India and APEC

An Appraisal



RIS
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Executive Summary

1. The Asia-Pacific Economic Cooperation (APEC) forum is a premier regional institution promoting trade, investment and other linkages among economies of the Asia-Pacific region. India is not a member of APEC but has close political, economic and strategic ties with many of its economies. This Study examines the desirability of India joining APEC. It also probes the question whether India will be accepted if it shows interest.

2. APEC celebrated its 25th anniversary last year. At the meeting held in Beijing from 10 to 11 November 2014 the Leaders declared that in the quarter century, APEC not only made significant contributions to the region's economic development, social progress and improvement of people's livelihoods, but also epitomised the great changes and rising strategy position of the Asia-Pacific. The Summit meeting held under China's Chairmanship also took several initiatives towards further advancing the Asia-Pacific partnership. Key among them was its endorsement of a roadmap for achieving a Free Trade Area of the Asia-Pacific (FTAPP). The Summit also launched a blueprint for the next ten year period 2015-25 on enhancing physical, institutional and people to people connectivity to reach a seamlessly and comprehensively connected and integrated Asia-Pacific. A third major outcome was the adoption of a blueprint on global value chain development.

3. The Philippines, Chair of APEC for 2015, has already announced the priorities for APEC during the year. President Aquino has proposed establishing a more inclusive economic environment across Asia-Pacific as the main focus. APEC's work is to be taken forward under four main themes, viz. Enhancing Regional Economic Integration, Fostering SMEs participating in the Regional and Global Economy, Strengthening human capital

development, and Building sustainable and inclusive communities including enhancing disaster preparedness.

4. APEC has come a long way since its first ministerial meeting held in Canberra in November 1989, but continues to be an informal forum deciding on the basis of consensus and its action plans and targets are aspirational in nature. Working through voluntary cooperation it plans and implements its programmes through networking, capacity building, sharing of and developing best practices and conducting peer reviews to encourage conformity and compliance. It has been an incubator of ideas working also closely with the private sector with the APEC Business Advisory Council (ABAC) forming an integral part of its consultative mechanism. APEC's major annual event, that has largely been behind its prominence and effectiveness, has been the Leaders Meeting that has been held every year since the Seattle summit in 1993 with consistent highest level attendance.

5. APEC's membership, which was 12 economies to begin with, steadily expanded to 21[1], but after 1998 there has been no further expansion. But the relative economic weight of APEC economies has grown, accounting now for over 43 per cent of world population, 57 per cent of world GDP and 47 per cent of world trade.

6. APEC began with its focus largely on liberalising trade and investment that continues till date. The Bogor goals (announced in 1994) of freeing trade and investment by 2010 by developed APEC member economies and by 2020 on the part of developing APEC members were to be achieved through a voluntary process on an 'open liberalism' model and the roadmap for achieving these goals were laid out in 1995 in the Osaka Action Agenda (OAA) in fifteen areas[2] covering trade and investment liberalisation and facilitation. These efforts were to be supported by economic and technical cooperation among member economies.

7. APEC has progressively moved from looking at not only measures at the border but also those inside the border (domestic measures affecting trade and investment) and across the border.

8. APEC has also come to address a range of issues in reaction to evolving international developments. Structural reforms, secure trade, climate change, dealing with Pandemics and disaster preparedness are some of them. All these have resulted in creation of sectoral and functional networks, greater information exchange, identification of best practices/policy principles, mutual recognition arrangements, centres of excellence or other facilities, all of which seek to promote policy development in the respective areas and foster closer regional economic integration.

9. APEC is credited with many successes. The APEC Business Travel Card that enables accredited business persons (the active card holders now number exceed 166,000) to enter all APEC economies virtually visa free has become very popular. The implementation of APEC Trade Facilitation Action Plan (TFAP-I) from 2002-2006 resulted in reducing transaction costs by at least 5 per cent that was followed by TFAP-II from 2007-2010 with another similar 5 per cent reduction. APEC is building on this further by

targeting a 10 per cent improvement in supply chain performance by 2015. Likewise is the action programme launched for bringing about a 25 per cent improvement in the Ease of Doing Business by 2015. APEC has progressively transformed itself into a process by which a steady stream of realistic but ambitious targets are sought to be achieved.

