

# ISSUE BRIEF

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## U.S. Should Back India's Membership in APEC

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It has been a bad half-decade for American foreign economic policy. The World Trade Organization's (WTO) Doha round was mortally wounded in 2008. The last three bilateral trade agreements were stalled and then renegotiated. The next one is not even on the radar screen. While the 11-nation Trans-Pacific Partnership (TPP) and a possible agreement with the 27-nation European Union are potentially transformative, the trend suggests they could also fizzle.

In such an environment, the U.S. should worry a little less about short-term trade policy problems—there are plenty of those already—and more about long-term gains. With sustained free-market reforms,<sup>1</sup> India offers a source of huge long-term economic gain. One step in a corresponding long-term approach to maximize this gain would be to invite India into the Asia-Pacific

Economic Cooperation (APEC) forum.

### **(Small) Economic Boosts.**

India's accession to APEC would have little short-term impact. APEC has never required binding commitments from its members. It serves primarily to summon the broadest rhetorical support for open trade and as a repository for its members' voluntary offers of liberalization. It may eventually serve as the accredited pool from which members of an ambitious Free Trade Area of the Asia Pacific (FTAAP) are drawn. APEC has endorsed the ideal of the FTAAP. It will not, however, serve as a venue for those negotiations.

One of the most important practical things APEC does is to organize information sharing regarding regulatory standards, rules, procedures, capacity needs, and multilateral initiatives conducted by member states outside its rubric. This sharing enables work toward commerce-facilitating conformity. APEC's size and diversity mean that members are headed in multiple directions at the same time. Their individual initiatives are often trade-diverting rather than trade-creating, and APEC is a means to limit the effect.

For India to join, it must commit to APEC's mission to "champion

free and open trade and investment." It must also be able to participate effectively. This means providing the required information concerning its own regulatory environment and working to harmonize it with the existing and future regulations introduced by other members. It may take several years for India to create the capacity to provide and absorb the information, but it would certainly not be the first member to suffer from institutional overload. The benefit to all APEC members of exercising patience with this process will be a much larger active economy with better-matched regulatory standards.

**Institutional Gambits.** The stakes are higher in the long term. From the American standpoint, India has proven to be a poor diplomatic partner on trade, both in the WTO and bilaterally. It is certainly possible that it will also prove a poor partner in APEC. While APEC's contributions to world trade are already quite modest, Indian participation could further complicate them. It is even possible that future Indian governments will treat APEC in a fashion that harms American interests.

It is more likely, however, that, rather than India changing APEC, APEC will change India. Without

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the pressure for formal, negotiated market liberalization at APEC, India is likely to be more cooperative there than within the WTO or bilaterally. Over time, APEC's information-sharing function will improve the quality of Indian participation in all economic dialogues and provide a baseline for free-market reforms.

The upside potential is considerably larger than the downside risk. Without India, APEC will continue to putter along, making its measured contribution to regional trade and investment. In the long term, however, improving India's participation in the international economy offers huge potential gains.<sup>2</sup> The WTO has failed to "socialize" the Indian bureaucracy in this fashion, but giving up is not an attractive alternative. India is too important to be simply accepted as a difficult international economic actor.

APEC is a fairly promising forum, both because of the lack of real liberalization pressure and because of its

rhetorical commitment to free trade and investment. It is also a comparatively manageable collection of trade-oriented countries. It is easier to imagine a more responsive India emerging in APEC and then in the WTO than the reverse.

**Strategic Benefits.** There is an obvious precedent from which to evaluate the effects of bringing India into the Asia-Pacific economic club: the 2008 bilateral agreement on civil nuclear cooperation that brought India into the global nuclear club. While it is entirely pertinent that the nuclear agreement has yet to be fully honored by the Indian side, securing international recognition of India's nuclear status has contributed to the American strategic objective of a stronger, more globally involved India. The APEC case is somewhat easier in that the U.S. should not expect much in the way of specific short-term commercial benefits.

U.S. sponsorship of APEC membership for India could also further

improve bilateral security relations. There remains on the Indian side an element of distrust of American intentions, distrust that can be eased with another American initiative on India's behalf.

**Low Risk, High Reward.** On balance, the geopolitical value to the U.S. is significant, and the potential economic reward from a more open and engaged India is worth the minimal risk to APEC. The risk itself can be mitigated through continued concerted bilateral focus on Indian liberalization. As with many other members, a period of time will be needed as India adjusts to APEC standards and requirements for information-sharing.

The U.S. should advocate full membership for India by, at the latest, 2017.

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1. Laveesh Bhandari, Jeremy Carl, Bibek Debroy, Michelle Kaffenberger, Pravakar Sahoo, and Derek Scissors, "Unleashing the Market in the India-U.S. Economic Relationship, Part I," Heritage Foundation *Special Report* No. 124, January 7, 2013, <http://www.heritage.org/research/reports/2013/01/unleashing-the-market-in-the-india-us-economic-relationship-part-1> (accessed February 13, 2013).

2. See Derek Scissors, "What Indian Economic Reform Could Mean for the U.S.," Heritage Foundation *Background* No. 2598, August 18, 2011, <http://www.heritage.org/research/reports/2011/08/what-indian-economic-reform-could-mean-for-the-us>.