

# LET BYGONES BE BYGONES: THE CASE FOR INDIA'S INCLUSION IN APEC

KEVIN CARMICHAEL

## KEY POINTS

- The Asia-Pacific Economic Cooperation (APEC) forum's emphasis on expediency over its 25-year history has come at the expense of legitimacy. Two decades after first asking to join, India remains on the outside of the organization. As a result, APEC has missed an opportunity to forge deeper trade and investment linkages with what has become one of the region's most dynamic economies.
- The members of APEC may now have to court India rather than the other way around. The proliferation of bilateral and regional free trade agreements and negotiations has provided India other options.
- Leaders at the 2014 APEC summit in Beijing on November 10 and 11 have an opportunity to respond to worries about the group's relevance by pledging to add members in 2015, in particular by placing India at the top of the list.



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## INTRODUCTION

Canadian Prime Minister Stephen Harper will miss the 2014 Beijing APEC summit.<sup>1</sup> His former spokesman says it does not matter. “[I]t’s safe to say that Canada won’t lose out by skipping this particular summit, at this particular time, for this particular reason,” Andrew McDougall (2014) wrote in an opinion article posted on the Canadian Broadcasting Corporation’s (CBC’s) website on November 3. In early October, a US State Department official told an audience in Washington, DC that Beijing was shaping up to be a “good” summit, in part because US

<sup>1</sup> Harper is skipping APEC to attend Remembrance Day ceremonies on November 11, which coincides with the final day of the APEC gathering. The 2014 Remembrance Day ceremonies in Canada are particularly salient as two Canadian soldiers were killed in late October in separate attacks, both of which Harper described as terrorism.

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President Barack Obama was planning to attend after missing the previous two APEC leaders’ meetings (Wang 2014).

APEC officials insist they are members of one of the world’s more important clubs. Edward Brzytwa (2014), director for APEC affairs at the Office of the US Trade Representative, said, “Every single year, we have an overarching priority that we ensure that APEC remains the premier economic forum in the Asia-Pacific for multilateral trade and investment issues. That is a significant priority for us.” Yet, the regularity with which APEC leaders have skipped the summit in recent years suggests that the group may not be as significant as it once was. APEC’s primacy has slipped as its members splinter into smaller regional groups. Tan Jian (2014), the Chinese official in charge of the Beijing summit, acknowledged earlier this year that while many Asia-Pacific economies are on the rise, it is less clear that the “role and relevance of APEC” is keeping up with them.

The Chinese will seek to reinvigorate APEC by securing support for a study on the merits of pulling its 21 members together in a free trade agreement (Channel News Asia 2014). However, there is another way: end the 17-year moratorium on new membership and add one of the region’s most vibrant economies to the group.

India was passed over in Vancouver in 1997 when Peru, Russia and Vietnam joined the forum. The decision to snub Asia’s third-largest economy was likely the result of India’s unwillingness to embrace the norms of free trade and investment that are the foundation of APEC’s existence. Much has changed since then, although India still frustrates the world’s free traders. The country’s new government reneged on the Bali agreement on trade facilitation, sinking the most significant attempt to liberalize global trade rules since the World Trade

Organization (WTO) was established in 1995 (Krishnan, Mehrotra and MacAskill 2014). Still, the government of Prime Minister Narendra Modi insists that it supports the WTO and the Bali accord. There are reports that Modi, the Obama administration and the European Union are close to a solution to revive Bali (Gupta and Gupta 2014). India is Asia's third-biggest economy and would be the fourth largest in APEC after the United States, China and Japan. More importantly, India is one of the fastest growing economies in the world at a time when the global economy has tended to disappoint. APEC's members could be indifferent to India in 1997. Not so now.

Chinese President Xi Jinping rekindled debate about the possibility of India's inclusion in APEC in July when he personally invited Modi to attend the Beijing summit. Modi was non-committal and ultimately decided not to attend (Kasturi 2014). His reasons were unclear. The prime minister had reason to be wary of Xi's motives. The surprise invitation came ahead of highly anticipated meetings between Modi and the leaders of Japan and the United States (Panda 2014). Modi also may have concluded that he was too busy to attend a meeting at which he would have no input. November marks the beginning of India's weeks-long budget process and, in addition, the latter part of the month is tied up with various international summits at which India is a full-fledged member.<sup>2</sup>

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<sup>2</sup> Modi's November schedule includes the East Asia summit in Naypyidaw, Myanmar on November 11-12; the G20 summit in Brisbane, Australia on November 15-16; and the South Asian Association of Regional Cooperation (SAARC) summit in Kathmandu on November 26-27. He also plans an extended stay in Australia after the G20 and a stop in Fiji on his way to the SAARC summit.

