

REPORT

India's Future in Asia: The APEC Opportunity

By Harsha V. Singh and Anubhav Gupta



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FOREWORD

AT A TIME OF SLOWING GLOBAL ECONOMIC GROWTH, the international community needs to fully tap all the sources of new dynamism and demand available in the world today. India, the world's fastest-expanding major economy, holds the potential to shore up growth in both the Asia-Pacific region and globally. For that potential to be realized, however, India's domestic reforms and integration with the Asian and world economies need to progress more rapidly.

The advent of the Trans-Pacific Partnership (TPP) agreement offers much hope of reinvigorating trade growth in the Asia-Pacific region once it comes into force, but the TPP does not include India. The first and necessary step toward greater Indian participation in Asian trade and investment flows is membership in the Asia Pacific Economic Cooperation (APEC) forum. It is a step whose time has come, for India, for APEC, and for the international economy.

APEC helped make TPP possible; but with TPP's advent, APEC's role as a forward-thinking forum for regional economic cooperation will depend on further expansion of the regional trading community, especially by involving economies that are not yet and may not soon be ready to meet TPP's high standards.

Over the past 26 years, APEC has been at the forefront of integrating the Asia-Pacific region by facilitating trade, reducing non-tariff barriers, and expanding global value chains. Most of all, it has helped create habits of economic dialogue and cooperation among its 21 member economies and fostered enormous regional trade expansion and market integration. Today, the APEC member economies account for nearly 60 percent of global GDP.

The admission of India is the single greatest opportunity that APEC has to expand regional integration and counter the trend of slowing economic growth in Asia. This report by the Asia Society Policy Institute (ASPI) provides an analysis of the impact that Indian membership could have on APEC and its member economies as well as a strategy for achieving India's accession to APEC. It outlines the numerous benefits that would accrue to India, APEC members, and global markets as a result of Indian membership. It also highlights the key impediments to Indian accession and suggests potential steps that India, APEC, and key APEC economies could consider to tackle these obstacles and build support for Indian membership.

This ASPI report, authored by Dr. Harsha V. Singh and Anubhav Gupta, suggests that economic and political developments in India, in the APEC community, and on the global scene make the case for Indian membership particularly compelling. Indian Prime Minister Narendra Modi's government is committed to far-reaching domestic reforms that will make its markets more open and dynamic in the years to come. Under Prime Minister Modi, the government of India has for the first time in many years strongly and repeatedly expressed its wish to join APEC. The prime minister has reached out to the political and business leaders of many APEC member economies and sought their partnership in his ambitious reform effort. He has also signaled in particular his desire for closer ties with the Asia-Pacific region through his "Act East" initiative, and APEC membership would be a major step in that direction.

Within APEC, the conditions for Indian membership are more favorable than they have been in many years. APEC's official moratorium on membership is no longer in force, and each year offers the opportunity to admit new members. Several Latin American and Southeast Asian economies are candidates for admission, and current members from those regions, such as Peru—which will host the 2016 APEC meetings—could support a roster of candidate members that includes India. Key APEC members, including the United States, Japan, China, and Russia, have all welcomed India's interest in joining APEC.

Finally, China, the engine of the global economy for the past decade, has entered a period of slower growth and some uncertainty as it transitions to a new domestic consumption-based economy. While China's growth will continue to set an enviable standard for Western economies, the Asia-Pacific region, long centered on a fast-growing China, is in search of new markets for trade and investment, access to new consumers and workers, and new sources of innovation. India holds the promise of offering these opportunities but must be afforded greater access to the region's diverse economies to deliver on that promise.

This report is the result of a nearly yearlong project initiated by the Asia Society Policy Institute and made possible by the leadership and support of several key individuals and partner organizations. I want to express my great appreciation to Ajay Banga, Chairman and CEO of MasterCard, and Ambassador Shyam Saran, former Foreign Secretary of India and now Chairman of Research and Information System for Developing Countries (RIS), a Delhi-based think tank, who co-chaired with me the distinguished international task force that examined the question of Indian membership in APEC. Their enormous experience and wise counsel guided and greatly enriched our deliberations.

I want also to thank the Confederation of Indian Industry (CII), our partner in India, for the generous assistance it gave to the project. Sunil Kant Munjal, CII's past president, contributed his long business experience and insights as a member of the task force. Chandrajit Banerjee, CII's Director General, and his extremely capable staff provided vital support to the project's activities in India.

ASPI is fortunate that Dr. Marshall M. Bouton, ASPI Senior Fellow for India, brought his wealth of expertise and experience in India to this project. I am grateful for his critical role in designing and directing the project and his leadership on ASPI's other India endeavors.

Finally, I want to congratulate the coauthors of this report, Dr. Harsha V. Singh, former Deputy Director General of the World Trade Organization who has served as a Senior Advisor to the project, and Anubhav Gupta, ASPI Senior Program Officer, for their hard work on the report. Together they have marshaled the evidence and the arguments laid out in this excellent analysis.

As president of ASPI, I hope that this report can contribute to the thinking and discussion so needed on the issue of India's membership in APEC. The benefits clearly outweigh the risks in my view, and the moment to act is at hand.

The Honorable Kevin Rudd
President, Asia Society Policy Institute
26th Prime Minister of Australia

PREFACE

THIS ASIA SOCIETY POLICY INSTITUTE (ASPI) report is a product of an ongoing, multi-faceted initiative, *India and APEC: Charting a Path to Membership*, which explores the opportunities and obstacles related to India's membership in the Asia-Pacific Economic Cooperation (APEC) forum.

ASPI was established in 2014 to address critical policy challenges in Asia in an effort to build bridges between countries in the region while enhancing common security, prosperity, and sustainability. ASPI aims to seize win-win opportunities when they present themselves for the benefit of multiple countries in the region. Recognizing that more fully integrating India into the region is just such an opportunity, ASPI's inaugural President Kevin Rudd made India a strategic priority for ASPI.

ASPI launched this initiative to explore a path toward India's membership in APEC. In July 2015, ASPI established an international, high-level policy task force to create a roadmap and identify support for, as well as obstacles to, India's membership in APEC. The task force consists of 10 members from India and APEC economies who are senior leaders in the fields of policy, business, and trade economics (a list of the members can be found at the end of the report).

ASPI also engaged in regular consultations with government officials and industry leaders in India, the United States, and other APEC member economies. Dr. Harsha V. Singh, who serves as a Senior Advisor to this initiative, and Anubhav Gupta, Senior Program Officer at ASPI, conducted research to clarify the benefits and challenges that Indian membership in APEC would present for India, current members, and the region. This informed multiple publications over the past year, including op-eds in *The Wall Street Journal*, *The Huffington Post*, and *The Straits Times*. ASPI also developed policy briefs describing its findings and shared those with senior officials in India and the United States.

