea, and Japan where the trade deficits have worsened post-signing of FTAs.<sup>15</sup> These past experiences have shaped India's averseness to RCEP, which was seen to further exacerbate this problem. Thus, it was the asymmetrical distributional impact on the domestic economy, as suggested

10 Dani Rodrik, “The Limits of Trade Policy Reform in Developing Countries,” *Journal of Economic Perspectives* 6, no. 1 (1992).

11 Andrew Moravcsik, “The New Liberalism,” *The Oxford Handbook of Political Science*, September 2013, <https://www.oxfordhandbooks.com/view/10.1093/oxfordhb/9780199604456.001.0001/oxfordhb-9780199604456-e-033#oxfordhb-9780199604456-bibliItem-3025>.

12 Chao Wang and Sharma Vinay, “India's RCEP Dilemma with China: Beyond the Legal Texts\*,” *Pacific Focus* 36, no. 1 (2021).

13 Sanchita Chatterjee, “Regional Comprehensive Economic Partnership: Implications for India's Rules of Origin,” *Economic and Political Weekly* 49, no. 45 (November 2014).

14 Akarsh Bhutani, “India's reluctance in joining the RCEP — A boon or a bane in the long-run?,” *Observer Research Foundation*, February 10, 2021, <https://www.orfonline.org/expert-speak/india-reluctance-joining-rcep-boon-bane-long-run/>.

15 Panda, “A Step Too Far.”

by commercial liberalists, that compelled India to withdraw from RCEP.

The economic argument has its merits, yet it is insufficient in explaining the outcome. First and foremost, as abundant research has established, trade deficits on their own are not necessarily negative or a point of concern.<sup>16</sup> Secondly, Arvind Panagariya in his study revealed that from 2007 to 2017 India's bilateral position vis-a-vis its FTA partners actually improved. He further added that although imports have risen substantially with partners under trade agreements, these imports still form only six to seven percent of India's total imports.<sup>17</sup> The graph below (Figure 1) undermines the positive correlation established between FTAs and trade deficits by showcasing how India's trade deficits went down in the presence of trade agreements. The only country where the trade deficit rose from 2007 to 2017 is China, with which India does not have an FTA. Lastly, if it is indeed FTAs that are the leading point of concern for India, this would suggest that the country would not pursue any other FTAs. However, as of 2021, India is currently pursuing an FTA with the United States, the European Union, the United Kingdom, and even RCEP member countries, New Zealand and Australia. Thus, this establishes that FTAs and trade deficits could be at best subsidiary causes, rather than the leading cause behind New Delhi's disengagement from the trading agreement.

16 Robert W. McGee, "Why Trade Deficits Don't Matter," *Policy Analysis*, no.6 (July 1996); George Alessandria, "Trade deficits aren't as bad as you think," *Business Review* (2007).

17 Yogima Seth Sharma, "India must join RCEP: Arvind Panagariya," *Economic Times*, last modified June 3, 2020, <https://economictimes.indiatimes.com/news/economy/foreign-trade/india-must-join-rcep-arvind-panagariya/articleshow/76160939.cms>.

### FTAs are not the problem

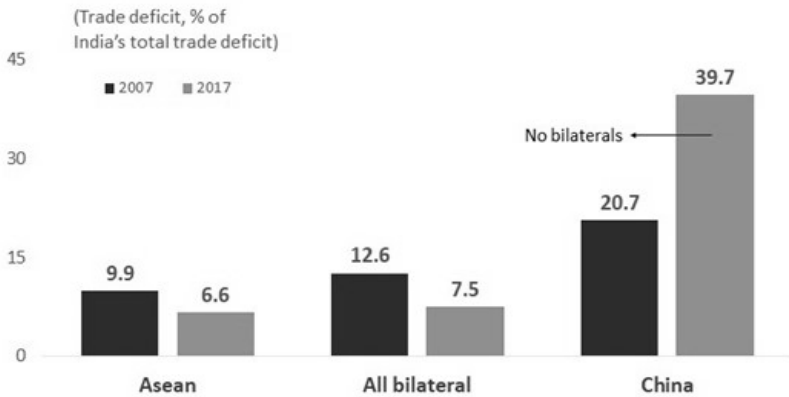


Figure 1. Trade deficit with RCEP countries vis-à-vis the presence of bilateral<sup>18</sup>

