

India and APEC

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The forthcoming Asia Pacific Economic Cooperation (APEC) summit in the fourth quarter of 2015 in the Philippines might witness India gaining entry to the economic grouping. APEC is an international grouping of 21 countries including the United States and Japan, which promotes free trade among its members.¹ With a new government in India, it was felt, that the Obama administration had an opportunity to revitalise its economic ties with India by the latter's inclusion in the Asia-Pacific Economic Cooperation (APEC) forum.² In January 2015 when President Obama visited Delhi, it was hinted that US would support India's membership in APEC.³ The 13th meeting of RIC (Russia, India, and China) foreign ministers held in February 2015 also echoed similar views. External Affairs Minister Sushma Swaraj had added, "India's participation in APEC has been welcomed by both China and Russia".⁴

Chinese President Xi Jinping, during the BRICS Summit in 2014 at Fortaleza, had extended an invitation to Indian Prime Minister Narendra Modi to attend the APEC Summit in Beijing, hinting at the need for India's inclusion in the Asia-Pacific forum. However, as the Beijing summit agenda did not include membership expansion, Prime Minister Modi did not attend.

India has been at the forefront of countries waiting to get into APEC right since its formation but has been denied entry citing APEC guidelines for 'deepening the community rather than broadening it'. This paper argues that APEC membership would enhance India's economic liberalisation programme as well as incrementally reduce both tariff and non-tariff barriers in-sync with APEC's criteria.

APEC meeting in China in November 2014 also endorsed a Chinese proposal to move towards a new free trade arrangement in Asia. Chinese President Xi Jinping, who earlier urged Asia-Pacific nations to accelerate economic ties, described the endorsement of the arrangement as a "historic" decision. Other leaders attending the summit also recognised APEC's critical role in shaping and nurturing regional economic integration and agreed that

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APEC should make more important and meaningful contributions as an incubator to translate the Free Trade Area of the Asia-Pacific (FTAAP) from a vision to reality.⁵

Criteria that an organisation sets up for appraising applications of new members convey important messages about its rationale, its vision and its role. As Robert Keohane observes, regional organisations differ in goals and intent from universal membership organisations by the very fact of their restricted membership; “Restricted membership institutions seek to achieve gains *vis-à-vis* outsiders (a function for which there must be outsiders to exploit) or to build strong bonds of community”.⁶ The criteria establishing eligibility for membership are crucial to selecting the combination of states thought best to deliver the desired objectives of the regional organisation.⁷

The other major set of considerations concerning membership criteria is one of ‘group effectiveness’. Olson’s concept led him to the conclusion that the ‘larger a group the smaller the benefit that accrues to each participant; the lower the incentive of each individual to contribute to the collective benefit; and the greater the organisation costs’. There are organisational disincentives to each expansion in group size, depending on whether the group is providing exclusive or inclusive goods to its members. Another consideration is that of decision-making effectiveness.⁸ Buchanan and Tullock’s model of group size and decision-making costs leads them to the conclusion, “costs that the member expects to incur as a result of his own participation in collective decision-making vary directly with the size of the deciding group in a given sized total population.”⁹ In other words, the larger the group, the longer it would be and the more diplomatic resources it will absorb to generate a collective decision. For Buchanan and Tullock, there are also disincentives to increasing membership: “One means of reducing these costs is to organise collective activity in the smallest units consistent with the extent of the externality that collectivisation is designed to eliminate”.¹⁰ In this context, APEC faces the predicament between expansion and limited membership.

Originally, India considered its dialogue partner status with ASEAN as a sufficient springboard for its gradual participation in APEC and the ASEM meetings. Indeed, ASEAN played a key role in these organisations and New Delhi had hoped that it would get their support. However, the Southeast Asian states were more preoccupied by utilising APEC and ASEM to promote ‘East Asian Economic Caucus’ (EAEC), to which India was not invited. As such, India found itself excluded from the most important identity building projects in the region, APEC, ASEM and EAEC - the new incarnation of

ASEAN+6.¹¹ The Summit meeting with ASEAN in the ASEAN+1 format had created new possibilities for India. However, APEC membership was denied despite India's commitment to its ideals.¹²