The report is an ASPI staff document examining the pros and cons of Indian membership as viewed by different parties. The report has benefited from ASPI's consultations with a number of government, policy, and business leaders, as well as the task force's meetings. However, the analysis and assessments in this report are not attributable to the task force members either individually or collectively.

In carrying out the project on Indian membership in APEC, ASPI has benefited from the very valuable support of our partner institution in India, the Confederation of Indian Industry (CII). The report's coauthors, Harsha V. Singh and Anubhav Gupta, have worked hard and effectively to assemble the facts and interpretations presented in the report. ASPI's leadership is much indebted to them. I want to thank our other advisors on this initiative, who provided valuable insight and advice, especially Monica Whaley, President of the National Center for APEC, and Ambassador V.S. Seshadri, Vice Chairman of Research and Information System for Developing Countries (RIS).

Finally, ASPI's work in India would not have been possible without the invaluable assistance provided by the Asia Society India Center, its Executive Director Bunty Chand, and Program Associate Antaraa Vasudev.

Dr. Marshall M. Bouton
Senior Fellow for India
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EXECUTIVE SUMMARY

Since its inception in 1989, the Asia-Pacific Economic Cooperation (APEC) forum has played a central role in integrating the economies of the Asia-Pacific region. However, after several years of healthy growth and increasing trade and commercial ties, the momentum toward greater regional economic integration is under threat because of sluggish expansion in key economies, escalating geopolitical tensions, and the emergence of two significant trade agreements in the region: the recently concluded Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP), which is under negotiation.

APEC has welcomed as members economies that have differed in their size, trade policy orientations, and development stages. When it last considered new members in 1998, Russia, Peru, and Vietnam joined. Today, APEC can continue to advance regional connectivity and maintain its standing

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as the region's premier economic forum by bringing new economies and sources of growth into the region's economic fabric.

As APEC considers its next steps, India is looking outward with the objective of strengthening its economic ties across the Asia-Pacific. The region's third-largest economy and an emerging regional and global power, India may be the ideal next member

economy for APEC. Since his election in 2014, Prime Minister Narendra Modi has made regional connectivity a central element of Indian domestic and foreign policy. The Indian government's expression of renewed interest in APEC membership in 2015 was a signal of an orientation toward foreign trade and investment.

APEC and India have an opportunity to take advantage of this alignment of interests. India's accession to APEC would be a crucial step in deepening its integration with the region. Over time, accession to APEC would benefit India, APEC, as well as the wider region.

India's accession to APEC would contribute to greater economic integration of the Asia-Pacific region at a time when emerging trade regimes could create gaps between the standards and policies adopted by their members and those pursued by nonmembers. By including a key economy such as India, APEC can play a constructive role by helping bridge such gaps. APEC's mission of integrating the wider region will remain incomplete as long as a critical economy such as India is on the periphery of the region's economic architecture.

As the world's fastest-growing major economy, India represents a significant long-term source of growth for the world economy. Including India in APEC would provide its members a mechanism to deepen their economic engagement with India and more easily partner with India in its economic growth. APEC members would gain greater access to India's growing market, robust labor supply, and ample investment opportunities.

Indian membership in APEC would also bolster India's economic growth and support its development agenda. Prime Minister Modi's economic program relies on greater access to foreign markets, investment sources, and value chains to bolster manufacturing and create jobs at home. Joining APEC would help India on all these fronts. There is a great similarity between what APEC has helped its members accomplish over the past 26 years and what India is attempting to do today.

APEC mechanisms and best practices will help Indian officials and businesses become more competitive and better prepared for the changing global economy. Through its processes and guidelines, APEC will facilitate India's implementation of the economic reforms it needs to compete. APEC membership would also help India prepare for potential inclusion in emerging trade agreements such as TPP, if India considers joining these in the future.

However, not all APEC members currently welcome the prospect of Indian membership. Some view Indian policy and politics as insufficiently supportive of more open trade and greater regional integration. India's record in trade negotiations, bilaterally as well as in the World Trade Organization (WTO), has made some APEC economies concerned that including India would slow momentum for achieving the forum's objectives. India's resistance to negotiating bilateral investment treaties (BITs) is another reason some APEC member economies remain wary of India joining.

Domestic politics and constraints within India have also made it difficult for the Indian government to take the kind of steps necessary to build support for its membership. India's government faces significant domestic barriers to the policy reforms that would help address concerns about its stance on trade and market opening. Key elements in the Indian bureaucratic, business, and political spheres resist the further opening of India's market, which limits the government's options in trade and bilateral investment negotiations. India's large trade deficit has not only blocked progress, it has even led the government to review its current bilateral trade agreements. Such actions only add to APEC members' negative perceptions about India's behavior toward trade liberalization.

Several obstacles stemming from APEC's structure, politics, and processes will also make India's path toward membership difficult. Current APEC economies may be reluctant to expand a forum that is already 21 members strong. And unlike candidates such as Colombia, whose neighbors can be counted on to back their membership bids, India lacks a ready constituency among APEC members.

These obstacles to Indian membership are significant, but they could be addressed to achieve the immense potential of a more regionally integrated Indian economy. Four key steps may help India address concerns regarding its membership in APEC, particularly in the United States:

- A major breakthrough in India's domestic economic and/or trade policy, such as a goods and services tax (GST) or land and labor reforms, that sends a strong signal of greater market opening.
- An accelerated effort to improve the ease of doing business for both foreign and domestic firms.
- A significant indication of India's willingness to engage constructively in international negotiations, such as BITs.
- A vigorous diplomatic effort by the Indian government and key APEC members that supports India's bid.

Together, these steps could help India change perceptions of its recalcitrance in international negotiations and slowness in introducing domestic reform. To gain entry, India will need key members to work in support of its candidacy. Concrete steps that emphasize not only India's interest in APEC membership but also its alignment with APEC's mission would go a long way in recruiting members to provide vocal support and diplomatic resources to India's cause. The Indian government has already laid out an agenda of domestic reform and international economic engagement. It can build support for its membership in APEC by taking tangible steps toward implementing its proposed reforms and improving its trade and investment policies.

Similarly, APEC members could consider steps to facilitate India's progress toward membership and role as an active, engaged member of the group. While concerns about India may be justified, APEC membership would better position India to make the kind of changes that APEC members desire. APEC's processes would support India's efforts to boost competitiveness and the ease of doing business, resulting in a virtuous cycle whereby domestic reform and international economic engagement reinforce one another. This has been the experience of a number of APEC members, who benefitted from APEC and were enabled to move toward wider acceptance of reform and greater market opening.

APEC membership would better position India to make the kind of changes that APEC members desire.

APEC and its members could work with India to clarify how it may build support for its inclusion and what would be expected of any new members once they joined the forum. The Secretariat could commission studies to better understand the costs and benefits of expanding membership. To diminish current members' concerns about new members, APEC could also consider strengthening its decision-making processes. Most importantly, some APEC members will need to provide vocal diplomatic support to put the issue of India's membership on the APEC agenda.

