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# India in APEC: Views from the Indo-Pacific

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May 2019

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# Foreword

**Peter Varghese AO, Distinguished Fellow, Perth  
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India's absence from APEC is today an anomaly which should be fixed.

When APEC was set up in 1989 the case to include India was marginal. India's economic integration with the Asia Pacific was weak. Its support for trade liberalisation was anaemic. India's trade, as a proportion of GDP, was much lower than the economies of the original APEC.

Today things look very different. India has gone from looking East to acting East. Its economic and strategic interests are pulling it closer to East Asia. Its economic reforms are further opening up its economy and trade and investment are now crucial pillars of its economic strategy.

It is no longer tenable for the world's fastest growing large economy to be excluded from what is arguably the most important grouping for trade and investment liberalisation and facilitation in the region. The logic of Indian membership is given extra force by the growing acceptance that the broader Indo Pacific construct must be an essential framework within which to address the big challenges of the region.





India will not be the next China. But its scale, its demography, rates of urbanisation and its structural shift from the informal to the formal economy, all mean that its economic rise will be a seminal development for the region and beyond. Over the coming decades, India will become the world's most populous nation, will likely have the world's second or third largest economy and exert greater strategic influence. In the longer term it will be Asia's second great power after China, followed by Japan and Indonesia.

It is for these reasons that many nations, including Australia, have moved beyond the Asia Pacific, which did not include India, to the geostrategic construct of the Indo-Pacific. It is a construct which returns India to Asia's strategic matrix. It also anticipates that the big strategic challenge of the next few decades will be to find a new strategic equilibrium in the Indo Pacific which recognises a multipolar region and seeks both to acknowledge China's growing influence while also balancing its ambitions to be the predominant power in the region.

Importantly, the Indo-Pacific is not an institution, nor a piece of the regional architecture. Rather, it is a geostrategic frame of reference that assists in understanding the world's shifting economic and strategic currents. A common understanding of the Indo-Pacific will not however in itself alleviate strategic tensions, or ensure enhanced economic integration. Hence, it is vitally important the regional architecture also evolves with and responds to these shifting currents. This unambiguously includes APEC.

APEC is the region's leading economic forum, and is an integral piece of the regional architecture. Over its thirty-year history, APEC has played a principal role facilitating trade and investment liberalisation across Asia and the Pacific, integrating both developed and developing countries. Evolving into an Annual Leaders' Summit, and supported by a tapestry of sub-forums and business engagement initiatives, APEC members work towards the ambitious goal of a Free Trade Area of the Asia Pacific. However, whilst APEC already makes up over half of global GDP, its current 21-member forum leaves out one of Asia's largest economies.

Some understandably worry that bringing India into APEC will slow its momentum. They point to

India's position in the RCEP negotiations and on agriculture in the Doha round as examples. But while it is true that protectionist instincts run deep in India's political culture and trade positions, it is also the case that the Indian growth story is one of incremental but still significant opening up. More to the point it is ultimately better to have India inside the tent on trade liberalisation and facilitation. Isolating an economy of this size with deepening trade and investment links makes little sense. India may chart a haphazard path on trade liberalisation but over time the direction of its opening up is clear and irreversible.

For all these reasons, I recommended in my report last year to the Australian prime minister on *An India Economic Strategy to 2035* that Australia take a lead in bringing India into APEC. The Australian Government accepted this recommendation but it will take time to deliver. As a consensus-based and dialogue-focused institution, it is vitally important the views of APEC member economies are given full consideration. This includes the perspective of emerging economies, whose developmental success will be determined in part by the opportunities afforded by regional trade and investment liberalisation.

It is to this cause the Perth USAsia Centre has commissioned this Special Report on India's prospective membership of APEC. Drawing expertise from emerging and established authors from across the Indo-Pacific region, this publication provides new and informed analysis on this most important issue of regional integration.



### Peter Varghese AO

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# Introduction

Hugo Seymour, Research Officer, Perth USAsia Centre



The first meeting of APEC, held in Canberra in November 1989, occurred just days prior to the fall of the Berlin Wall. Much has changed since then. With the end of the Cold War came United States predominance in a unipolar world. Driven by US-encouraged trade liberalisation and economic development, the world's strategic and economic centre of gravity gradually shifted towards Northeast Asia and the broader Asia-Pacific region.

This occurred particularly as China and Southeast Asia's 'tiger economies' began a process of rapid industrialisation and urbanisation. During this time, APEC matured into the preeminent piece of regional architecture promoting economic reform and regional integration. Separate to the APEC process, yet of great significance, were India's liberalisation efforts that began in 1991.





