

India's Bid for APEC Membership: Trade Policy is the Stumbling Block

India's chances of becoming a member of the APEC (Asia-Pacific Economic Cooperation) forum brightened considerably after the United States welcomed its interest in early 2015. But till now, there has hardly been any progress, with doubts continuing to linger over India's commitment to an open and forward-looking external trade policy. This paper underlines the divergence between India's foreign and trade policies, and argues that the latter has hardly been able to match the energy and proactivity of the former. Without strong signals on commitment to external sector reforms, India will find it difficult to gain support from the APEC community as a prospective member.

Amitendu Palit¹

Almost exactly a year ago, US President Barack Obama was the Chief Guest at the annual Republic Day Parade in New Delhi on 26 January 2015. The first US President to be present on such an occasion, President Obama's high-profile state visit and camaraderie with India's Prime Minister Narendra Modi were described as signs of the beginning of a new and

¹ Dr Amitendu Palit is Senior Research Fellow and Research Lead (Trade and Economic Policy) at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore. He can be contacted at isasap@nus.edu.sg. The author, not ISAS, is responsible for the facts cited and opinions expressed in this paper. Several issues mentioned in the paper were discussed at length in the ISAS International Workshop on 'India's Integration with Asia-Pacific: Economic and Strategic Aspects' held in Singapore on 14 and 15 January 2016.

glorious phase in the Indo-US partnership. The Indo-US Joint Strategic Vision for the Asia-Pacific and Indian Ocean Region unveiled on the occasion² marked the interests of both countries in playing strategically significant roles in the two regions and complementing each other in these regards. The US enthusiasm was evident in the joint Strategic Vision in welcoming India's bid for membership of the APEC: ".....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".³ The enthusiasm was in tune with similar support of India's interest by other major APEC members including China, Russia and Australia.

The 'in principle' support of the US and other major APEC members was a shot-in-the-arm for India's aspirations of joining the APEC in its larger quest to becoming a major actor in the Asia-Pacific region. India's earlier attempt at membership was unsuccessful, with the APEC putting a moratorium on including new members in 1997 that lasted till 2010. With no further extension of the moratorium, India's entry into APEC now seemed imminent. There were expectations of India beginning preparations for membership on a 'war footing',⁴ with the APEC Leaders' Summit in Manila in November 2015 reflecting some of the preparedness in terms of a greater Indian presence and engagement of the region.

The expectations, however, have remained unfulfilled. There was no discussion on India's membership at the APEC Summit in Manila in 2015. There has not been any further expression of support from the US or any other APEC member on India's membership. There have also not been any statements from India on the subject in the last few months. On the contrary, the enthusiasm on India's prospective membership, visible in the Strategic Vision pronounced a year ago, appears to have been tempered by caution. While the US continues to welcome India's interest in the APEC, it is examining India's commitment to economic reforms and external liberalisation⁵ that have emerged as critical determinants in convincing the APEC community about India's suitability for APEC.

² 'U.S.-India Joint Strategic Vision for the Asia-Pacific and Indian Ocean Region', *The White House*, Office of the Press Secretary, 25 January 2015; <https://www.whitehouse.gov/the-press-office/2015/01/25/us-india-joint-strategic-vision-asia-pacific-and-indian-ocean-region>. Accessed on 21 January 2016

³ Ibid.

⁴ 'MEA, Commerce Ministry to prepare India Inc. for APEC Membership', *Business Standard*, 21 August 2015; http://www.business-standard.com/article/economy-policy/mea-commerce-ministry-to-prepare-india-inc-for-apec-membership-115082000757_1.html. Accessed on 21 January 2016

⁵ 'Examining India's commitment to reforms: US on APEC Membership', *The Economic Times*, 3 December 2015; http://articles.economictimes.indiatimes.com/2015-12-03/news/68741887_1_apec-membership-welcome-india-congressman-steve-chabot. Accessed on 21 January 2016.