### B. Geopolitical Factors

According to the realist school of international relations, states as unitary actors are guided by national interest. In an anarchic international order, realists argue that the primary goal of a state is to ensure survival through the means of accumulating and maximizing power. As John Mearsheimer explains, “states want to make sure that no other state gains power at their expense” and as a result, states value relative gains more than absolute gains.<sup>19</sup> Relative gains highlight how much one benefits in relation to the other as opposed to the absolute gain of both states.<sup>20</sup> This idea is critical in the realm of international trade, as disproportionate distribution of gains in trade inhibits complete cooperation between states because according to realists, the international order is a zero-sum game.

18 Sunil Jain, “Get competitive, don’t blame RCEP: Why India’s exports haven’t grown as fast as China’s or Vietnam’s,” *The Financial Express*, November 17, 2020, <https://www.financialexpress.com/opinion/get-competitive-dont-blame-rcep-why-indias-exports-havent-grown-as-fast-as-chinas-or-vietnams/2129784/>.

19 John J. Mearsheimer, “Structural Realism,” in *International Relations Theories: Discipline and Diversity*, (Oxford: Oxford University Press, 2007).

20 Robert Powell, “Absolute and Relative Gains in International Relations Theory,” *The American Political Science Review* 85, no. 4 (December 1991).

The central tenets of realism provide a segue into the geopolitical factors put forward by scholars to explain India's withdrawal. Various scholars have emphasized the "China factor" of RCEP. Out of the 15 RCEP countries, India already has an FTA with 12, and is currently pursuing trade agreements with New Zealand and Australia. The only country with which India currently does not have a bilateral trading agreement is China. China's participation in the trade agreement has been a great cause of concern for India since the initiation of the negotiations.<sup>21</sup> A long-standing border dispute has created tension between the two countries, and this has been further aggravated by the recent border skirmishes. Moreover, out of all RCEP countries, India has the largest trade deficit with China.<sup>22</sup> Domestic manufacturers feared that market access under RCEP would lead to Chinese imports flooding domestic markets and domestic products not being granted symmetrical access to China's markets.<sup>23</sup> As argued by realists, the higher relative gains of China, as opposed to India, inhibited New Delhi's cooperation in RCEP.

The looming presence of China in RCEP was a great cause of concern for India. Yet, the arguments are inadequate in explaining its final foreign policy decision. As argued above, trade deficits exclusively are not a point of concern unless they result from massive government borrowing. Secondly, although the two countries may have tense relations, India continues to rely heavily on China economically, with a bilateral trade of roughly US\$91 billion, making it improbable to decouple the two economies.<sup>24</sup> Contrary to the concerns stated, scholars have argued that in the absence of FTA, the RCEP negotiations would have provided a formal opportunity for India to negotiate greater market access, especially in areas of its comparative advantage—

21 Amitendu Palit, "Domestic politics force India's withdrawal from RCEP and broader trade disengagement," *Asia Pacific Bulletin*, no. 494 (November 26, 2019).

22 Harsh V. Pant, "The China factor in India's RCEP move," *The Hindu*, November 9, 2019, <https://www.thehindu.com/opinion/lead/the-china-factor-in-indias-rcep-move/article29925057.ece>.

23 Brahma Chellaney, "The China Factor Behind India's Pullout from RCEP," *Stagcraft and Statecraft*, February 7, 2020, <https://chellaney.net/2020/02/07/the-china-factor-behind-indias-pullout-from-rcep/>.

24 Press Trust of India, "India-China trade volumes on course to touch record \$100 billion-mark," *Business Standard*, October 13, 2021, [https://www.business-standard.com/article/economy-policy/india-china-trade-volumes-on-course-to-touch-record-100-billion-mark-121101301244\\_1.html#:~:text=The%20bilateral%20trade%20between%20India,released%20by%20the%20Chinese%20customs.&text=The%20Indian%](https://www.business-standard.com/article/economy-policy/india-china-trade-volumes-on-course-to-touch-record-100-billion-mark-121101301244_1.html#:~:text=The%20bilateral%20trade%20between%20India,released%20by%20the%20Chinese%20customs.&text=The%20Indian%).



pharmaceuticals and IT services.<sup>25</sup> Analysts from ICICI Securities remarked, “The fear of imports from China is relatively unfounded and, if witnessed, can be better addressed by staying within the RCEP framework vis-a-vis staying out.”<sup>26</sup> Thirdly, the graph below (Figure 2) shows that over the past couple of years, the trade deficit with China has significantly declined. Thus, it would be counterintuitive in this context to suddenly pull out of RCEP in 2019. The argument of a massive trade deficit with Beijing would hold validity if New Delhi had decided to withdraw earlier during a period of fluctuating deficit.

