



India and APEC: Charting a Path to Membership

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SUMMARY

India's membership in APEC would mitigate two significant problems: 1) India's relatively poor integration into the global economy; and 2) the emergence of a divisive trade agenda in the Asia-Pacific. This issue brief outlines these challenges and highlights the obstacles and opportunities related to India's inclusion in APEC. It concludes that this is the right time to start considering India's membership in the forum and that a strategy is needed to chart a pathway for the country's eventual accession to APEC.

Trade in Asia, a powerful driver of regional growth and integration, is at a critical inflection point. Negotiations for regional trade arrangements that exclude certain countries, such as the Trans-Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP), not to mention the Transatlantic Trade and Investment Partnership (TTIP), hold the potential to raise regional and global standards. However, the differing memberships of these arrangements could make trade a divisive force. As emerging powers in Asia raise concerns about regional competition and conflict, trade needs to remain a unifying force, instead of exacerbating geopolitical tensions.

India is potentially the most disadvantaged by this emerging trade agenda. Despite being Asia's third-largest and fastest growing major economy, as well as the political and economic center of gravity in South Asia, India is not included in the major multilateral trade agreements under negotiation. The country would also have great difficulties

meeting their high standards, which could keep it on the outside for the medium- to long-term. As an emerging global power, one of the ten largest economies in the world, and the home to a third of the world's poorest people, India needs to grow its economy.¹ Long-term growth will only occur if India can integrate more fully into global trade flows.

These two problems—a potentially divisive regional trade agenda and India's limited integration into the region—can be mitigated through India's participation in the Asia-Pacific Economic Cooperation (APEC) forum. India's membership in APEC would be an important step toward India opening to increased trade and investment and preparing for inclusion in trade pacts like the TPP, which will drive future regional commerce. Moreover, by admitting India, APEC could pave the way for a more inclusive trade agenda in the region. An APEC that includes India will generate economic benefits for India and the other APEC member economies, as



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well as help promote greater international cooperation. In order for India to accede to APEC, the country will have to overcome a number of obstacles, including its own policies and reluctance among current members about letting India enter.

the majority of commerce in the Asia-Pacific and around the world. APEC member economies house approximately 40 percent of the world's population and account for about 60 percent of global GDP.⁴ For developing economies like India that hope to grow at a high rate, strong economic relationships with APEC member economies are critical.

APEC: A FORUM FOR REGIONAL INTEGRATION

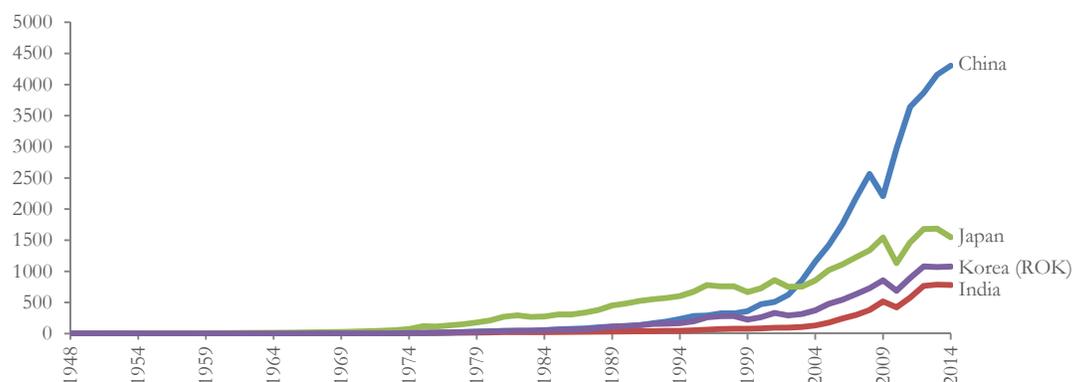
Founded in 1989, APEC has facilitated the opening of its member economies to greater flows of trade and investment. APEC has contributed significantly to trade facilitation in the region, helping simplify a complex web of regulatory arrangements among member economies. After twenty-five years, it deserves credit for creating a regional culture of trade liberalization.