Ever since 1991, New Delhi had been articulating its interest in joining APEC, though initially there was little support from within APEC members. The APEC meeting held in Seattle in 1993 imposed a three year moratorium on the admission of any new members, with a promise that a new admission criteria will be formulated. A number of representatives expressed the view that India had to prove itself as far as economic efficiency was concerned before it could be accepted. North East Asian leaders were likely to be even less favourable to India's candidature, not because they were opposed to New Delhi *per se*, but because they were more concerned about safeguarding the effectiveness of APEC's mechanisms. Only Tokyo was slightly better disposed towards South Asian countries. However, its benevolence was not reflected in any concrete support especially since Japan preferred its protégés—Mongolia and Peru to first enter the grouping. Seoul believed it is preferable to consolidate the APEC process rather than expand it to include new members.¹³

In a speech in Singapore in September 1994, then Prime Minister P.V. Narasimha Rao, speaking about India's membership in APEC, stated, "I don't want to knock on closed doors". Singapore Prime Minister Goh Chok Tong responded that "... the doors may be closed but are not locked". Finally, the city state's Foreign Affairs Minister, S. Jayakumar, accepted in 1996, "... it would be hard to imagine an Asia Pacific century without India's participation".¹⁴

In July 1996, during the ASEAN Post Ministerial Conference, New Delhi once again, reiterated its desire to be associated with the APEC. The question was also raised with each APEC member during bilateral meetings on the side-lines of the conference.

The APEC economic leaders meeting, which took place in the Philippines in November 1996, did not admit any new members. A decision was taken to define membership criteria at the next summit. While New Delhi continued the press its candidature, it also asked that it be permitted to join three APEC specific working groups and finally got admission to one of them - the energy group.

In anticipation of the Vancouver APEC summit in November 1997, India once again lobbied with friendly member countries for support of its candidature. Then Vice President Krishna Kant made the most of his visit to Kuala Lumpur for the G-15 summit to raise the issue with member states,

specially with Malaysia and Indonesia. External Affairs Minister I. K. Gujral visited Canada, the summit host, just a few weeks before the event. His discussions with Prime Minister Jean Chretien and Foreign Affairs Minister Lloyd Axworthy resulted in gaining Canada's support—an important APEC member. But the United States and Australia expressed their reservations in advance against India's inclusion. No less than 11 countries had applied for APEC membership, including Mongolia, Peru, Russia, Panama, Colombia, Vietnam and Ecuador. Most South Asian countries too had put in their applications, including India, Sri Lanka, Bangladesh and Pakistan. At the Vancouver summit, APEC admitted Russia, Peru and Vietnam, before imposing a 10 year moratorium on new membership - geographical considerations taking precedence.

India believed that she fulfilled the five prerequisites for gaining entry into the APEC: firstly, the applicant's economy should be located in the Asia-Pacific region; secondly, it should enjoy substantial economic ties with the APEC members, and APEC's share in its international trade should be quite high; thirdly, it must pursue an outward looking economic and free trade policy; fourthly, it should accept the various objectives as enunciated in the APEC statements; and lastly, it should produce an individual plan of action for fulfilling these objectives and start taking part in collective plans of action, through APEC's programmes of work. New Delhi also promised to remove all relevant trade barriers by 2010, in order to meet APEC's membership criteria.¹⁵

From India's point of view, APEC would not be complete without the inclusion of the second largest Asian country. Then Finance Minister P. Chidambaram went as far as affirming that APEC without India would be like Hamlet without the Prince of Denmark.

It has been seen that the competition between regional organisations has been a driver of change in the ASEAN and APEC. The creation of APEC generated fears within ASEAN of being swamped by the larger institution, leading to innovations such as the creation of the ASEAN Free Trade Area in a bid to preserve the ASEAN's cohesion and relevance. On the other hand, APEC has evolved partly in competition with regional institutions in other regions. Its adoption of the practice of annual summits was partly a response to deepening integration in Europe and North America and the resulting obduracy of the former in the context of multilateral trade negotiations. Its development of a comprehensive intraregional Trade Liberalisation Agenda at Bogor in 1994 should also be viewed in the context of the completion of the single European market and the finalisation of the North American Free Trade Agreement.