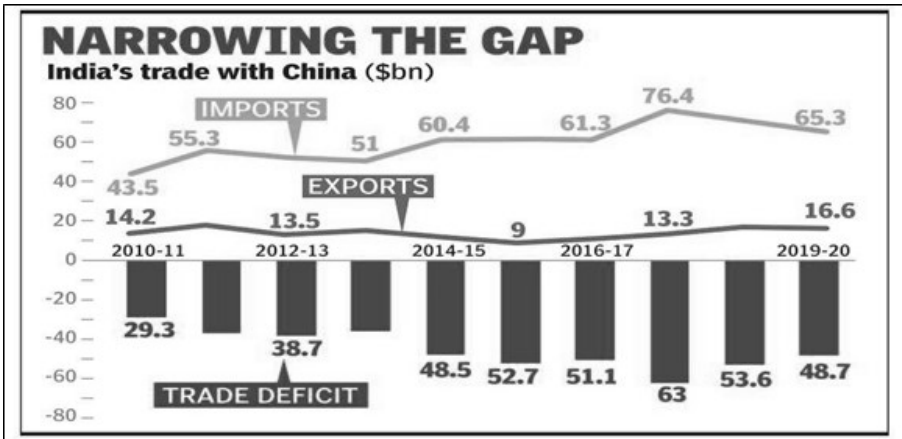


Figure 2. India's trade with China<sup>27</sup>

**Domestic Factors**

Since the systemic factors are insufficient in explaining India's withdrawal from

25 Panda, “A Step Too Far.”

26 Vatsala Gaur, “Inclusion of steel in RCEP talks worries industry captains,” *The Economic Times*, September 19, 2019, <https://economictimes.indiatimes.com/news/economy/foreign-trade/inclusion-of-steel-in-rcep-talks-worries-industry-captains/articleshow/71193969.cms?from=mdr>.

27 *The Times of India*, “India's trade deficit with China at 5-year low,” *The Times of India*, June 23, 2020, <https://timesofindia.indiatimes.com/business/india-business/indias-trade-deficit-with-china-at-5-year-low/articleshow/76521335.cms>.

RCEP, the next level of analysis that needs to be explored is the domestic factors. Domestically, the main opposition against India's decision to engage in RCEP negotiations arose from varied interest groups. A study conducted by two trade specialists, Ram Singh and Surendar Singh, revealed that eight interest groups in India had a high impact on the government's RCEP negotiations. Three of out these eight were farmers associations (Swadeshi Jagran Manch, Confederation of Indian Farmer Associations, and All India Kisan Sabha), three were industrial associations (Confederation of Indian Industry, Federation of Chamber of Commerce and Industry, and Indian Stainless Steel Development Association), one was a dairy board (National Dairy Development Board), and the last was the National Association of Software and Services Companies (NASSCOM). Out of these eight, only one argued in favor of liberalization—NASSCOM. The remaining seven argued for the protection of their sectors and goods.<sup>28</sup> Each of these sectors registered their protest against the government's involvement in RCEP publicly. Due to the limitations of space, the following section will delve deeper into the grievances of two major interest groups—the dairy and steel sectors.

### A. Dairy Sector

The dairy sector in India vociferously condemned the country's participation in the RCEP negotiations as it would be most adversely affected by joining the agreement. Unlike in other RCEP countries, the dairy farmers of India are more fragmented as they largely operate independently, and their production is not channeled through cooperatives or dairy companies. This is well reflected by the fact that the country has roughly 150 million dairy farmers, with most of them owning only two to three buffalos.<sup>29</sup> The sector has historically operated under a very protected trade regime. For instance, the trading pact with ASEAN (2009) in which most dairy products were placed on the exclusion list. A similar pattern can be observed in FTAs with Japan (2011) and South Korea (2010).<sup>30</sup>

The participation of New Zealand, Australia, and China in RCEP

28 Surendar Singh and Ram Singh, "Domestic Sources of India's Trade Policy Preferences in RCEP Negotiations," *Jornal of World Trade* 54, no. 4 (2020).