10. Apart from the inherently unattainable Bogor goals on an open liberalism basis, APEC's critics have drawn attention to APEC's virtual inaction during the Asian Financial crisis and its general failure to tackle financial issues. Yet, another weakness cited is APEC's voluntary and non binding nature. Some have however regarded this as APEC's strength. Another criticism voiced has been that the development gaps among APEC members had widened over the years. The 2014 Leaders declaration has claimed that APEC has been 'working to narrow the development gap'. It is to be seen if during Philippines Chairmanship, APEC will be providing new thrust in this direction.

11. Questions do arise also about the continued relevance and importance of APEC. Forums like East Asia Summit and the G-20 Summit bring together Leaders many of whom also attend the APEC Summit. Will APEC continue to attract highest level attendance particularly after conclusion of a binding Trans-Pacific Partnership (TPP) that also carries many 'behind the border' commitments? Already twelve of APEC members participate in TPP negotiations. There is also the distinct possibility that more could join including China.

12. These are questions that may be difficult to answer at this stage in a definitive manner. APEC however still enjoys being a unique informal discussion forum, as a process for promoting greater regional integration and as a laboratory of ideas that also allows ideas to be taken forward in whichever way possible. Beyond the objective of economic cooperation, an unspoken security element underpinned APEC, which united both sides of the Pacific in an unique and effective manner. Also unlike EAS, which is one afternoon with Leaders reading from prepared texts, APEC was a very different forum that allowed Leaders to informally discuss amongst themselves. What is also relevant to note is that all slots for hosting the annual APEC Leaders meeting, and therefore the chair for those years, have already been taken till 2022.[3]

13. Turning to whether India should join APEC, this Study has examined three interrelated aspects: (a) How does India fare on reform and liberalisation in the areas identified by the Osaka Action Agenda (OAA) and will APEC help it move further?; (b) Will joining APEC benefit India?; and (c) What could be any possible downside and how do they all add up?

14. On several of the reform areas identified in OAA, India's progress is comparable to that of APEC developing economies but in certain others more time may be necessary. But, the move towards reform and greater openness is clear.

    a) **Customs procedures:** India has launched several initiatives for simplification of customs procedures and their transparency more or less on the lines of several APEC developing economies. India is however still several ranks behind in terms of Logistics

Performance Index or in respect of cost per container to export or import. India could benefit from best practices and reforms developed by APEC including on implementing Single Window scheme, harmonious blending of customs clearance with the logistics and supply chain network, establishment of common standards and mutual recognition of procedures apart from capacity building programmes.

b) **Tariffs:** India's average applied tariffs of 10.2 per cent for non-agricultural products and 33.5 per cent for agricultural products are considerably higher than those for APEC economies. While India has made significant progress on tariff reduction since 2000, making further progress towards tariff reduction will not be easy. Already, its merchandise trade deficit is 38 per cent of its exports, much larger than any other developing APEC economy. Infrastructure constraints further require a certain minimum level of protection to offer a level playing field to domestic industry. Ease of pressure on these fronts will be necessary before further tariff reductions can be effected. An earlier policy of moving towards ASEAN tariff levels could perhaps be revived when economic conditions will allow.

c) **Non-Tariff Measures and Standards and Conformance:** Adherence to WTO rules, harmonisation, standardisation and mutual recognition are the key elements of the APEC agenda in these areas. India also has several institutions established for formulating and administering standards and other non-tariff measures in accordance with WTO disciplines. But, India needs to strengthen its standards setting and implementation capacities. Participation by Bureau of Indian Standards and sectoral industry groups in APEC's activities including in industry dialogues can make a significant contribution here.