The APEC region's total trade increased over sevenfold between 1989 and 2013.² Its Trade Facilitation Action Plan helped reduce the costs of doing business among member countries by 5 percent between 2007 and 2010.³ Today, APEC represents the supply chains that drive

INDIA'S LIMITED INTEGRATION WITH THE GLOBAL ECONOMY

Since gaining independence, India has remained poorly integrated with the global economy. Its share of global trade actually slid from 2.2 percent in 1947 to 0.5 percent in 1990.⁵ The economic reforms that India enacted in 1991 spurred strong economic growth over the ensuing two and a half decades, causing India's trade volume to grow significantly and return to its 1947 level. Compared to its peers in economic size, however, India is still performing below its potential as a trading nation. Although India's total trade has increased significantly since 1991, Figure 1 shows that it has not kept pace with

Figure 1: Total Trade with the World (current US\$ billions)





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the trade growth of other key Asian powers, whose trade volumes were similar to India's until around 1970. These countries also have much stronger trade relationships within the Asia-Pacific: while trade with APEC economies generally makes up about 60 percent of their overall trade, India lags well behind, with closer to 40 percent.⁶ Modest trade levels within South Asia are no help either. South Asian countries' trade with one another represents only 5 percent of their total trade. This pales in comparison to ASEAN, where trade among member countries accounts for 25 percent of their total international trade.⁷

India's underwhelming trade volume is a serious detriment to its long-term growth and development goals. As part of its strategy to alleviate poverty, India's new government aims to increase significantly its manufacturing capacity and exports, but it is handicapped by poor integration. India's omission from trade agreements like the TPP and TTIP will make joining global supply chains and attracting badly-needed investment even more difficult. India will not achieve Prime Minister Narendra Modi's goal to create 100 million manufacturing jobs by 2022, if it finds itself outside of the Asia-Pacific trade picture.

INDIA'S APEC OPPORTUNITY

APEC rebuffed India's most recent effort to join the forum, in 1998. Perceiving that India was not sufficiently supportive of a regional economic

integration agenda, APEC passed on India's candidacy in favor of Peru, Russia, and Vietnam, and put a moratorium on new memberships. That decision stemmed from a perception that India was not sufficiently supportive of a regional economic integration agenda.⁸ Much has changed since then. India has signed, or is negotiating, trade agreements with all but four of the twenty-one APEC economies and has seen its trade volumes with these economies grow.⁹ For instance, U.S.-India trade in goods and services increased from about \$15 billion to \$100 billion since the turn of the century.¹⁰

The forthcoming TPP agreement will force institutions like APEC to make important adjustments to remain relevant. It may also create a greater sense of urgency in India to engage in trade liberalization and seek involvement in the region's trade institutions. India has elected a government, led by Prime Minister Narendra Modi, that is eager to unleash reforms and pursue greater integration into global supply chains.

APEC officially ended its moratorium on new membership in 2010. Though it has refused to consider new members since, it is now possible to raise the issue of India's membership. APEC member economies are starting to consider India's potential membership; the United States, China, and Russia, three key APEC economies, have all welcomed India's interest in APEC during the past year. These developments make the current period particularly opportune for India to seek membership in APEC.



APEC member economies have concerns over India's trade policy and record in international trade negotiations. India will also need to answer concerns within APEC about its geographic fit.

OVERCOMING INDIA'S OBSTACLES TO APEC ACCESSION

India's Trade Policy

Despite this opening, India's entry into APEC is far from assured; the country will have to overcome years of skepticism regarding its trade agenda. This effort will have to begin at home. Currently there are no constituencies lobbying the Indian government to pursue free trade, which gives the government little reason to take up the cause.

One factor that gives Indian business leaders and policymakers pause is India's large trade deficit, especially its nearly \$50 billion deficit vis-à-vis China. Many believe that India's free trade agreements (FTAs) have hurt its trade balance. According to the Confederation of Indian Industry (CII), "Indian industry has been skeptical about the gains accruing to India after entry into force of these FTAs and is of the opinion that such agreements have helped the exporters of other countries, while Indian exporters have not gained much, or have been hurt, by increased competition."¹¹ A strategy for India's inclusion in APEC will have to grapple with this question and make the case that India's trade deficit is a reason to pursue more openness in trade, not less. India also enjoys a trade surplus with two-thirds of the current APEC member economies. Joining APEC could help India increase exports to these partners. Indian business leaders will have to be persuaded that these opportunities are

valuable enough for them to mobilize in support of APEC membership.

APEC member economies also have concerns over India's trade policy and record in international trade negotiations. India's role in endangering the WTO trade facilitation agreement has suggested to other countries that India opposes trade liberalization and obstructs economic negotiations. India's bilateral trade agreements tend to be less ambitious and far-reaching than true free trade agreements, and it has been locked in trade disputes with APEC members like the United States, which has filed multiple disputes against India at the WTO. India will not only have to convince current APEC members that it would behave constructively and support greater economic connectivity as a member of APEC, but also advocate domestic policy reforms favoring economic liberalization.