29 Harekrishna Misra, "Why India needs to protect its small dairy farmers," *Financial Express*, September 9, 2019, <https://www.financialexpress.com/opinion/why-india-needs-to-protect-its-small-dairy-farmers/1700001/>.

30 Panda, "A Step Too Far."

was a cause of great concern for India. Out of the 15 RCEP countries, India has pre-existing FTAs with ASEAN, Japan, and South Korea under which most dairy products have been excluded.<sup>31</sup> New Zealand and Australia are top dairy exporters worldwide with a highly organized dairy sector under large multinational corporations (MNCs). The graph below (Figure 3) compares the milk production of India, New Zealand, and Australia, with their share of exports of processed goods to RCEP countries. India's large-scale milk production is counteracted by its massive domestic consumption and does not translate into greater exports. Small and marginal dairy farmers will be driven out of domestic markets with RCEP providing market access to MNCs and substantially lowering tariffs on imports.

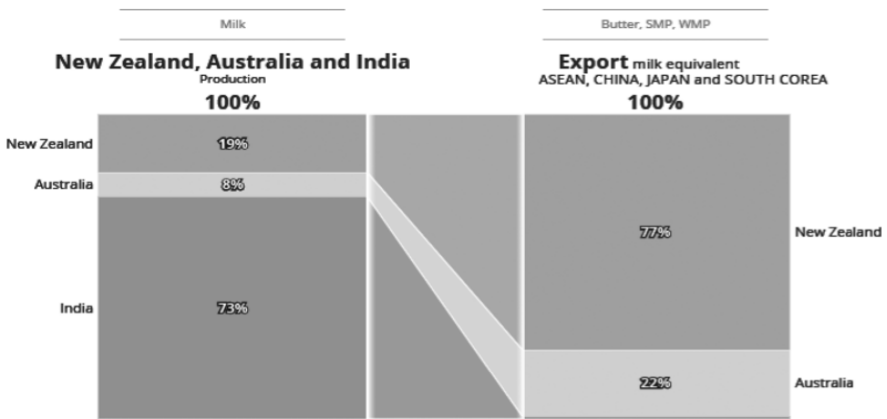


Figure 3. India's milk production and export to RCEP countries vis-à-vis New Zealand and Australia<sup>32</sup>

The dairy farmers were at the forefront of anti-RCEP protests organized nationwide on November 4, 2019. States such as Karnataka also saw protests from dairy farmers in October, during which the farmers blocked the Bengaluru-Mysuru highway to hold demonstrations. Gujarat Cooperative Milk Marketing Federation Limited, one of the biggest dairy cooperatives in India, filed a written complaint to the Commerce Ministry, stating the devastating

31 Singh and Singh, "Domestic Sources of India's Trade Policy Preferences."

32 Ibid.

implications of RCEP on the dairy sector in India.<sup>33</sup> The Confederation of All Indian Traders urged the Indian government to exclude dairy products, stating that “import of dairy products under RCEP agreement would be detrimental to Indian dairy industry and may create huge loss to milk producers of India and the dream of doubling farmers’ income would be shattered.”<sup>34</sup> Thus, the demand and concerns of the dairy sector were effectively and explicitly voiced.

## B. Steel Sector

The steel industry of India is oligopolistic with a few key players dominating the market—Steel Authority India Limited, Tata Steel, Jindal Steel Works (JSW) Steel, Essar Steel, and Ispat Industries, which account for 80 percent of the total steel production of India.<sup>35</sup> Akin to the dairy sector, the steel industry operates under high protection from the government with a recent increase in import tariffs and the introduction of “minimum import price” on steel and steel products.

