

COUNCIL *on* FOREIGN RELATIONS

POLICY INNOVATION MEMORANDUM NO. #46

Date: June 25, 2014
From: Alyssa Ayres
Re: Bringing India Inside the Asian Trade Tent

The new Indian government, led by the Bharatiya Janata Party, has outlined trade as a national priority. But economic ties between the United States and India have soured recently, with both sides entrenched in acrimonious market-access complaints. Coming at a time when the United States and India have differences over post-2014 Afghanistan, Pakistan, and other regional security issues, the absence of a once-strong economic ballast matters. To reestablish a constructive economic dialogue with India at just the time a new government takes charge in New Delhi, the United States should champion India's long-pending request for membership in the Asia-Pacific Economic Cooperation (APEC) forum as a step toward eventual inclusion in the Trans-Pacific Partnership (TPP). Membership alone would not eliminate bilateral frictions, but would provide a good opening to resolve concerns and revitalize ties.

GROWING COMMERCIAL TIES, GROWING FRICTIONS

India has the world's tenth-largest economy in nominal terms and the third largest based on purchasing-power parity, a measure of gross domestic product (GDP) incorporating relative costs and inflation. Not long ago, U.S. economic ties with India—which began to open its markets following a foreign reserves crisis in 1991—were minimal. That has changed; U.S.-India trade in goods and services grew from \$15 billion to nearly \$100 billion over the past fifteen years, and two-way investment has increased rapidly. Growing business ties during the 2000s propelled Washington and New Delhi closer.

Yet U.S.-India trade remains well below its potential—a little more than one-tenth of U.S.-China trade in goods, the scale of Taiwan or the Netherlands. Worse, in the last three years, disputes over issues such as Indian barriers to U.S. poultry and dairy imports, local content requirements (especially in solar energy), intellectual property protections, and investment limits have become major sources of friction. The United States has initiated three disputes with India in the World Trade Organization (WTO). India has its own countercomplaints about temporary worker visas and nonrefundable social security contributions. In 2013 the atmosphere deteriorated sharply when exasperated U.S. businesses, industry associations, and members of Congress began urging more aggressive action. In 2014, the U.S. International Trade Commission held hearings on India at Congress's request, and the U.S. Trade Representative's office reviewed India for Special 301 Priority Foreign Country designation, with a further out-of-cycle review in the fall. This all-sticks, no-carrots

approach has achieved little with India, which sees these processes as illegitimate and outside the WTO. Getting back on track with India will require something positive to collaborate on, so a clear signal of U.S. support for India's bid would be beneficial. Finally, collaboration can be helpful in and of itself: while the U.S.-India civil nuclear initiative has yet to yield the commercial benefits many supporters expected, the deal improved the two countries' ability to work on nonproliferation, which had previously been the most intractable aspect of the bilateral relationship.

THE CASE FOR APEC MEMBERSHIP

Support for India's APEC membership request might seem intuitive. India desires entry and has been waiting for nearly twenty years since its first request. Yet India has been on the outside even prior to the forum's moratorium on new members declared in 1997, which expired in 2010. Action on new requests writ large remains stalled amid indecision among APEC members about enlargement, especially over selection of a broader multiregional slate of new members. For U.S. interests, further delay on considering India is both a strategic and tactical mistake. India is expanding its economic ties across Asia and Latin America, embarking on numerous trade agreements with Asian countries and the Association of Southeast Asian Nations (ASEAN), and joining the ASEAN-led Regional Comprehensive Economic Partnership (RCEP) effort, in which the United States does not participate. APEC membership would embed India in the premier organization promoting free trade and economic cooperation in Asia, an organization that sets norms also shared by the United States. Indian membership would provide an incentive to continue economic liberalization.

An India within APEC—responsible for upholding its commitments—would likely ameliorate some of the market-access concerns troubling U.S.-India economic ties. APEC's technical groups, which align with several of the areas of U.S.-India friction, hold expert-level consultations within the multilateral framework. With its "green goods" goal, APEC's energy working group promotes eliminating barriers in clean energy trade and services, such as the removal of local content requirements, a live issue between the United States and India. All APEC member economies craft annual action plans toward APEC's Osaka Action Agenda goals of "free and open trade and investment," covering tariffs, nontariff barriers, services, investment, standards, intellectual property rights, and other issues. Member economies peer review action plans. India would reject such a transparency exercise bilaterally, but it prizes the role of multilateral institutions and seeks to uphold the norms of those in which it is part. Its relationships with such institutions do not provoke concerns about strategic autonomy in the way that bilateral relationships sometimes do. For this reason alone, APEC would provide a substantial assist to managing bilateral frictions, complementing the adversarial approaches inherent to the WTO.