APEC's Structure and Balance

India will also need to answer concerns within APEC about its geographic fit. India's distance from the Asia-Pacific makes it a less-than-obvious candidate for membership in the group. Other APEC member economies outside the Asia-Pacific might also worry that APEC would become too tilted toward Asia if India joined. Colombia, Costa Rica, and Ecuador are APEC aspirants, and it may be difficult to move India to the front of the line ahead of them. Similarly, three ASEAN members—Cambodia, Laos, and Myanmar—are not part of APEC.



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Existing APEC members that also belong to ASEAN might find it difficult to favor India's bid over those of these three countries. To win support for its candidacy, India might need to pursue membership as part of a group of three to five economies seeking simultaneous accession. Since it is unclear whether current members are ready to add that many economies at once, any strategy to add India to APEC will have to determine how to position the country carefully among other candidates, with an eye on the overall geographic balance of the forum.

THE BENEFITS OF INDIA'S ACCESSION TO APEC

India has ample reason to pursue APEC membership. India's accession to APEC would also be good for the forum and for the wider world.

Benefits for India

Prime Minister Modi's flagship economic program, "Make in India," aims to expand India's manufacturing capacity, but requires large inflows of foreign direct investment (FDI). Since foreign investors balk at India's regulatory and business environment, India could readily use APEC as a forum to learn how it can more effectively attract FDI. Second, APEC membership would allow India to engage member economies on evolving trade and investment rules and norms, learn what

new standards will be put in place for exports, and help Indian manufacturers develop capacity to meet these standards.

APEC's consensual nature and processes will allow India to move gradually toward liberalization through deliberation and the sharing of information and best practices, making membership a low-risk proposition. This would ultimately help India adapt to changes in Asia's trade architecture that are likely to occur as the TPP and other agreements come into effect and cause a degree of trade diversion, which could jeopardize not just India's future trade potential, but also its current levels of trade. Finally, APEC membership would support India's "Act East" foreign policy and strategic objectives in the region, by giving it a seat in an economic cooperation forum that combines political deliberations among leaders with working-level economic task forces and technical groups.

Benefits for APEC

India's rapidly growing middle class and its growing consumption rate will provide APEC member economies with a major market for goods and services. India's membership will promote stronger ties between India and APEC member economies by allowing them to engage India in ways that they have been unable to do bilaterally. For instance, U.S.-India economic relations have faced repeated setbacks because of the two countries' inability to compromise on



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mutually beneficial economic policies. APEC membership would facilitate better bilateral economic relations by allowing the two countries to speak frankly in a multilateral forum without digging into their negotiating positions.¹²

Including India would also make APEC a far more relevant and credible institution. In recent years, APEC's status as the "premier economic forum in the Asia-Pacific for multilateral trade and investment issues" has diminished.¹³ By accepting India, Asia's third-largest economy (and prospectively the fourth-largest APEC economy), APEC would automatically become a more inclusive body that better reflects the economic reality of the region. It could then serve as a neutral forum that includes all major Asian economies, unlike the competing TPP and RCEP groupings.

Regional and Global Benefits

India's entry would help diminish the divisive effects of new trade regimes in Asia by ensuring that key economies have a single and inclusive forum for dialogue on international trade and economic issues. India's full integration into the regional trade flows and supply chains will increase the Asia-Pacific's economic interdependence and thereby enhance regional peace and stability. Though it started as an economic body, APEC now serves as a forum where major Asian leaders discuss issues critical to long-term stability in the region. India's inclusion in APEC would also strengthen its ties with the three other

major powers in the region—the U.S., Japan, and China—and reduce concerns that it will work with one power over another. India's integration into the regional economy could happen in a piecemeal and bilateral manner, raising alarms for some countries, or it can be facilitated more methodically through APEC, in ways that allay geopolitical fears.

If India is to fulfill its ambition of maintaining high rates of economic growth over the next two decades to create jobs, spur economic development, and alleviate poverty, it will have to take advantage of the opportunities presented by the global economy. APEC membership will offer India the tools and incentives to integrate itself more fully into the Asia-Pacific and global trade systems. India's economy is significantly enmeshed with APEC member economies already. Its trade with APEC member economies represents a full 40 percent of its total trade volume.¹⁴ And since APEC is not a negotiating body, India would have to make no new commitments in order to join; it would simply need to demonstrate its willingness to be a constructive member. This is not an easy task, given India's reputation as a tough trade partner, but it is not impossible, either. Given the size of India's economy and its interest in strengthening trade relationships with APEC economies, full membership should be the obvious next step for both India and APEC.



ENDNOTES

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