India's path to APEC membership is not without challenges. The benefits that would result from Indian membership, however, make these challenges well worth tackling. 2016 is an ideal time to move toward securing India's accession to APEC.

1. INDIA AND APEC: A MUTUAL OPPORTUNITY

Founded in 1989, APEC has made great strides in connecting Asia-Pacific economies through trade, investment, and economic cooperation. Over time, it has grown to be an essential international grouping of 21 member economies that makes up nearly 60 percent of global GDP. APEC's efforts have focused on simplifying regulatory arrangements; reducing barriers to foreign trade and investment; and, cultivating a culture of economic openness, dialogue, and cooperation. As a testament to its accomplishments, the region's total trade has increased by more than seven times since APEC began.¹

India has long been interested in APEC. It unsuccessfully requested APEC membership in the late 1990s and was subsequently not considered because of a moratorium on new members initiated in 1997. With the moratorium finally lifted in 2010, India again expressed a desire to join the economic

forum and has initiated diplomatic efforts to cultivate support for its membership. This time, there is a striking alignment in what both the region and India need.

Many countries in the Asia-Pacific region want India to be more engaged. For instance, U.S. President Barack Obama and India's Prime Minister Narendra Modi signed a historic Joint Vision Statement for the Asia-Pacific and Indian Ocean Region in January 2015, which is meant to serve as the foundation for greater strategic cooperation. This joint statement made specific mention of APEC, stating, "The United States welcomes India's interest in joining the Asia Pacific Economic Cooperation forum, as the Indian economy is a dynamic part of the Asian economy."² Over the past year, China, Japan, and Russia have also welcomed India's interest in APEC.

Several factors in the region may pressure APEC to become more inclusive and integrative. Many of the region's key economies are experiencing slow growth and will need new trade and investment partners to reenergize their economies. Second, trade, which has long been a unifying force in the region, could become more fragmented as a result of the emergence of different regulatory regimes under the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP). When TPP comes into force, APEC will have to determine its own next steps to stay relevant in an environment where TPP's high standards increasingly shape regional commerce and trade. Finally, shifts in regional power dynamics, coupled with maritime disputes and nationalist views of past conflicts, are fostering competition and creating new possibilities for conflict after decades of relative peace.

For Prime Minister Modi, APEC membership is a tangible way to advance both his domestic and foreign policy agendas.

Under such circumstances, APEC can play a constructive role by including India, an emerging global power and one of the region's most important drivers of potential growth in the years ahead. Indian membership would increase APEC's effectiveness as a forum for dialogue and cooperation among the region's major powers and enhance regional economic interdependence.

Just as APEC needs new frontiers to deepen regional integration, India is looking outward toward the Asia-Pacific and APEC. For Prime Minister Modi, APEC membership is a tangible way to advance both his domestic and foreign policy agendas. He has traveled extensively in the region to attract investment and business to India in support of initiatives, such as Make in India, that are meant to revitalize the Indian economy. Modi's "Act East" policy, which calls for greater overall engagement with East and Southeast Asia, similarly provides a strategic logic for greater economic connectivity. APEC membership would be a clear way to move these policies forward.

APEC membership would also be in line with the posture India has taken on trade over the past 15 years. Its trade with the region has grown tremendously since the turn of the century. Today, India has or is working to negotiate free trade agreements (FTAs) or comprehensive economic partnership agreements (CEPAs) with all but four current APEC members.³ It is not always appreciated that India relies on trade more than other large economies. India's trade to GDP ratio has increased sharply and is higher than that of the United States and China today. Even as its GDP more than quadrupled

between 2000 and 2014, India's share of trade in goods and services as a percentage of its GDP grew from 26 percent in 2000 to 49 percent in 2014 (see Annex Table 1).⁴

Indian membership in APEC would support Prime Minister Modi's ambitious economic agenda of reforming the Indian economy and linking it more closely with that of the rest of the world. His government's initiatives include major programs to attract foreign investment into India, improve the ease of doing business, and enhance India's competitiveness in domestic and global markets. These initiatives have positioned India for its push toward economic modernization and more extensive international economic and financial engagement.

India and APEC have much to gain from India's accession to APEC. The next section outlines how APEC, by including India, would better connect a major economy to the region, with significant benefits for its members, and would revitalize its mission by becoming the most inclusive and forward-thinking economic forum in the region. Section 3 focuses on how accession to APEC would enhance India's ties with the region and help fuel its long-term economic growth. Section 4 highlights the primary obstacles on the path to Indian membership, while Section 5 suggests a roadmap with steps India, APEC, and individual APEC members could consider taking to make India's membership in APEC more likely.

2. THE OPPORTUNITY FOR APEC

THE SHEER SIZE AND INCREASING DYNAMISM of its economy make India a critical missing piece in the Asia-Pacific economic puzzle. Excluding the three largest APEC economies (the United States, China, and Japan) and the European Union (EU), India is currently the world's next-largest economy,⁵ the largest exporter and importer of commercial services,⁶ the fourth-largest importer of merchandise, the sixth-largest recipient of foreign direct investment (FDI),⁷ and the ninth-largest global merchandise exporter. According to Harvard University's Center for International Development, "India tops the global list for predicted annual [economic] growth rate for the coming decade, at 7.0 percent."⁸ It is projected that by 2030, India could be the world's third-largest economy. In that year, its estimated GDP would be larger than the combined GDPs of Korea, Australia, and Russia.⁹

Integrating an economy the size of India's would be a major step toward regional connectivity in the Asia-Pacific. Having India as a member would benefit APEC in terms of greater trade and investment opportunities, as well as more coherent systems of governance and cooperation among member economies.

A WINDFALL FOR APEC MEMBERS

India offers large economic opportunities for APEC members, and these possibilities are expected to increase significantly in the near and medium terms, with India's population and economic development needs also expanding. By adding India to APEC, current members would gain better access to India's consumers, investment opportunities, and labor supply.

First, APEC members stand to benefit from the substantial growth of Indian consumer demand over the coming years. In the decade ahead, India is projected to become the most populous nation in

the world.¹⁰ India's middle class is expanding rapidly and is on a trajectory to exceed the total population of many major economies. Some projections suggest that India's middle class will consist of about 200 million people by 2020 and approximately 475 million by 2030, at which time it will be adding more people than China to the global middle class.¹¹ Its middle-class consumption expenditure will be third highest in the world in 2020 and the highest by 2030.¹² India will be a significant global market that could be more open to the regional and global economies.