The concerns of the steel sector stem primarily from China. China is the world’s largest steel producer with roughly 993 metric tons of total production every year, in contrast to India’s meager annual output of 111 metric tons.<sup>36</sup> A Joint Plant Committee report revealed that in 2019, steel was more expensive in India than most other international suppliers. This protectionism provided by the Indian government allowed the domestic steel industry to become a net exporter of steel for the first time in 14 years. However, opening up domestic markets to China would effectively drive down prices and curtail profits made by the Indian steel industry. Under RCEP, “India will become a dumping ground for all goods through this ‘Open Door Policy’ approach by the government, thereby destroying the manufacturing sector in India, resulting in losses of jobs and investor confidence in India,” as

33 National Herald, “RCEP: Amul warns Modi govt, letter to Piyush Goyal likely to fall on deaf ears,” *National Herald*, November 2, 2019, <https://www.nationalheraldindia.com/india/rcep-amul-warns-modi-government-letter-to-piyush-goyal-likely-to-fall-on-deaf-ears>.

34 Press Trust of India, “CAIT urges PM to exclude dairy products from RCEP,” *Deccan Herald*, October 4, 2019, <https://www.deccanherald.com/business/business-news/cait-urges-pm-to-exclude-dairy-products-from-rcep-766317.html>.

35 Singh and Singh, “Domestic Sources of India’s Trade Policy Preferences.”

36 Nachiket Kelkar, “India turns net exporter of steel to China for the first time in years,” *The Week*, September 21, 2020, <https://www.theweek.in/news/biz-tech/2020/09/21/india-turns-net-exporter-of-steel-to-china-for-the-first-time-in-years.html>

argued by Abhyuday Jindal, the Managing Director of Jindal Stainless.<sup>37</sup> This concern was sparked due to past experiences of FTAs with Korea and Japan. The fear is that competition would shift the market away from an oligopoly to a free market where uncompetitive firms will be driven out of the market.

During the inter-ministerial consultations, the key players of the steel industry collectively and separately issued statements suggesting their discontent with the inclusion of steel in RCEP negotiations. Tata and Jindal were at the forefront of protesting against the inclusion of steel products stating, "If RCEP negotiations are finalized, the Indian steel industry, which has suffered in the past even under the current FTA arrangements with 13 countries, should be excluded from its purview."<sup>38</sup> Aruna Sharma, Secretary in the Ministry of Steel India, echoed this sentiment post these meetings in his remark, "We are very clear as far as steel is concerned it should be out of RCEP."<sup>39</sup> These concerns made their way to the top due to a sizable amount of political funding made to the government by the steel industry. A study conducted by Harry Stevens and Aman Sethi revealed that the majority of political funding in India is sourced through electoral trust companies. In the years 2018-2019, BJP received 75 percent of its funding from Tata Group's Progressive Electoral Trust.<sup>40</sup> For this reason, it is challenging for any Indian government in power to circumvent the demands and concerns of the steel industrialists.

The other key interest groups mobilizing protest against India's involvement were the agricultural sector and the Swadeshi Jagran Manch. Small and marginal farmers with less than two hectares of land comprise 82 percent of all farmers in India. Much like the concerns of the dairy sector, the

37 Jindal Stainless Steel, "Media Statement by Abhyuday Jindal, Managing Director, Jindal Stainless On Regional Comprehensive Economic Partnership (RCEP) Agreement," *Jindal Stainless*, November 13, 2018, <https://www.jindalstainless.com/press-releases/media-statement-by-abhyuday-jindal-on-rcep-agreement/>.

38 Gaur, "Inclusion of steel in RCEP talks worries industry captains."

39 Deepshikha Sikarwar, "Steel ministry against inclusion of finished products in RCEP," *The Economic Times*, August 21, 2018, <https://economictimes.indiatimes.com/news/economy/policy/steel-ministry-against-inclusion-of-finished-products-in-rcep/articleshow/65481392.cms?from=mdr>.