d) **Services:** In respect of existing GATT commitments, or the revised offers under the Doha Round, India's position appears further ahead in many sectors than some of the APEC developing economies. The Services Trade Restrictive Index, indicates, however, that, in sectors like Accounting, Architecture, Legal, Air Transport and Insurance, India is more restrictive than others. India however fares better in relation to engineering, motion pictures, sound recording, telecom, maritime transport, road freight transport, computer and construction services. India's current services sector liberalisation initiatives particularly in the insurance, air and rail transport and construction services should also further improve its position. India would gain through participation in discussions on guidelines and competency standards in various sectors. APEC forums can also facilitate conclusion of MRAs between sectoral regulatory services in India and in the APEC economies.

e) **Government Procurement:** India's procurement regime appears quite comparable and forward looking, including in terms of transparency. It may be further improved if the public procurement bill that was pending before the last Parliament is reviewed and adopted .

f) **Investment:** India has a fairly open investment regime barring limited equity caps in certain sectors like retail, insurance, real estate development, media etc. APEC economies generally are more open although they too have some restrictions to cover domestic sensitivities. However, India's rank of 142 on 'Ease of Doing Business' is much higher than the corresponding scores of APEC economies. The new Indian government is actively engaged in speedily ratcheting up its rank and make India a manufacturing hub with its 'Make in India' and 'Digital India' campaigns. India can significantly benefit from APEC's activities on investment facilitation including its ongoing initiative to make it 25 per cent easier to do business particularly in the four areas of starting a business, getting credit, trading across borders and enforcing contracts, which are of priority to India as well.

g) **Intellectual Property Rights (IPRs):** India's IPR regime is WTO compliant and it also has elaborate mechanisms for IPR administration that is being steadily strengthened. Regimes of APEC developing economies have similar legal provisions, but some have provided more protection than the minimum standard in the WTO TRIPS Agreement. A new IP policy is under formulation in India with the objective of boosting creativity and innovation that can be expected to further streamline India's IPR regime. It is unlikely, though, considering intense domestic political sensitivities, that there will be any dilution away from protecting public health concerns or meeting consumer welfare needs. India can however benefit a great deal from APEC's work on IPRs, particularly in respect of capacity building.

h) There are a few other areas under the OAA including Competition, Regulatory Reform, Transparency, Electronic Commerce, RTAs and Dispute Mediation. On most of them, India has well established mechanisms such as on Competition or Regulation. Transparency is also a horizontal theme that is steadily gaining currency in governance. This study does not anticipate any problem for India being able to report on progress on these issues.

15. There are several benefits that can flow from India becoming part of the APEC process and integrating more with the dynamic Asia-Pacific region. Driving the 'Make in India' campaign and sustaining it to success to make India an attractive business destination warrants support from every quarter. India needs to get more involved in regional production and supply chain networks. Even as India's trade and economic links with the Asia-Pacific region presently are substantial with APEC economies accounting for 35

per cent of India's merchandise trade, 27 per cent of FDI inflows and 40 per cent of FDI outflows, these are still not commensurate with APEC's overall trade or investment profile and India's proximity to this region.

16. From a trade policy angle as well it will be strategically good for India to be part of APEC. India is a participant in RCEP negotiations but is not involved in TPP. Should APEC members move to establish FTAAP it cannot be ruled out that this initiative too could see India not being part of that process. India becoming part of APEC that has been the incubator of several regional initiatives will enhance India's options and will also strengthen India's capacity for exercising those options as and when decisions may be taken.

17. APEC has been a premier forum for regional cooperation in the Asia-Pacific and India's non-inclusion has remained a void. India is a key maritime nation that in some ways forms the western gateway to this region. It has from time to time contributed to efforts aimed at maintaining regional maritime security and provided assistance when disasters have struck. India's 'Act East' policy is also increasingly attending to infrastructure and connectivity needs in the neighbourhood. While, India's participation in the region's political and security architecture has come more easily this has not been the case on the economic front. The Indian Prime Minister joining other economic Leaders of the region will be a plus for both India and APEC in terms of the value India can bring to the table.