Including India would enable APEC to facilitate greater trade between current APEC members and India. Among APEC economies, India would be the eighth-largest trader in merchandise and fourth-largest trader in commercial services.¹³ While the current slowdown in the global economy has depressed India's trade in the past year, even recent assessments indicate that strong growth will continue for the Indian economy in 2016 and 2017.¹⁴ India's trade volume will likely remain robust over the medium term. For instance, one forecast suggests that by 2030, India will be the third-largest global exporter and importer, and that India's total trade will surpass that of the United States by mid-century.¹⁵

An increase in Indian exports would help APEC economies by contributing to the growth of regional value chains. The growth in Indian exports has coincided with a rise in the share of foreign inputs used in those exports. The foreign value-added component of India's merchandise exports reached more than 26 percent in 2011.¹⁶ The future growth of India's merchandise exports could therefore result in a significant increase in its import requirements, which APEC members can position themselves to capitalize on.

Second, given India's investment needs and the stated policy of the Indian government to welcome foreign investment, APEC economies could realize significant gains from investing in India's growth. According to the World Bank, India will require at least \$1 trillion to fund its infrastructure needs during this decade till 2020.¹⁷ Additional opportunities for APEC economies will result from India's rapid urbanization¹⁸ and population growth,¹⁹ as well as the government's goal to establish 100 "smart cities." Needed expansion and improvements to urban infrastructure, communications, education, and health will also require huge investments.²⁰ For instance, according to McKinsey, a \$1.1 trillion capital investment in India's cities is necessary to meet projected demand for urban services.²¹ By 2020, annual expenditure on health care alone is estimated to reach \$280 billion.²²

India has been an important destination for APEC members' foreign investment over the past 25 years, with three APEC economies—Singapore, Japan, and the United States—among the top five countries providing FDI inflows into India.²³ An improvement in investment-friendly policies has contributed to India's becoming the world's top greenfield FDI destination in the first half of 2015, after being the ninth-largest global FDI recipient in 2014, and the fifteenth largest the previous year.²⁴ Yet the total FDI India received in 2014 was about one-twentieth of the total inflow of FDI into APEC. India's economic development agenda requires large-scale investment, suggesting that India's potential as an FDI destination is still largely unmet. APEC's best practices and standards would help make India a more appealing FDI destination for APEC members.

India's labor force is expected to grow far more than other nations' and will be the largest in the world by 2030.

Finally, Indian membership in APEC would allow APEC economies to benefit from India's large and growing labor force. Most large economies in APEC, such as Japan, Canada, Australia, and South Korea, are expected to have labor shortages over the coming years.²⁵ In particular, at a time when the old-age dependency ratio (population 65+ per 100 population in age group 15–64) is increasing sharply for a number of APEC economies, India's population and skills could provide some relief.

India already has a larger workforce than all APEC members except for China.²⁶ India's workforce is approximately 67 percent of the total workforce in APEC excluding China. Further, India's labor force is expected to grow far more than other nations' and will be the largest in the world by 2030.²⁷ That workforce could be plugged into global value chains for several years to counteract the emerging shortages in key APEC economies. Membership in APEC would position India's entrepreneurs and workforce to find opportunities in other APEC economies, and develop their skills and services profiles accordingly.

A MORE INTEGRATED AND DYNAMIC REGIONAL AND GLOBAL ECONOMY

Including India in APEC would help address the recent divergences in regional and global trade and investment regimes. The three large regional FTAs—TPP, RCEP, and the Transatlantic Trade and Investment Partnership (TTIP)—involve a mere 49 countries out of 162 WTO members.²⁸ Furthermore, TPP and TTIP center on achieving higher trade and regulatory standards that would be difficult for some countries to meet. These more geographically or economically exclusive regimes could create new fissures in the global economy.

APEC has often been a useful forum for resolving such challenges. As all members of TPP and 12 of the 16 countries negotiating RCEP are APEC economies, APEC could become the venue where potential gaps between TPP and RCEP are bridged. If APEC brings India in, it would become the only regional forum that includes the four major Asia-Pacific economies (the United States, China, Japan, and India) and would provide the impetus over time for a more inclusive and forward-thinking agenda for economic integration and higher economic standards across the region.

Finally, Indian membership would make APEC's mechanisms and guidelines more relevant and influential for the global economy. APEC routinely discusses major global concerns such as food security; the environment; urban growth; market access; and efficient outcomes in trade, investment, value chains, and technology, all of which are important to India. Including India in APEC's discussions of these issues would facilitate the creation of productive and inclusive policy-making processes.

With India as a member, APEC would account for almost two-thirds of global GDP. The global economy would benefit from a more integrated Asia-Pacific. As economies become more interdependent through regional trade and investment linkages, systems, and governance criteria, they become more globally active as well. APEC could once again become a key venue for its members to support the wider process of global economic integration.

3. THE OPPORTUNITY FOR INDIA

APEC MEMBERSHIP WOULD OPEN VALUABLE OPPORTUNITIES for India. India would gain access to APEC mechanisms and support schemes that could help it advance its domestic growth and regional integration goals, without having to undertake the protracted negotiations and complex commitments required by FTAs and regional trade arrangements. APEC would also help India implement its own economic agenda and participate more fully in Asia's broader economic dynamism, its global supply chains, and the systems that will likely govern regional and global economic development in the future.

SUPPORTING INDIA'S GROWTH

Representing 56 percent of global GDP and 47 percent of global trade, as well as an average growth rate during this decade of more than 3 percent per year, APEC creates significant opportunities for its members.²⁹ APEC continues to support trade facilitation, regulatory coherence, capacity building, and economic integration in the region, with trade among APEC economies reaching \$22 trillion in 2013, a sevenfold increase since the group's inception in 1989.³⁰

India is already connected to APEC economies, which account for about two-fifths of India's total merchandise trade and more than one-third of its equity inflows in recent years.³¹ India's top five export markets in 2014–15 included three members of APEC (the United States, Hong Kong, and China), which received about 22 percent of India's total merchandise exports.³² In 2014–15, Singapore, the United States, and Japan generated about 35 percent of FDI equity inflows into India.³³ India's investment into APEC economies since 2001 totals \$49 billion. However, these figures represent a fraction of the potential for India's economic relations with APEC economies. Membership in APEC would help India leverage APEC's mechanisms for trade and investment facilitation, as well as for the ease of doing business, to deepen its economic ties with the region and bolster its growth.

APEC membership would also enhance India's integration into global value chains (GVCs) and improve its ability to compete in the global economy. Prime Minister Modi aims to create 100 million manufacturing jobs by 2022 and make the manufacturing sector a larger component of the Indian economy (with Make in India playing a major role).³⁴ India is strongly focusing on both FDI and better links with GVCs to accomplish this. The economies that are most integrated with GVCs are APEC members, with 10 of them having the highest GVC participation index.³⁵ Similarly, 33 of the Fortune 50 companies, which play a major role in GVCs, are based in APEC economies. India would particularly benefit from APEC's Alliance for Supply Chain Connectivity (A2C2), which advises and assists in capacity building toward developing supply chain performance.