40 Aishwarya Paliwal, "BJP received 75% of its donation from Tata Group's Progressive Electoral Trust," *India Today*, November 13, 2019, <https://www.indiatoday.in/india/story/bjp-received-biggest-donation-from-progressive-electoral-trust-1618401-2019-11-13>.

opening up of markets to foreign products and reduction in tariffs on imports would leave small farmers highly vulnerable. Farmers from all key agricultural states in India—Uttar Pradesh, Punjab, Telangana, Andhra Pradesh, Karnataka, Tamil Nadu, and Haryana—organized a nationwide protest on November 4, 2019, against RCEP. Farmers' unions—Indian Coordination Committee of Farmers' Movements, All India Kisan Sangharsh Coordination Committee, Confederation of Indian Farmer's Associations, and All India Kisan Sabha—all united to represent the interests of the Indian farming community.<sup>41</sup> The grievances of the farming sector had a decisive impact on the ruling party, as they comprise the single largest voters block with 500 million voters.<sup>42</sup>

Swadeshi Jagran Manch (SJM) is the non-political affiliate of the ruling party, BJP. It is a subsidiary body of Rashtriya Swayamsevak Sangh (RSS), the parent body of BJP.<sup>43</sup> The body represents the interest of small and marginal farmers, artisans, businesses, rural industries, etc., and advocates for self-reliance or “*swadeshi*”<sup>44</sup> for India. The group organized an eleven-day nationwide protest from October 11, 2019, against RCEP, mobilizing the agriculture and dairy sectors.<sup>45</sup> Since coming to power in 2014, this is the first time any faction of RSS has publicly protested against a government decision.

The domestic opposition posed by interest group lobbies was further compounded by BJP's poor performance in the state elections of 2019 in Maharashtra and Haryana (both key agricultural states of India), widespread clamor over the poor financial state of the country, and a crucial winter session

41 Singh and Singh, “Domestic Sources of India's Trade Policy Preferences.”

42 Maroosha Muzaffar, “How 500 million farmers became India's swing voters,” OZY, April 24, 2019, <https://www.ozy.com/news-and-politics/how-500-million-farmers-became-indias-swing-voters/93768/>.

43 Gyan Varma, “RSS affiliate Swadeshi Jagran Manch starts 10-day nationwide protest against RCEP,” *Mint*, October 10, 2019, <https://www.livemint.com/news/india/rss-affiliate-swadeshi-jagran-manch-starts-10-day-nationwide-protest-against-rcep-11570705535646.html>.

44 A Hindi term that calls for the boycott of foreign goods and promotes reliance on domestic products

45 Press Trust of India, “SJM to hold nationwide protests from October 10-20 against RCEP,” *The Economic Times*, October 10, 2019, <https://economictimes.indiatimes.com/news/politics-and-nation/sjm-to-hold-nationwide-protests-from-october-10-20-against-rcep/articleshow/71517485.cms?from=mdr>.

of parliament that was approaching.<sup>46</sup> It is evident that this dissatisfaction posed serious pressure on the government based on the Indian negotiators' request for the postponement of concluding the terms of the RCEP agreement and its subsequent signing from 2018 to 2019, post-India's general elections.<sup>47</sup>

After evaluating the role played by economic, geopolitical, and domestic factors on the country's decisions to disengage from RCEP, the only variable unaddressed until now is the role of leadership preferences and bureaucratic politics in explaining India's protectionist stance toward RCEP. Pre-RCEP, as far back as the Doha Ministerial Declaration (2001), India opposed the demands of the US and EU to liberalize agricultural and industrial sectors.<sup>48</sup> Past FTAs with ASEAN, Japan, and South Korea showcased a high level of protection for agriculture and textile products signed under the Congress party.<sup>49</sup> The only sector extensively liberalized was the service sector. During RCEP, under BJP, this pattern lived on with a demand to keep agriculture, dairy, and steel products out of the ambit of the negotiations. Post-RCEP, the inclusion of dairy products in the FTA with the EU was a point of contention that led to the suspension of negotiations in 2006. These negotiations were reinitiated in 2021.<sup>50</sup> India is currently under negotiations for an FTA with Australia wherein most finished agriculture and dairy products have been left outside the purview of the trade deal.<sup>51</sup> This brings forth a

46 Satyam Sharma, "Wake up call for BJP, return of regional satraps: Quick takeaways from Maharashtra, Haryana polls," *The Economic Times*, October 25, 2019, <https://economictimes.indiatimes.com/news/elections/assembly-elections/maharashtra/wake-up-call-for-bjp-return-of-regional-satraps-quick-takeaways-from-maharashtra-haryana-polls/articleshow/71744057.cms?from=mdr>.