Trade, APEC and India: An Impossible Trinity?

As a group of twenty-one economies from around the Asia-Pacific, the APEC accounts for almost three-fifths of the world's GDP and half of the world trade. Its global economic significance is hardly surprising, given that it includes some of the world's largest economies – the US, China, Japan, Russia, Indonesia, Canada, Australia, Mexico, South Korea and Taiwan – that are also major players in global trade. The APEC has always emphasised external and regional trade as fundamental drivers of economic growth and the expansion of its members. Consequently, it has strived hard to eliminate barriers to trade for reducing trade costs. It has also actively pursued regional economic integration for promoting seamless trade among its members.

The pronounced emphasis on trade imparts to APEC a distinct 'outward-oriented' character. It is therefore obvious that all new entrants to the APEC club would be expected to commit to a forward-looking and outward-oriented agenda on external trade.

Does India satisfy this condition?

The Indian economy of today is much different from what it was twenty-five years ago. Indian tariffs have dropped sharply on both agriculture and manufacturing imports. But they are still higher than those in the APEC.⁶ The number of duty-free imports are also much less for India, particularly in agriculture. Though India has steadily removed several restrictions for foreign investors, sector-specific ceilings on the amount of foreign equity continue to remain, particularly in services. More importantly, India lags behind most APEC members on trade facilitation measures, particularly efficiencies in logistics and customs procedures.

For most APEC economies, India is an economically appealing prospect, given its current growth rate of around 7%. The contraction in the Chinese economy has adversely affected many APEC economies. India can provide an alternative source of impetus to these economies. But that would require India resonating APEC's commitment to trade

⁶ Average tariffs across the APEC are around 5%. The corresponding average for India (applied tariffs) was 13.5% in 2014. India's average tariff rates are also higher than most other countries with which it is negotiating the Regional Comprehensive Economic Partnership (RCEP).

liberalisation. Till now, the signals from India in this regard are not clear, creating considerable confusion among the APEC community.

India's current policy posture on external trade liberalisation lacks clarity. On the one hand, the ambitious 'Make in India' initiative, aiming to make India a global manufacturing hub, is enticing for foreign investors. Liberalisation of foreign investment norms in critical industries like defence and civil aviation has succeeded in conveying positive impressions. Efforts to improve domestic business conditions are also praiseworthy. But on the other hand, India has not displayed eagerness to expand the access of foreign exporters to its domestic market. Its trade policy continues to remain defensive, as was evident in the recent Nairobi Ministerial of the World Trade Organization (WTO). On-going bilateral free trade agreement negotiations with APEC members (e.g. Australia, Canada) also remain inconclusive. These contrasting postures create doubts about India's commitment to an outward-oriented external reform agenda as indicated by the US trade agencies.⁷ Indeed, opinions suggesting that India's current trade policy is more protectionist than its predecessor are gaining traction.⁸

The commitment to a positive trade agenda has become even more important after the conclusion of the Trans-Pacific Partnership (TPP). The TPP has reinforced the centrality of the Asia-Pacific in regional cooperation efforts and raised the bar for economic cooperation agreements. All twelve members of the TPP are APEC economies. There are strong possibilities of more APEC members – Columbia, Taiwan, Philippines and even China – joining the TPP in its next round of expansion. The TPP demands commitment to deep external liberalisation from all of its members. As a 21st century regional trade agreement growing out of the APEC, several aspects of the TPP are likely to become benchmarks for trade standards and governance in the Asia-Pacific. Trade liberalisation efforts of India, or those of any other country interested in membership of the APEC, would be judged against these benchmarks. With India, as it is considered a relatively inward-looking economy by APEC's current standards, evaluation of its external trade policies against the much higher TPP standards would make such policies look even more retrograde.

⁷ As in 5 earlier.