APEC would help India be more competitive in GVCs by reducing costs through trade facilitation. Trade, imports as well as exports, is a more significant part of a nation's growth prospects than it previously was. It greatly overlaps with investment and value chains, and investment and trade decisions are increasingly part of the collective set of decisions taken by large companies. Exporting in the global market today requires continuously enhancing firm- and industry-level competitiveness by increasing cost-effectiveness, product or service quality, and openness to global innovation and emerging market demands. Such moves depend on adopting a more open approach to international

trade, as well as reducing formal and informal barriers to trade over time. From 2002 to 2012, APEC reduced transaction costs by about 10 percent and facilitated significant trade creation within value chains across member economies.³⁶

There is a clear synergy between what APEC has accomplished for its members over the past few decades and the economic advances that India is now pursuing. APEC membership would be a natural extension of and facilitator for India's flagship economic programs, such as Make in India, Digital India, Skill India, Zero Effect Zero Defect, and Smart Cities. APEC's institutional processes, forums, and working groups would provide India with mechanisms to advance its objectives and policy initiatives in the areas relevant for these programs. For instance, a recent list of the 21 "smartest" cities in the world included 18 from APEC economies.³⁷ APEC's collaborative processes would help India advance its efforts to build regulatory coherence, promote supply chain creation/access, reduce costs of doing business, facilitate trade, reduce procedural requirements, and develop mechanisms for improving competitiveness, with a particular emphasis on small and medium enterprises.

PREPARING INDIA FOR A CHANGING GLOBAL ECONOMY

Admission to APEC represents the most accessible first step India can take toward its longer-term national goal of more comprehensive global and regional economic engagement. Indeed, unless India joins APEC, its future participation in wider FTAs in the region would be more difficult.

APEC's processes, guidelines, and collaborative approach would help India implement the economic reforms it needs to compete in the global economy. International trade and investment today are greatly influenced by non-tariff measures and regulatory conditions, especially because of growth in the services and digital economy sectors and an increasing emphasis on quality, health, safety, environmental, and social issues. APEC has many benchmarks and norms for regulatory coherence that would help India increase its economic efficiency.

Admission to APEC represents the most accessible first step India can take toward its longer-term national goal of more comprehensive global and regional economic engagement.

As an APEC member, India would be able to tap into fellow members' practical experience in making trade and investment policies more open and fostering interaction between policy practitioners and business. APEC processes allow policy makers, regulators, and business representatives to discuss topics of concern and explore possible solutions. Such interaction occurs within a culture of cooperation and collaborative reform that contributes to objectives such as integrating with GVCs, building digital economies, facilitating FDI, and exercising good governance.

Similarly, APEC presents opportunities for a variety of business-to-business interactions, including the exchange of best practices and the joint development of arrangements for accessing external markets. India's businesses, which are becoming more global in their scope and operation, would benefit from these interactions, which are generally conducted through the APEC Business Advisory Council. APEC would help Indian businesses enhance their competitiveness by improving cost-

effectiveness, raising quality, keeping track of global standards and commercial requirements, and addressing domestic operational constraints, among other activities.

In its foreign trade policy document, the Indian government recognized the need to respond to the challenges represented by large, trans-regional trade agreements such as TPP.³⁸ APEC is currently working toward a new Free Trade Area of the Asia-Pacific (FTAAP), which will fundamentally affect the global economy in the future. In 2014, APEC economies decided to begin a “collective strategic study” to prepare this initiative.³⁹ Instead of being inside the group helping write the rules or developing the roadmap for doing so, India is on the outside. If this continues, India could face increasing isolation from regional and global trade, investment, and supply chains. Until it is a part of key regional trade and investment regulatory regimes, India will face trade diversion and incremental exclusion from GVCs and markets in the Asia-Pacific.

APEC membership would help India address the adverse effects of this potential trade diversion and prepare itself for eventual inclusion in emerging regimes such as TPP and FTAAP. A recent Peterson Institute for International Economics study showed that by joining an expanded TPP or significantly ambitious FTAAP, India could increase its annual exports by more than \$500 billion (a 60 percent rise) and national income by \$200 billion (more than a 4 percent rise) by 2025.⁴⁰ APEC would provide India a pathway to these future arrangements, as APEC membership is a facilitating condition for future membership in TPP and an avenue to inclusion in FTAAP. Although India is not positioned to become a member of either group now or in the near future, the country’s interests clearly lie in preparing for possible future membership by enhancing competitiveness and processes for trade and investment facilitation. Accession to APEC would make this possible.

It is also worth noting that India’s political debate about its accession to international agreements has traditionally focused on the binding obligations these agreements impose. Joining APEC is a step in the direction of more open trade that could be taken without incurring binding commitments. APEC works through consensus, and its decisions are non-binding, with voluntary acceptance of its policy deliberations and conclusions. India would be free to choose a different path on each occasion, while facing pressure from its regional peers to join in the search for consensus. India would have an equal say in APEC processes and decisions without giving up the requisite flexibility to determine its own pace for the implementation of APEC initiatives. In a democratic polity like India, where political sensitivities to external pressure remain high, APEC’s consensus- and deliberation-driven process is most likely to be effective.

4. OBSTACLES TO APEC MEMBERSHIP FOR INDIA

A NUMBER OF OBSTACLES BLOCK INDIA’S PATH toward APEC membership. First, a number of key APEC members remain skeptical that India would be a constructive member. Second, India’s policies and politics make it difficult to overcome this skepticism. Third, APEC’s processes and political dynamics complicate India’s effort to gain accession to APEC.

INTERNATIONAL PERCEPTIONS OF INDIA

APEC economies follow established processes to discuss issues and reach consensus-based decisions. APEC hesitates to accept members who slow down momentum for achieving its objectives, which include preparing for a FTAAP. APEC members view India as being reluctant to open markets and to move toward consensus in trade negotiations, both in the WTO and in various FTAs. Several members perceive India as a country that regularly blocks consensus in international forums on policies to open trade and investment markets, the very foundation for greater regional economic integration. They are also concerned when India conducts multiple reviews of the FTAs it has negotiated to determine whether they should be amended to restrict access to the Indian market. These reviews and other shifts in Indian policy, such as India's initial decision to disagree with the WTO implementation timeline for the Bali agreement on trade facilitation, lead other governments and international businesses to conclude that India remains at best a reluctant participant in trade negotiations.

India's resistance to negotiating bilateral investment treaties (BITs) is another reason for concern among APEC member economies about India's willingness to open its markets further. For instance, many in the international business community, particularly in several key APEC economies, believe that India's current draft model BIT fails to integrate best practices, and is inferior in this regard to the prospective U.S.-China BIT or the provisions on investment in TPP.

APEC members view India as being reluctant to open markets and to move toward consensus in trade negotiations.

India may need to address both the perceptions of and substantive policy issues emphasized by APEC members. A starting point could be an assessment of these perceptions, which can then be used as a basis for determining the policy steps required to change them.