Most importantly, India has demonstrated responsiveness to its multilateral commitments. India remains a tough WTO negotiator, but joining the organization substantially changed the country. It lowered tariffs and implemented intellectual property-rights 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 updated its domestic export controls to harmonize with global norms as it works to join the global nonproliferation regimes. In these cases, global organizations provided incentives to make tough political choices at home that bilateral negotiations did not. The effects have not been instant, but were realized in the WTO case within a decade, and in the nonproliferation case within five years. India seeks APEC membership fully aware of its requirements, so entry would significantly affect the way India approaches its own commitments to free and open trade. It would also build confidence for considering future Indian membership in the TPP. Indeed, the Confederation of Indian Industry has begun preparing a roadmap for what India could do to be eligible for the TPP's demanding terms. APEC would be a helpful stepping-stone.

There is no financial cost to the United States for supporting India's APEC membership request. But there will be diplomatic costs: the membership moratorium closed the door after Russia, Vietnam, and Peru joined in 1998, so consideration of any new member spurs talk about the need for "balance" from all APEC regions, such as Latin America

and Southeast Asia. Although there appears to be no specific objection to India—all but four APEC member economies already have, or are pursuing, trade agreements with India bilaterally or multilaterally, including China—the balance quest bogs down any conversation about India. Balance is a laudable goal, but should not delay consideration of India's case; the economies of Panama or Cambodia, for example, should not be debated as if they were comparable to India's. (For example, using World Bank 2012 GDP figures, India's GDP is \$1.8 trillion; Panama's is \$36 billion; and Cambodia's is \$14 billion—50 and 128 times smaller than India, respectively.) U.S. leadership will be needed to nudge the twenty other members to focus on the special opportunity India presents. It is, however, doable—especially compared to the far more challenging diplomacy needed in 2008 to secure an exemption for India from the forty-two-member Nuclear Suppliers Group. If the United States decides to advocate strongly for India, it could achieve success within a year or two.

Some critics worry that India may not be ready for APEC membership, or that Indian membership may hinder consensus decisions within APEC. These concerns stem from well-documented tough negotiating postures India has taken in the Doha Round and the Bali trade facilitation talks. APEC is not a binding negotiating forum, however, but an organization focused on transparency and peer consultation to meet open trade goals. The merits of APEC lie in providing a set of shared norms to help orient India toward greater openness in step with the region. Including Asia's second-fastest-growing economy, a colossus in its own right, in this consultative forum far outweighs any potential losses to efficiency once India joins the table. Without India, the forum cannot represent the Asia-Pacific economy.

GETTING BACK ON A POSITIVE TRACK: NEXT STEPS

Successfully championing India's bid for APEC membership will require deft diplomacy. As the U.S. government's lead agency for APEC, the Department of State should coordinate support for India's membership bid and commit to working closely with India. To be most effective and sensitive to India's needs, Washington and New Delhi should be fully aligned on strategy, process, and talking points at all times. The secretary of state should call his counterpart with the proposal, as a sign of the importance the U.S. government places on one of India's long-standing goals. In coordination with India, the United States should execute the following steps:

- *Convey U.S. support for India's bid for APEC membership to the host country.* With China as the 2014 APEC forum host, the secretary of state should express to China the U.S. intention to back India's membership bid, in preparation for the many upcoming coordination meetings among senior officials before the November summit.
- *Instruct U.S. ambassadors in all APEC member economies and aspirants to convey the U.S. decision to support India's bid.* The East Asia, Europe, and Western Hemisphere bureaus in the State Department should mobilize support from all current APEC member economies, informing aspirants subsequently. Identifying champions of Indian membership will help advance the bid. Assistant secretaries can follow up with phone calls; undecided members should receive sub-cabinet-level calls. Arguments supporting India's APEC bid should be provided to every U.S. official at the deputy assistant secretary-level and higher for every appropriate meeting.
- *Include specific instructions in *démarche* and senior officials' talking points to separate deliberation on additional members from discussion of India.* Should member economies fail to reach agreement on a broader slate of new members, as has been the case for years, the United States should propose to postpone deliberation over other candidates to a later date, to prevent India's case from stalling further.
- *Consult the business advisory group and seek input.* The State Department should consult the APEC Business Advisory Council (ABAC) on India, given Indian businesses' participation in ABAC's chief executive summit. First points of contact should be the U.S. members (Caterpillar, Eli Lilly, and Qualcomm) and the ABAC secretariat.

By supporting India's long-standing request as a new trade-oriented government takes charge in New Delhi, Washington can take an important step toward reorienting economic ties with India just as they become more important.

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