⁸ Shekhar Gupta, 'Promise and Underperformance', *Business Standard*, 22 January 2016; http://www.business-standard.com/article/opinion/shekhar-gupta-promise-and-underperformance-116012201582_1.html. Accessed on 22 January 2016

Foreign and Trade Policies: Distant Cousins

It is evident that India's bid for the APEC membership is not gathering momentum due to the lack of a proactive external trade agenda. It is also evident that in the quest for APEC membership, India's foreign and trade policies have not moved hand-in-hand. The former has been more robust and purposeful than the latter.

Over the last one-and-a-half years, India has been able to constructively engage most major APEC members. Such engagement has drummed up a fair bit of strategic goodwill in India's favour, the best example of which was the US welcoming India's APEC bid. The problem, however, is the sluggish pace of trade policy reform. A constructive and proactive trade policy agenda could have complemented the strategic goodwill produced by foreign policy, and strengthened India's credibility as a potential member of the APEC community. At this point in time, APEC members that would like India to enter the club on its strategic merits, are unable to back India forcefully due to the latter's lack of a forward-looking trade agenda. The fact that India is hardly showing signs of proactively engaging in regional and global trade agreements, which is in sharp contrast to the activism of most other APEC members, is also not helping India's cause.

Signals that might help

What are the trade policy signals that would positively influence India's bid for membership?

India continues to be perceived as a difficult and obstructive trade negotiator in much of the Asia-Pacific region. The image has persisted in its on-going trade negotiations with APEC members, particularly the RCEP (Regional Comprehensive Economic Partnership). These negotiations involving the ten members of the Association of Southeast Asian Nations (ASEAN), Australia, China, Japan, Korea, India and New Zealand, are about much-modest outcomes in comparison with the TPP. A positive role and constructive agenda-setting by India in important segments of the RCEP negotiations, such as services and investment, where India can obtain significant economic gains by allowing greater access to its domestic markets, can send strong signals on its commitment to external sector reforms.

A positive posture at the RCEP needs to be accompanied by efforts to conclude negotiations on the on-going bilateral trade agreements with APEC members, Canada and Australia. India's strategic ties with both countries have improved significantly since Prime Minister Modi assumed office. Both countries are now major suppliers to India's nuclear energy sector. The conditions are perfect for concluding trade agreements with both these countries that are being negotiated for quite some time now. Through their greater scope and coverage of new trade issues, these agreements can serve as good examples of India's positive approach to external trade. At the same time, India can also initiate efforts to upgrade the scope and coverage of its existing bilateral trade agreements with APEC members, such as those with Japan, Korea and the ASEAN. Finally, resumption of talks with the US on a bilateral investment treaty (BIT) for safeguarding interests of the American and Indian investors should also help in generating confidence in India's intentions.

Apart from trade, the APEC has a vast work agenda focusing on 'inclusive' economic development. There are several parts of this agenda that connect to India's development priorities. Agriculture, food security, electronic commerce, human resource development, innovation and natural disaster management are important work themes for the APEC. India has considerable experience in all of these areas, and can pitch for contributing to the APEC's on-going programmes. These contributions would establish India's usefulness in taking forward the APEC's agenda, and entrench its credibility among the APEC community. It is also equally essential to connect to institutions and agencies in the APEC economies that are working on APEC's core areas.

Not the Last Word

There is little doubt over the strategic importance of India and APEC for each other. India can be a vital source of economic stimulus for APEC's production networks and supply chains through its large domestic market. Similarly, APEC can be a part of India's long-term solution to sustained high economic growth by offering multiple opportunities for its manufacturing and services exports, higher returns on investments and increased inward remittances from greater movements of Indian professionals. The geo-strategic benefits of

'locking on' to APEC are also significant for India as it will get the opportunity of having a larger say in Asia-Pacific affairs.

The onus is clearly on India now. Strong signals on commitment to a robust external trade policy are *sine qua non* for convincing the Asia-Pacific about its suitability and integration with the APEC.

.