These aspects of India's policies and politics have made it difficult to build support for its accession among APEC members. To gain traction with APEC,

INDIA'S POLICY AND POLITICS

India faces significant domestic barriers to the policy reforms that would help address concerns about its stance on trade and market opening and help gain membership in APEC. Some elements in the Indian bureaucratic, business, and political spheres strongly resist further opening of India's market. They prefer to rely on foreign direct investment and export growth to generate jobs, sustain growth, and develop domestic capacity. This opposition to domestic economic reform only reinforces APEC members' reluctance to invite India to the APEC table.

The new Indian government came to power in 2014 following a period of falling growth rates, macroeconomic reverses, and a general perception of policy inaction. The new government has announced several reform goals and programs to attract investment, improve efficiency, and enhance conditions for doing business. After a year and a half in office, however, the government still faces considerable political resistance to its most important economic reforms. New legislation on taxes, land acquisition, and labor are stuck in the political or bureaucratic processes of government. The delays tend to reduce enthusiasm about the Indian economy internationally and among APEC members.

India's international economic policy may also undermine its membership bid. This policy has traditionally reflected a contradiction: India wants to increase its exports while limiting its imports. Related policies, such as local content requirements in areas using new technology, reflect a desire to acquire domestic capacity and a concern that without domestic production of such products, the cost of imports will surge out of control. India's trade policy ends up constraining the growth of trade and investment flows that would result from greater participation in global and regional value chains.

Corporate and bureaucratic resistance has made it difficult for India to open its economy. Indian companies are often determined to limit the competition they face in the domestic market, to the detriment of the global competitiveness of the Indian economy. India's relatively high tariffs (see Annex Table 2) reflect this protectionist pressure. The Indian bureaucracy and parts of the political establishment traditionally have had some sympathy with this protectionist view, given India's long history of relatively closed markets, import substitution policies, and a perception that other economies also find ways of imposing unofficial protectionist measures. Although these views are changing with the opening of the Indian market, protectionism remains a potent force in Indian politics.

India's preoccupation with its trade deficit and import restrictions has led to intransigent positions in global trade negotiations. The focus of both policy makers and domestic industry has traditionally been inward looking, rather than seeing external markets as a vital driver of economic growth. In its negotiations involving the WTO and FTAs,⁴¹ India is seen as a reluctant participant that either blocks emerging consensus or limits the ambition levels of partners, and that resists opening its markets or accepting certain nonmarket access-related disciplines. These perceptions of Indian behavior on trade liberalization play a major role in other countries' attitudes toward Indian participation in economic forums such as APEC.

APEC'S PROCESSES AND POLITICS

The most troublesome barrier to India's ambition to join APEC was removed in 2010, when APEC ended its formal moratorium on new membership that took effect in 1998. However, APEC has not considered new members since the moratorium's end, reflecting reluctance among a number of members to expand the size of the group and complicating the prospect for India and other aspirants to gain membership. Ultimately, the decision to expand membership and to include India would need to be supported by all 21 APEC members.

A further challenge is that if a decision is made to consider new members, several Asia-Pacific economies will seek inclusion in APEC. Several candidates, including some Association of Southeast Asian Nations (ASEAN) and Latin American economies, are eager to join. Deciding to open membership to consider India would necessarily mean consideration of multiple others as well, a definite deterrent to considering any one applicant, including India.

If APEC membership is opened, India could be in competition with other economies that may be seen as more supportive of APEC's goals to support regional trade liberalization and market openness, and thus more deserving. Geographic factors will also weigh in membership decisions. For instance, current APEC members from ASEAN may be more likely to support their regional compatriots, Cambodia, Laos, and Myanmar. Similarly, current Latin American members of APEC would likely prioritize the membership bids of Colombia, Panama, Costa Rica, and Ecuador. India currently lacks a natural and vocal coalition of support within APEC.

5. A PATHWAY TO INDIAN MEMBERSHIP

THE CONCERNS ABOUT INDIA'S ECONOMIC POLICIES are important and often justified, and they should be addressed to achieve the immense potential of a more regionally integrated Indian economy. At the 2015 meeting of APEC Ministers Responsible for Trade in Boracay, Philippines, APEC economies recommitted to “free and open trade and investment in order to strengthen and deepen regional economic integration.”⁴² This objective can only be achieved if a major regional economy such as India is more engaged through trade and investment.

APEC membership would provide India the support that its policy-makers need to make positive changes on the ground. A principal reason India is seeking membership of APEC is for participation in the APEC processes that have helped its members become more competitive by improving ease of doing business and facilitating trade and investment. Domestic attitudes about trade, as well as bureaucratic and corporate resistance, have made it difficult for India to pursue reform on its own. India will only be able to take bigger steps toward further liberalization if it can effectively improve its trade and investment facilitation processes and enhance competitiveness.

APEC's processes and best practices would strengthen India's domestic capabilities and its trade and investment links within the Asia-Pacific region, enabling Indian policy makers to allay domestic concerns and accelerate reform and integration with regional and global markets. Membership of APEC would

Membership of APEC would help to enhance the pace and depth of reform in India that current APEC members seek.

therefore help to enhance the pace and depth of reform in India that current APEC members seek. Recognizing this and the domestic challenges India faces, APEC could show India the flexibility and support it provided many of its current members when they sought membership.

To improve the possibility of APEC membership and realize the many benefits that membership would

generate, India could change perceptions of its recalcitrance in international negotiations and its slowness to introduce domestic reform. Prime Minister Modi's vision of India's economic future and the policies to achieve it are very much in line with APEC's goals and initiatives. What is needed on all sides is the commitment to find a path to Indian membership and the determination to remove the obstacles on that path. For India and for APEC, the need and opportunity for Indian participation are the greatest they have ever been. A coordinated effort by India, key APEC members, and APEC as a whole is needed and is possible.

STEPS INDIA CAN TAKE

Specific policy steps based on a coherent political framework and policy roadmap can help improve India's chances for APEC accession. Domestically, the case for more open trade will have to be made, with emphasis on the benefits of freer trade for Indian consumers and businesses. Internationally, it is important to address India's image as obstructionist in trade negotiations. It will also be helpful for India to identify some “big-ticket items” to be addressed as part of a potential trade liberalization agenda, together with an aspirational timeline for implementation. Such an agenda will only be

successful if combined with a communications campaign to engage domestic and international media, as well as the governments of individual APEC economies.

India can work diplomatically on two fronts.

It could engage individual APEC members, particularly the United States, which has long been skeptical about India's level of interest in free trade. It could consider coupling this effort with broader initiatives aimed at the APEC Secretariat and all APEC members to allay their concerns regarding Indian accession. Some have suggested that these concerns should frame India's subsequent diplomatic strategy to secure accession. The Indian leadership has developed close political relationships with a number of APEC members, particularly the United States, Australia, and Japan. Leaders of other nations Prime Minister Modi has visited, such as China, have also developed a good rapport with his government. Cultivating these key APEC economies as vocal supporters for its bid will boost India's chances.