The November 2009 APEC summit in Singapore was an occasion to toast two decades of persuasive and consultative economic regionalism. The question was whether APEC had achieved anything worthwhile in terms of economic cooperation or whether it needed a mid-life up-gradation and reorganisation so as to cater to the changing global economic and strategic transformations. Though the mandate of APEC is primarily economic, in the 2002 APEC Leaders' statement titled "Fighting Terrorism and Promoting Growth" and in the endorsement of APEC's Counter Terrorism Action Plans (CTAPs), the organisation did go beyond this mandate.

In the wider context, it is difficult to know which of the various Asia-Pacific regional organisations are most effective and how APEC relates to the other forums. Despite this lack of clarity, almost every regional country wants to subscribe to membership of these organisations. While the East Asian Summit (EAS) is still to show promise, ASEAN has its own problems with regard to its charter. In addition, the relevance of the ASEAN Regional Forum (ARF) is questioned in the context of North East Asian security. The forum is being touted as a mere "talk shop". As an alternative, Australian Prime Minister Kevin Rudd floated the idea of a "New Pan-Asian Economic Bloc", better known as the "Asia-Pacific Community", in June 2009. Then there was the separate idea of Japan propelling the "Asian Economic Community", first mooted in October 2009. These initiatives show that the countries of the Asia-Pacific are deciphering changes in regional networks, each from their own point of view.¹⁶ All these initiatives have a strong regional economic cooperation angle as global trade negotiations were stuck under the WTO.

The agenda of the Philippines Summit in 2015 is promotion and advancement of inclusive growth in the Asia-Pacific region. Specifically, the priorities identified are:

- Investing in Human Capital Development;
- Fostering Small and Medium Enterprises' (SMEs) Participation in Regional and Global Markets;
- Building Sustainable and Resilient Communities; and
- Enhancing the Regional Economic Integration Agenda.¹⁷

All these issues have been of immense relevance for India and the country has been working towards these for a better and sustainable economic growth.

Further, India has demonstrated responsiveness to its multilateral commitments under the WTO. It substantially lowered its tariffs and implemented IPR protections to meet WTO requirements, including amending

its patent law after adhering to the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights. India has updated its domestic export controls regulations to harmonise with global norms as it works to join the global non-proliferation regimes. The new government has liberalised its Trade Policy and simplified procedures required for imports and exports.

As discussed earlier, India has shown interest in joining APEC for the obvious reasons of being at the forefront of economic integration across Asia and Pacific. In 2007, APEC leaders agreed to examine the options and prospects for a Free Trade Area of the Asia-Pacific (FTAAP) and in 2010, they agreed that an FTAAP should be pursued as a comprehensive free trade agreement by developing and building on ongoing regional undertakings, such as ASEAN+3, ASEAN+6, and the Trans-Pacific Partnership (TPP), among others.

The Regional Comprehensive Economic Partnership (RCEP) grouping of 16 economies includes all ASEAN members plus its existing FTA partners - Australia, China, India, Japan, Korea and New Zealand and accounts for just under 50 per cent of the region's economic output and close to 60 per cent of its exports. The RCEP has begun its negotiations and has set a target of completion by 2015.¹⁸

In addition to the TPP and the RCEP, there are a number of on-going trade negotiations that include the ASEAN Economic Community (AEC), the Transatlantic Trade and Investment Partnership (TTIP) between the United States and the European Union, the Pacific Alliance, which includes South American economies on the Pacific Rim, the China-Japan-Korea (CJK) agreement, and the WTO Doha Round. Of all these agreements, regional opinion-leaders were only positive about the likely conclusion of the AEC and the TPP by 2015.¹⁹

During the APEC meetings, a number of proposals have been discussed that were primarily focussed on four key areas: regional economic integration, food security, transportation and supply chains, and innovations for growth. India has incrementally subscribed to each of these core areas, during the RCEP negotiation process and during the WTO Bali Summit in 2013²⁰ APEC must strategise its priorities and look for further engagement with the induction of India, and by intensifying cooperation in trade and investment.²¹

Human resources play a vital role in the attainment of the objectives of the APEC member economies, namely – enhanced job generation, improved productive employment opportunities, and greater economic growth. As such, human capital development will be promoted through discussions on education,

innovation, and capacity-building that would substantially affect and stimulate growth in the future. The identified sub-priorities are:

- Promoting knowledge-based economies;
- Promoting science and technology education, and innovation in APEC;
- Developing job skills needed by APEC business in the 21st century; and
- Internationalisation of education/cross-border education to develop APEC-wide skills.²²

India would benefit from all these initiatives. Further, APEC's stress on Trade in Services as well as strengthening of global supply/value chains in the APEC region would facilitate India's entry into lucrative markets as well as give a momentum to its "Make in India" initiative.