47 Kentaro Iwamoto, "India sought to delay RCEP deal beyond general election," *Nikkei Asia*, November 14, 2018, <https://asia.nikkei.com/Politics/International-relations/India-sought-to-delay-RCEP-deal-beyond-general-election>.

48 Singh and Singh, "Domestic Sources of India's Trade Policy Preferences."

49 Nandini Sarma, "Free Trade after RCEP: What next for India?," *Observer Research Foundation*, April 6, 2020, <https://www.orfonline.org/research/free-trade-after-rcep-what-next-for-india-64163/>.

50 Rutam Vora, "Dairy players oppose free trade pact with EU," *The Hindu Business Line*, March 26, 2021, <https://www.thehindubusinessline.com/economy/agri-business/dairy-players-oppose-free-trade-pact-with-eu/article34172561.ece>.

51 Kritika Suneja, "India, Australia likely to resume FTA talks soon," *The Economic Times*, June 6, 2021, <https://economictimes.indiatimes.com/news/economy/foreign-trade/india-australia-likely-to-resume-fta-talks-soon/articleshow/83265110.cms?from=mdr>.

pattern of exclusion and inclusion in India's trade deals irrespective of changes in central leadership and bureaucracy, thus establishing that all governments and bureaucracies in India are highly susceptible to the demands of key interest groups during trade deals, irrespective of their composition.

## Conclusion

Traditionally, theories of international relations assume the state to be a primary and unitary actor behind foreign policy decisions. However, an extensive analysis of distinct foreign policies unpacks the various actors—the central leadership, bureaucracy, public opinion, etc.—within a state that influence its foreign policy. In the undertaken case of India's disengagement from RCEP, the study evaluates the role of a multitude of factors to reveal the predominant cause behind the outcome. While the paper recognizes the crucial role played by economic and geopolitical reasons, it reveals the centrality of the domestic factor of internal lobbying by interest groups in shaping the outcome of disengagement.

The paper begins by analyzing the pre-existing causes identified by scholars—economic and geopolitical factors—behind New Delhi's final decision to withdraw from RCEP. Under economic factors, the country's history of unfavorable gains under FTAs which result in trade deficits are popularly cited as reasons behind India's decision to disengage. However, the study reveals the positive impact of FTAs on trade deficits which is further highlighted by India's sustained efforts to sign more trading agreements with the European Union, New Zealand, Australia, etc. in the past couple of years. This undermines the centrality of economic factors in the foreign policy decision of India. The second reason forwarded by scholars is the geopolitical concerns arising from China's looming presence in RCEP. The massive trade deficit that India registers with China and the fear of the latter making unfair gains at the cost of the former are cited as primary geopolitical causes. However, in recent years, India recorded a diminishing trade deficit with China. Additionally, the RCEP framework provides a better opportunity for India to negotiate for better market access to China, thus disallowing unfair gains.

This paper puts forth the strong lobbying by domestic factions as the principal cause behind India's decision to withdraw from RCEP. Various interest groups such as the dairy industry, steel industry, farming community, and Swadeshi Jagran Manch collectively mounted a nationwide protest against the Indian government's decision to engage in RCEP negotiations. The paper



dives deeper into the grievances of the Indian steel and dairy industries, both of which have historically operated under protectionism. The oligopolistic nature of the former and the fragmented characteristic of the latter leave the two sectors uncompetitive. Under RCEP, the opening up of domestic markets to foreign competition would render the Indian firms vulnerable and threaten their survival, hence their resistance to the agreement. Given that these domestic firms comprise huge vote banks and massive electoral funding, the government becomes highly susceptible to the dissent of these interest groups.

By highlighting the gaps in the prevalent reasons identified behind India's disengagement from RCEP, the study uncovers the critical role played by domestic factors. The undertaken case study goes against the assumptions of traditional IR theories to reveal the complexities of foreign policy making which is influenced by multiple actors within a state. Despite the recognized benefits of the engagement, the willingness of the central leadership, and the efforts of the bureaucracy in concluding India's membership into the RCEP trading bloc, the government had to withdraw after eight years of negotiations. The paper reveals the vulnerability of states, under certain conditions, to the demands of internal interest groups in shaping foreign policies.