The most important steps that India can take are domestic. India needs to push forward with major changes in policy and practice to signal that it is committed to economic reform and openness.

India might also consider coordinating its strategy for accession with that of other leading candidates for APEC membership. Colombia, which has sought membership aggressively and was invited as a guest to the 2015 APEC Leaders Meeting in Manila, would be particularly important. As host of the 2016 APEC Leaders Meeting, Peru could work to open discussion on new members because it supports Colombia's accession to APEC. India could also take advantage of Latin American countries' eagerness to strengthen trade with India, which has grown from \$500 million in 1991–92 to approximately \$50 billion in 2015.⁴³

To facilitate these diplomatic activities, India could consider appointing a special envoy to engage the APEC Secretariat, APEC members, and other potential candidates in its pursuit of membership. This would signal the priority that India places on participation in APEC and ensure that the necessary diplomatic capacity is devoted to India's application.

India could begin or accelerate implementation of the reform initiatives it has already identified.

The most important steps that India can take are domestic. The Indian government has announced major policies that are seen as part of an overall reform agenda. These can be woven together into a broad strategy of economic modernization, regional integration, and global economic engagement that draws on the national aspirations that Prime Minister Modi articulated in his 2014 campaign and through his various flagship programs. India could consider making APEC membership a key component of this national policy narrative.

Some have suggested that India needs to push forward with major changes in policy and practice to signal that it is committed to economic reform and openness. Implementation of important reforms already announced, such as the goods and services tax, which would replace a large number of central and state government taxes with a comprehensive tax and facilitate a common national market, would be an important step forward. A sustained effort to legislate other key measures, including changes

in India's land and labor laws, would also signal to APEC members India's commitment to economic reform and opening.

India needs and wants to attract FDI and improve conditions for foreign and domestic firms doing business in the country.

Three priorities stand out: opening traditionally restricted sectors to FDI, achieving greater complementarity between investment facilitation policy and overall trade regulatory regimes, and reforming India's BIT regimes.

Prime Minister Modi's government eased FDI limits in the defense and railways sectors early in its tenure.⁴⁴ In November 2015, it went further by raising FDI caps in 15 critical sectors, including single-brand retail, banking, construction, media, and airlines.⁴⁵ Additional sectors for liberalization could be announced on an accelerated timetable to lend further credibility to India's FDI liberalization push. Moreover, the government is making strong efforts to improve conditions for doing business, including facilitating interaction with policy makers and regulators at the center and with the states. The Indian government is working closely with the World Bank and other international institutions to better identify and address remaining constraints. India could soon start implementing guidelines on investment facilitation to assist with the APEC accession process.

India is clearly seeking to improve its overall competitiveness. The Make in India program has a framework of policies for good economic governance, including timely response, simplification and facilitation of regulations, predictable systems, and expanded opportunities for investors. This framework could be expanded to other policy areas. Additional steps to be considered include supplementing the existing legislation and various sectoral policy statements with a National Competition Policy, in order to provide a framework with established pro-competition principles. Similarly, quick passage of a revised Public Procurement Bill would improve transparency and effectiveness in government procurement.⁴⁶

India could take a more proactive approach in its international investment and trade negotiations.

While the United States and other APEC economies have seen India as reluctant to facilitate increased investment in India through bilateral investment treaties, India could argue that only a balanced regime that benefits both the host nation and the foreign investor is sustainable, and that the framework for a BIT regime would largely depend on the details to be worked out through individual bilateral negotiations. India could then consider beginning substantive negotiations on a BIT with the United States, as it has with Canada. India would need to bear in mind that the U.S.-China BIT, if successful, might have a major influence on the development of international norms for future BITs.

India could assume a more constructive posture in global trade negotiations as well. It could undertake initiatives within the WTO to show that it is actively opening up its trade regime. These could include offering to bind 95 to 100 percent of its industrial tariffs, albeit with significantly long transition periods such as those encompassed within the TPP.⁴⁷ India could also introduce for possible negotiations within the WTO an ambitious package for market access in services. This is an area where India would feel more comfortable with external competition. The proposal could be introduced together with China as a partner, because China has indicated its willingness for services reform and is waiting to be admitted to the Trade in Services Agreement (TiSA), having applied for membership in 2013.

Given its focus on investment facilitation, India could begin discussions on investment within the WTO regime or even consider a WTO multilateral investment facilitation agreement. Since any new discussions in the WTO might be difficult given the stalemate in the Doha Round, India could initiate the process by discussing this topic within another relevant forum, such as The United Nations Conference on Trade and Development (UNCTAD). At present, India's overall WTO policy posture is seen as primarily defensive, and such initiatives would show a greater willingness to more actively engage in areas of its interest in multilateral forums.

Finally, India could consider adopting a number of most favored nation (MFN) tariffs already adopted by APEC economies (see Annex Table 2) as benchmarks and move toward them over a specified time period. The benchmark could be, for instance, the average tariffs of China, Korea, Russia, and Vietnam.

To implement these initiatives, India would have to overcome strong domestic protectionist sentiments and build a robust, reliable, long-term domestic constituency for trade reform.

It might consider making plain the cost of a failure to reform the country's trade and investment policies and contrast that with the advantages of trade and investment reform in general, and APEC accession in particular. One way to provide some comfort to domestic constituencies would be to phase in change, rather than introducing it in a single step, and accompany this approach with a policy to periodically review outcomes and take necessary remedial steps if required. Efforts to improve competitive efficiency and skill augmentation are essential complements in this process and would over time help develop more confident domestic capabilities and lessen opposition to greater economic openness. Indian regulators and businesses would benefit from opportunities to understand the new market conditions brought about by the growth of GVCs and trade and investment regulatory regimes such as TPP.

STEPS APEC AND ITS MEMBERS CAN TAKE

To gain entry into APEC, India needs key members to work diplomatically in support of its candidacy. The United States and Japan are best positioned to advocate on India's behalf. These economies, along with China, Korea, Australia, and Vietnam, could be asked to provide vocal support and diplomatic resources to India's cause.

It would be helpful to India if the APEC Secretariat and India's key supporters within APEC facilitated more fruitful and positive interactions with India.

This would include addressing their domestic constituencies and engaging other APEC economies. In addition to articulating the economic benefits of India's membership in APEC, these economies could emphasize the larger regional and global benefits of India's accession. APEC members could discuss directly with India the possible solutions to concerns raised and link India with key experts useful in this process. India would do well to learn from the diplomatic initiatives of Chile, Mexico, and Vietnam—three developing APEC economies—and even Colombia, which has mounted its own membership campaign.

