

## The United States and Japan Should Cooperate to Include India in Indo-Pacific Economic Governance

By Kensuke Yanagida

Both the United States and Japan consider India as an important strategic partner in their respective Indo-Pacific concepts. However, India still faces many domestic challenges as a developing country. India also has traditionally been reluctant when it comes to trade liberalization. U.S. bilateral trade negotiations with India, and Japan's effort in promoting an East Asia regional trade agreement that includes India share objectives and interests and hence can be coordinated.

**Kensuke Yanagida**, former Visiting Fellow at the East-West Center in Washington, explains that "U.S. bilateral trade negotiations with India, and Japan's effort in promoting an East Asia regional trade agreement that includes India share objectives and interests and hence can be coordinated."

On November 15, 2020, the Regional Comprehensive Economic Partnership (RCEP) was signed by 15 countries with the glaring exception of India. RCEP is a regional free trade agreement (FTA) whose negotiations were initiated by ASEAN and six partner countries, namely Japan, China, South Korea, Australia, New Zealand and India in 2012. The signing of RCEP finally came after eight years of negotiations, but India decided to pull out from the pact at the final stage of negotiations.

The Japanese and U.S. Indo-Pacific concepts aim to achieve regional peace, stability, and prosperity through ensuring a rules-based international order, and to enhance cooperation among like-minded countries in both economic and security spheres. RCEP can be positioned as an important economic partnership initiative that embodies the Indo-Pacific concepts of rules-based, free and fair trade and investment governance, and contributing to the economic prosperity of the region.

RCEP has achieved a substantial outcome. The RCEP's proposed level of liberalization and rules are not as advanced as those in the Trans-Pacific Partnership (TPP) such as State-owned enterprises and labor and environment standards, but considerably higher and much more comprehensive than the WTO agreement. For example, the chapter in RCEP on investment includes full-fledged provisions of liberalization and protections. All foreign investments are treated under the non-discriminatory national treatment and most-favored-nation status at the stage of entry unless specific measures are set out in the list of reservations (negative list approach). The rules prohibiting performance requirements such as local procurement and forced technology transfer are stipulated. This is the first time China has included such elements in an investment agreement it has signed. In electronic commerce, the chapter includes the prohibition of requests to install servers or other computer-related equipment as well as the freedom of cross-border information transfer (data free flow). On the other hand, the prohibition of requiring the disclosure of source code, which is included in the TPP, is subject for future discussion in RCEP.

India expressed its intention to withdraw from the negotiations at the RCEP Summit in November 2019, and did not return to the negotiating table thereafter. One of the reasons for India's departure from RCEP is the concern that trade liberalization with RCEP members may lead to an influx of cheap products, especially from China—with which it runs a massive trade deficit. Another factor is domestic political considerations. In the spring of 2019, Prime Minister Narendra Modi's Bharatiya People's Party (BJP) won a landslide victory in the Federal House of Representatives election, but in the October elections for the state assemblies in Haryana, a suburb of Delhi, and Maharashtra, a state in the western part of India, votes

for the BJP in rural areas declined. In addition, Swadeshi Jagaran Manch (SJM), a political and cultural organization urging “Buy Indian” that is affiliated with the Hindu nationalist organization Rashtriya Swayamsevak Sangh (RSS), which is the BJP’s biggest supporter, and Gujarat Milk Marketing Cooperative Federation (GMMF) in Prime Minister Modi’s home state of Gujarat, staged a fierce demonstration against RCEP. Many analysts assess these protests as having greatly influenced the decision of the Modi administration to pull out of RCEP. Although Japan and Australia worked hard in urging India to return to RCEP, ultimately these attempts were not successful, so 15 Asian countries went ahead and signed the treaty without India.

The U.S. economic approach to India has similar structural considerations. India has raised tariffs on some information and communication technology (ICT) products, such as mobile phones and communications equipment, from about 2014. In recent years, India has raised the applied rates to the bound rates committed under its membership in the WTO agreement. The United States, Japan and several other countries requested the WTO to resolve disputes regarding India’s tariff increase measures for ICT products. In June 2019, the United States removed India from the Generalized System of Preferences (GSP), which gives duty-free tariff treatment for qualifying developing countries, for failure to provide “equitable and reasonable” market access. On services, the United States is concerned with India’s barriers to investment on market access, localization requirements and restrictions on e-commerce. In addition, India’s weak Intellectual Property (IP) protection and localization requirements on data storage obstructs U.S. foreign direct investment. Under the Trump administration, the United States and India were negotiating a trade agreement to address immediate trade frictions in the first stage with the aspiration of expanding it to a comprehensive agreement. The United States is aiming to expand exports of agricultural products and energy in exchange for partial restoration of India’s GSP status. Negotiations for either phase were not concluded and it is unclear at this writing how the Biden administration will proceed with the same Indian government.

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The issues facing India in the RCEP negotiations and the US-India bilateral negotiations have much in common. Japan and the United States can work closely together to ensure that India can meet the requirements of a rules-based, free and fair economic governance in the Indo-Pacific. To that end, the success of bilateral negotiations between the United States and India is extremely important, and the outcome will give India the confidence to promote trade liberalization.

Economic assistance and cooperation provided to India by both Japan and the US is essential. In order for India to realistically fulfill its role and responsibilities and its own stated aspirations of economic progress, it must gain internal and external cooperation. One of India’s most important challenges is to steadily develop its manufacturing base by promoting infrastructure development and legislation reform under the banner of its declared “Make in India” campaign. It is also essential for India to develop human resources through the spread and deepening of education in which the utilization of digital technology plays a very important role. The U.S.-Australia-India-Japan Quadrilateral Consultations have been elevated to the ministerial level as a platform to promote cooperation among members. Through this platform, the United States and Japan should step up economic cooperation jointly and with other willing partners in such areas as quality infrastructure and digital technology, with the aim of supporting infrastructure and human resource development in India.

A strong, prosperous India is important for India, of course. And it is also crucial to U.S. and Japanese interests.

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