Whatever his reasons, Modi's decision to skip APEC is a blow to the group as it celebrates its twenty-fifth year. The Indian prime minister was presented with a golden opportunity to lobby for a seat at the APEC table, but he concluded that the accompanying sacrifices attached to Xi's invitation were not worth it.

That should give pause to the members of Asia's "premier" economic body. If APEC is serious about a free trade agreement that spans Asia and parts of the Americas, it will need a forum to stitch together the various subregional agreements currently under negotiation. APEC is well-suited for the task, but only if it is taken seriously by the region's leading economies. That means India must be at the table.

## WHY NOW?

APEC's decision to exclude India in 1997 was somewhat of a surprise (Woo 2005). The country was among the largest economies on a long list of countries that had asked to join. Adding insult, APEC declared a 10-year moratorium on membership to allow the new group of 21 to set down roots. When it came time to consider new members in 2007, leaders opted against enlargement, declaring at the end of the Sydney summit that it was "important to manage the possible entry of new members in a manner that ensures that the momentum APEC has developed towards regional integration and open economies is enhanced" (APEC 2007, paragraph 21).

Leaders agreed to revisit the issue in 2010 in Yokohama, Japan where, again, they demurred. "Keeping in mind the benefits of APEC

membership as well as the need for efficiency to achieve results, we will continue to review the question of APEC new membership going forward” (APEC 2010). There has been little discussion of the subject since.

If Russia was worthy of APEC membership in 1997, then India certainly is worthy of entry now. India accounted for 6.6 percent of global GDP in 2013, when measured in terms of purchasing power, while Russia represented 3.4 percent, according to data compiled by the International Monetary Fund (IMF).

In the late 1990s, Russia was widely viewed as a “European power that only happened to have a Pacific coastline” (Woo 2005, 108). India may lack a Pacific coastline, but there is no disputing its status as an Asian nation: eight of India’s 20 largest trading partners are members of APEC and over the last decade, China has become the largest of these; Singapore, the United States and Japan are among the largest sources of foreign direct investment; and India is on a rush to sign trade agreements, including a free trade agreement in goods with the Association of Southeast Asian Nations and a comprehensive economic cooperation agreement with Canada that is at an advanced stage (Palit 2014).

India’s ruling Bharatiya Janata Party (BJP), which won an historic majority this year on a pledge to overhaul the country’s economy, has declared that trade will be a priority. Modi is aggressively seeking international investment under a global marketing campaign called “Make in India.” He secured a US\$20 billion pledge to invest in infrastructure from China in September at a bilateral summit with Xi in New Delhi (Mehrotra and Krishnan 2014). In October, Softbank, the investment company owned by Japanese billionaire Masayoshi Son, said it would invest as much as US\$800 million in two Indian technology companies (Chilkoti and Inagaki 2014). Modi has pledged specifically to raise limits on

foreign investment in construction and insurance and has indicated a willingness to allow international companies to take ownership stakes in the country’s coal sector.

So far, Modi has made more promises than he has policy. The rejection of the Bali accord came with the sort of populist rhetoric reminiscent of previous Indian governments that took a more statist approach to economic policy (Carmichael 2014). Modi surprised many in July by reneging on a commitment made by the previous Congress government to adopt the Bali package agreed by WTO trade ministers in early December 2013 in Bali, Indonesia. The new prime minister said the Bali Package was too weak to guarantee that India would have been able to subsidize farm production sufficiently to meet food security commitments (Mishra 2014). Few countries backed India’s position, leaving many to doubt Modi’s commitment to freer trade.

But private investors such as Japan’s Son are convinced the BJP government will make good on its commitments to open up the Indian economy. Through early November, the MSCI India Equity Index had climbed almost 30 percent, compared with a 1.3 percent increase in the broader MSCI Emerging Market Index (Chakravarty 2014). The IMF raised its outlook for India in September, while it cut its forecasts for most other major economies (IMF 2014). Stewart Beck (2014), Canada’s former high commissioner to India, said in an October op-ed in *The Globe and Mail* that India under Modi is changing “faster than we think.”