Moreover, some have suggested encouraging APEC to make it easier for members to consider India. The APEC Secretariat could engage India to identify and resolve any process-related issues concerning the accession process. This would involve scheduling questions, setting the agenda for the

meetings leading to the 2016 Leaders Meeting in Lima, Peru, as well as setting procedures for evaluating membership applications against well-defined criteria. Ultimately, APEC would have to make a deliberate decision to consider new members. For India to be considered in 2016, APEC would need to decide to consider the membership issue ahead of the 2016 summit so that the question of membership could be addressed procedurally in Lima.

APEC could help its members reflect on the question of Indian membership by commissioning studies assessing the benefits and costs of Indian accession. Research support, in terms of information sources, research organizations, or experts within the APEC Secretariat, could be identified to assist with India's efforts. APEC could also commit to setting up a Panel of Eminent Persons to consider India's membership (and that of other economies).

APEC might also consider changes to its current decision-making processes to mitigate concerns among current members that expanding membership would dilute the forum's impact.

By more clearly codifying what “consensus” means and how decisions are to be made, APEC can enhance its effectiveness as additional members are added. The entrance of new members could be used as an opportunity to bolster the efficiency of APEC mechanisms and processes. To further allay concerns about adding new members, APEC could redouble its openness to initiatives that allow members to pursue mutually beneficial agreements at their own speed. Endorsed by APEC members in Shanghai in 2001, “Pathfinder Initiatives” allow a group of like-minded members to pursue arrangements that other members are not yet ready to consider or implement.⁴⁸ A greater emphasis on such initiatives would allow members to be proactive and efficient in furthering the APEC mission while providing flexibility to others.

APEC could welcome India as a member after securing assurances that India would implement specific measures to signal its commitment to APEC's mission.

For instance, as an APEC member, India could work toward bringing down domestic transaction costs and investment facilitation costs by certain percentages over a set time period, with active engagement and assistance from APEC and its member economies in achieving this. This could be accompanied by market reform policies to be implemented by India over a given period, combined with possible safeguards, if required, and support from APEC's facilitating processes. This sequencing would reduce domestic opposition in India, while enabling both India and APEC to balance their main objectives and securing Indian accession to APEC.

Ideally, full membership of APEC should be considered for India. However, to the extent that may require further consideration by certain APEC members, transitional membership could be an alternative. Transitional memberships could gradually integrate new members in ways that satisfy current members, while allowing the transitional members to benefit from APEC's processes and technical support. APEC could invite India as an official observer economy, providing it the opportunity to participate in and learn about APEC's processes and mechanisms. Even under this transitional status, India would get the incentives and training to enhance its domestic competitiveness and pave the way to full APEC participation within a specified time period.

As the host of the 2016 APEC meetings, the government of Peru could play an important role. Historically, APEC chairs have considerable flexibility in shaping the agenda for each summit. India

would benefit from being in early contact with the Peruvian government on how the APEC membership question will be handled in 2016. An invitation from the Peruvian government to India to be an observer ahead of time could help facilitate consideration of Indian membership at the 2016 summit.

Significant hurdles clearly lie along India's path to membership in APEC. However, India and APEC can take practical steps to surmount these obstacles.

6. CONCLUSION

A SERIES OF FACTORS MAKE 2016 AN IDEAL TIME to move forward with securing India's accession to APEC. As outlined earlier, the end of APEC's moratorium on membership in 2010 makes it easier for interested economies to push for consideration. Moreover, the Trans-Pacific Partnership, once the parties ratify it, will over time transform regional trade in the Asia-Pacific and pose new challenges and opportunities for regional organizations. APEC in particular will need to determine how to continue to be relevant and effective in advancing regional integration. APEC's ambition to develop a FTAAP provides a strong justification for preparing other regional economies for eventual participation in that grouping by allowing them first to participate in and learn from the forums and mechanisms of APEC.

India's robust economic growth rate, as well as the Modi government's efforts to reform the Indian economy and better integrate it with the region, has improved regional impressions about India. This was made evident in statements made in 2015 by the United States, Russia, Japan, and China welcoming India's interest in APEC. Modi's vigorous economic diplomacy and strong personal relationships with key leaders in the region have given India hope that it can finally succeed in attaining membership after nearly two decades of disappointment. President Obama too has invested much time in developing a new India-U.S. relationship focused on a larger role for India in the Asia-Pacific region.

All of these considerations point to the current moment being an optimal one to push for India's membership. It would be prudent for APEC and India to capitalize on this alignment in 2016, while it is still in place. If India sends a definitive signal that it is serious about becoming a constructive APEC member and helps important stakeholders understand the benefits of India's membership for APEC and its members, then India's case for membership will be a strong one.

**ANNEX TABLE 1:
SHARE OF TRADE OF GOODS AND SERVICES IN GDP
(PERCENTAGE), 2000 AND 2014**

COUNTRY	2000	2014
INDIA	26	49
CHINA	39	42
UNITED STATES	25	30*

NOTES: * = Data for the United States are for 2013. Trade is the sum of exports and imports of goods and services, and the estimated share measures it as a percentage ratio of gross domestic product.

SOURCE: The World Bank. <http://data.worldbank.org/indicator/NE.TRD.GNFS.ZS>

**ANNEX TABLE 2:
AVERAGE TARIFF OF INDIA & APEC MEMBERS AND TARIFF LINES
WITH WTO BINDINGS (PERCENTAGE)**

APEC MEMBER/INDIA	TARIFF LINES WITH WTO BINDING	AVERAGE MFN APPLIED TARIFF	APEC MEMBER	TARIFF LINES WITH WTO BINDING	AVERAGE MFN APPLIED TARIFF
INDIA	74.4	13.5	MEXICO	100	7.5
AUSTRALIA	97	2.7	NEW ZEALAND	100	2
BRUNEI DARUSSALAM	95.3	1.2	PAPUA NEW GUINEA	100	4.7
CANADA	99.7	4.2	PERU	100	3.4
CHILE	100	6	PHILIPPINES	66.9	6.3
CHINA (PRC)	100	9.6	RUSSIA	100	8.4
HONG KONG, CHINA	45.9	0	SINGAPORE	69.6	0.2
INDONESIA	96.3	6.9	CHINESE TAIPEI	100	6.5
JAPAN	99.7	4.2	THAILAND	75	11.6
REPUBLIC OF KOREA	94.6	13.3	UNITED STATES	100	3.5
MALAYSIA	84.3	6.1	VIETNAM	100	9.5

NOTES: Data for Brunei Darussalam is from its Trade Policy Review Report.

SOURCE: WTO, 2015, "World Tariff Profiles 2015", Geneva.

(https://www.wto.org/english/res_e/publications_e/world_tariff_profiles15_e.htm)

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* This report is not a product of the task force or its individual members. All statements of fact and expressions of opinion contained in this report are the sole responsibility of its authors and do not reflect the views of the task force or its members.

ENDNOTES

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