18. Joining APEC will however invite peer review and perhaps peer pressure as well even as APEC is non-binding. APEC speaks the language of liberalisation, reform and business facilitation that permeate its various activities. India's reform programme could come under greater scrutiny, which, on the one hand, could be viewed as an unwelcome oversight and a downside. Or it could be seen as an occasional useful nudge by fellow members of the Asia-Pacific region, something that the Government can handle in its stride just as periodic reviews by WTO or IMF.

19. From the comparative study of OAA areas, as briefly explained in Para 13, it becomes evident that in certain of them like Services, Government Procurement and Competition, India's progress is quite comparable to those of APEC developing economies. In relation to areas such as Trade Facilitation and Customs Procedures, Standards and Conformance and Ease of Doing Business there is clearly a need to step up. But, these are also areas where there is already a very keen interest to significantly scale up India's performance in a short period and improve ranking. APEC could provide synergies to India's efforts on these fronts. On the other hand, for bringing down tariffs more time will be needed as already indicated. Again, for IPRs, while the enunciation of a new policy could further streamline India's efforts to protect, administer and enforce its IPRs regime, no major change can possibly expected that are seen to dilute public health interests or consumer welfare. Clearly, India joining APEC will have to be explored within these contours.

20. It must be mentioned that not all developing APEC economies are part of every APEC activity. Nor does APEC

act as a caucus in WTO with unified positions. India should be able to find a suitable groove for itself even as it can exude a keen interest and be supportive of keeping up the momentum of Asia-Pacific regional integration.

21. Will India be admitted into APEC? The membership strength of APEC has remained at 21 since 1997 when a moratorium on further expansion was put in place for a ten year period. While the APEC Leaders meeting discussed the question of possible expansion in 2007 and 2010 they have kept the matter in abeyance wanting to ensure that any expansion will contribute to enhancing the momentum towards regional integration and open economies. It is possible that a perceived need for accommodating long pending demands of various sub-regions of Asia-Pacific, considerations of balance, but lack of readiness of some of them may also have been factors. In any event, if India has to become a member of APEC, there will be an expectation to see that its economic reform and liberalisation process will contribute towards the APEC process of regional integration.

Way Forward

22. There are many potential gains that can accrue from India's membership of APEC even as managing some of the ensuing expectations and pressures will need deft handling. If it is decided to move ahead with gaining membership of APEC, a well crafted effort will be necessary that also articulates well the limitations posed by domestic compulsions and the flexibilities needed. A persuasive case can however still be made regarding India's keen interest to work towards promoting Asia-Pacific integration. The overall progress made by India and the various business facilitation and reform measures being introduced by the new government to significantly improve ease of doing business in India form a good basis for this purpose. Secondly, it would be necessary to get some influential APEC members to push India's case. It is noteworthy that during the recent visit of President Obama to India, the US-India Joint Strategic Vision for the Asia-Pacific and Indian Ocean Region that was announced inter alia mentioned that the United States welcomed India's interest in joining APEC. Even as India seeks to co-opt US further in this effort, Australia and Japan, both of which are regarded as 'parents of APEC' and with both of which India is also developing good bilateral relations may also be good candidates for promoting India's effort. Engaging with China, another influential member of APEC, and members from ASEAN countries will also be important. Thirdly, since the chair country has substantial leverage in setting the agenda in APEC, some additional engagement will also be required with the Philippines, Peru and Vietnam, which are the chair countries for 2015, 2016 and 2017, respectively. India could target to receive a favourable decision soon, but perhaps latest by 2017, when Vietnam will be the chair. Meanwhile, India should, to convey its keen interest, begin participation as a 'Guest Country' in some of the Working Groups on trade facilitation and strengthening of supply chains. If the Indian economy also gets on to a higher growth trajectory soon, APEC will perhaps find it compelling enough.