**IS IT WORTH THE TROUBLE?**

If Modi wants to join APEC, he did himself no favours by reneging on Bali. The move reinforced the view

that India and APEC are not suited for each other. India's tendency to take a defensive approach at trade negotiations is out of step with APEC's embrace of openness (Palit 2014). The counter is that India has been unfairly maligned. Rather than an obstructionist, India is simply a tough negotiator, but when it commits to something it takes those commitments seriously. Alyssa Ayres (2014a), a former US diplomat in South Asia who now is a senior fellow at the Council on Foreign Relations, argued this point in the spring of 2014. After Modi's reversal at the WTO, Ayres (2014b) acknowledged it had become more difficult to defend India, and that the country's decision would make it difficult for the United States to support India's membership bid to join APEC.

Another factor that plays against India's inclusion in APEC is the group's ethos of "open regionalism." This idea is that any changes to trade and investment policy made by a member of APEC will be extended to non-APEC countries. There is a long-standing debate over the extent to which APEC members have adhered to this commitment (Garnaut 2004). If Indian officials feel they will benefit from whatever positive changes occur within the context of APEC, they could be tempted to forego the trade-offs that would be required to gain admittance.

India is sending mixed signals on its desire to join APEC. Modi's snub of Xi suggests India is disinclined to pander for a spot in the club. Yet there are few indications that India has pulled its request to join. *The Telegraph* newspaper of Calcutta on November 6 quoted an unnamed Indian official who said APEC possibly held more interest to the Modi administration than the G20 (Kasturi 2014). The APEC agenda aligns closely with Modi's economic priorities. In Beijing, APEC leaders will discuss strengthening global value chains, rooting out corruption, connectivity

and boosting renewable energy. Modi talks about all of these points. He has pledged to ensure that every Indian has electricity by 2019 and wants to make India a regional manufacturing hub. APEC has been working on these issues for more than two decades. Modi stands a better chance of achieving his goals in APEC than outside it. Modi could find working within APEC easier than the WTO as he would not have to sign any binding treaties (Lohman and Scissors 2013). This is an important consideration given that his reform agenda will inevitably encounter stiff opposition at home; unpopular promises made at the WTO or in other trade agreements only strengthen his opponents.

Still, APEC leaders would be ill-advised to take India's long-standing request to join for granted. They will have to weigh carefully whether seeking vengeance for the Bali failure outweighs the opportunity presented by pulling India into APEC.

The group's strength is less as a negotiating forum and more as a place to work through technical impediments that block goods, people and money from passing easily through borders (Cook 2014). These are precisely the things that most frustrate international investors and executives about India. It is in the self-interest of APEC's members to reduce barriers to trade and investment to the greatest extent possible. An investment boom, similar to that which occurred in China over the past couple of decades, could boost India's annual economic growth to rates in the range of eight percent (Zakaria 2014). APEC membership correlates with greater trade and investment, and its non-binding, persuasion-based approach to policy changes had the profound effect of clearing China's entry into the WTO (Drysdale and Armstrong 2009, 5). India's inclusion in APEC only can help the global economy. It is a win-win situation.

## RECOMMENDATIONS

**In Beijing APEC leaders will commit to adding members in 2015 when they gather in the Philippines.**

It is tempting to call for the immediate inclusion of India. The 1997 expansion, after all, was reportedly done with little advance preparation (Woo 2005). However, the Bali letdown is likely still too fresh for that. Instead, leaders can pave the way for India's entry by stating explicitly that APEC will match its membership to changes in the global economy in 2015. While India is an obvious choice on merit, the wait will allow both sides an opportunity to convince the other that they should work together.

**Prospective members commit to adopting past APEC efforts.** The APEC ethos of concerted unilateralism and open regionalism implies that members reduce barriers to trade and investment because it is in their self-interest to do so. There is nothing stopping new members from catching up to what existing members already have done.

**APEC agrees to select new members in a transparent manner.** The countries interested in joining APEC should declare their intentions publicly early in 2015 with the expectation that each will begin making the case for admittance. APEC, in turn, will update its criteria for participation in the group.

## CONCLUSION

APEC's track record shows it has the potential to boost trade and investment. Yet, it is difficult to imagine how APEC can replicate the success of its first quarter century without engaging India. Prime Minister Narendra Modi leads a rare majority government that has a mandate to overhaul the country's economy. Modi will have to open India's economy to trade and investment and has promised to do so. His country has much to gain from

APEC's experience with removing barriers to trade and investment, just as APEC's members would benefit from easier access to one of the world's fastest-growing economies. Failure to do so will mean that APEC's next quarter century will be less transformative than its first.

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