Notes

- ¹ APEC doors open for India, President Xi, Sushma Swaraj discuss progress in ties, at <http://indianexpress.com/article/india/india-others/apec-doors-open-for-india-president-xi-sushma-discuss-progress-in-ties/>, Accessed on 13 May 2015.
- ² US urged to back India's APEC entry, at <http://www.thehindu.com/news/national/us-urged-to-back-indias-apec-entry/article6150405.ece>, Accessed on 30 May 2015.
- ³ India ready to join APEC, US to help at <http://timesofindia.indiatimes.com/business/india-business/India-ready-to-join-Apec-US-to-help/articleshow/46024577.cms/>, Accessed on 23 May 2015.
- ⁴ APEC doors open for India, President Xi, Sushma Swaraj discuss progress in ties, at <http://indianexpress.com/article/india/india-others/apec-doors-open-for-india-president-xi-sushma-discuss-progress-in-ties/>, Accessed on 13 May 2015.
- ⁵ "2014 Leaders' Declaration", The 22nd APEC Economic Leaders' Declaration, *Beijing Agenda for an Integrated, Innovative and Interconnected Asia-Pacific*, Beijing, China, 11 November 2014.
- ⁶ Robert O. Keohane, "Multilateralism: An Agenda for Research", *International Journal*, vol. 45, no. 4, Multilateralism: Old & New, autumn, 1990, pp. 731–764.
- ⁷ Michael Wesley, ed. 2003, *The Regional Organizations of the Asia-Pacific: Exploring Institutional Change*, Palgrave Macmillan, New York, p. 98.
- ⁸ M. Olson, 1965, *The Logic of Collective Action: Public Goods and the Theory of Groups*, Cambridge MA: Harvard University Press.
- ⁹ Milton Z. Kafoglis and Richard J. Cebula, "The Buchanan-Tullock Model: Some Extensions", *Public Choice*, vol. 36, Issue 1, 1981, pp 179–186. Also see Wesley, 2003, pp. 98–99.

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- ¹⁰ Wesley, 2003, pp. 98–99.
- ¹¹ Isabelle Saint Mezard, 2006, *Eastward Bound: India's New Positioning in Asia*, Manohar Publishers and Centre de Sciences Humains, New Delhi, pp. 232–234.
- ¹² Pankaj Jha, “India and APEC – A Complicated Narrative”, Issue Brief, 24 July 2014, <http://www.icwa.in/pdfs/IB/2014/IBIndiaandAPEC.pdf> (Accessed on 13 November 2014).
- ¹³ Mezard, 2006, pp. 232–234.
- ¹⁴ Ibid.
- ¹⁵ Ibid.
- ¹⁶ Pankaj Jha, “APEC: An Indian View”, *South Asia Masala*, 10 November 2009, <http://asiapacific.anu.edu.au/blogs/southasiamasala/2009/11/10/apec-an-indian-view> (Accessed on 13 November 2014).
- ¹⁷ APEC 2015: Building Inclusive Economies, Building A Better World, <http://apec2015.ph/apec-2015/> Accessed on 3 June 2015.
- ¹⁸ Eduardo Pedrosa, Survey of Asia-Pacific Opinion-Leaders, 2013, <http://www.pecc.org/research/state-of-the-region/245-state-of-the-region/2013-2014/522-chapter-2-survey-of-asia-pacific-opinion-leaders/> Accessed on 13 November 2014.
- ¹⁹ Ibid.
- ²⁰ Pravakar Sahoo, “India and APEC: Time to Move from Observer to Member, 17 September 2012, <http://www.eastasiaforum.org/2012/09/17/india-and-apec-time-to-move-from-observer-tomember/>, Accessed on 18 July 2014.
- ²¹ Jha, 2009.
- ²² APEC 2015: Building Inclusive Economies, Building A Better World, <http://apec2015.ph/apec-2015/> Accessed on 3 June 2015.