Three decades on, new reorganisations of strategic and economic power are occurring. The strategic predominance of the US is narrowing, particularly in Asia, and the unipolar world has been replaced by one that again features geostrategic competition. The rise of China to great power status has been one of the most consequential developments of the last 30 years, generating great prosperity yet also creating challenges.

The inexorable rise of India is a newer development. As the world's fastest growing major economy, India is predicted to boast an economy equivalent in size to the US by 2030, and become the second largest economy in the world by 2050. It is with this recognition of India's growing significance that a number of countries have extended the Asia-Pacific construct to the Indo-Pacific.

While India is increasingly cognisant of the need to enhance its trade and investment ties to cater for its vast product, materials and skills needs, Indian liberalisation will continue to occur in its own time and on its own terms. For every country in the Indo-Pacific, India's burgeoning consumer market and labour force presents considerable economic opportunities, yet market risks remain.

At present, India is not fully integrated with Indo-Pacific economies. India is a negotiating party to RCEP, prospectively the first trade agreement to have a truly Indo-Pacific scope, one which will knit India into the regional trading system. However, India is absent from APEC, the region's premier economic forum.

With India and the region in the midst of a major geopolitical and geoeconomic realignment, global stability and prosperity requires cooperation overcoming competition. This includes in discussing, formulating and abiding by the rules of the road on trade, investment and economic liberalisation. It is in this context that the prospects and implications of Indian accession to APEC should again be considered.

This Perth USAsia Centre Special Report examines regional perspectives on whether India should be a member of APEC. Bringing together a number of authors from India and six APEC economies, it unpacks the varied range of interests, objectives

and agendas informing views on this important issue. Four guiding questions informed our authors' contributions:

1. For the region's prosperity, how vital is it that India further integrates with the economies of Asia and the broader Indo-Pacific?
2. What are the benefits and risks of Indian membership of APEC?
3. As APEC celebrates its 30th year, are the historical reasons for India's non-membership still valid?
4. In an era of disruption and competition, would Indian membership of APEC support or undermine efforts to stabilise the global economic order?

While the contributions seek to offer a national perspective on the topic, the views of the authors are solely their own and do not necessarily reflect the official position of their country or organisation.

As Peter Varghese AO eloquently puts in his foreword, it is his position and the policy of the Australian Government that India should be a member of APEC. Yet, recalling the old adage that "where you stand depends upon where you sit", the Indo-Pacific is a large and diverse region. Reflecting this, the national perspectives in this publication are varied in their focus, reasoning and advocacy. By presenting an assortment of views concerning India in APEC, this report will assist Indo-Pacific governments engage in informed policymaking regarding India's relationship with the region's preeminent economic forum.



**Hugo Seymour**

Research Officer, Perth  
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Editor, *India in APEC: Views  
from the Indo-Pacific*





# Glossary

- AIIB** Asian Infrastructure Investment Bank (AIIB).
- APEC** Asia-Pacific Economic Cooperation (APEC) is a regional economic forum of 21 economies: Australia, Brunei Darussalam, Canada, Chile, Chinese Taipei, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, People's Republic of China, Peru, Republic of Korea, Philippines, Russia, Singapore, Thailand, the United States of America and Vietnam.
- ASEAN** Association of Southeast Asian Nations (ASEAN) is an inter-governmental arrangement of ten countries: Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.
- BRI** Belt and Road Initiative (BRI).
- BRICS** BRICS is an association of five emerging major economies: Brazil, Russia, India, People's Republic of China and South Africa.
- CECA** Comprehensive Economic Cooperation Agreement (CECA).
- CPTTP** Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is a free trade agreement between eleven nations: Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, Peru, New Zealand, Singapore and Vietnam.
- EAS** East Asia Summit (EAS) is an annual leader-level strategic dialogue comprising the ASEAN nations, along with Australia, India, Japan, New Zealand, People's Republic of China, Republic of Korea, Russia and the United States of America.





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**FTAAP** Free Trade Area of the Asia-Pacific (FTAAP).

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**G7** Group of Seven (G7) is an international group of seven countries: Canada, France, Germany, Italy, Japan, the United Kingdom and the United States of America.

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**G20** Group of Twenty (G20) is an international economic forum comprised of 20 members: Argentina, Australia, Brazil, France, Germany, India, India, Indonesia, Italy, Japan, Mexico, People's Republic of China, Republic of Korea, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States of America and the European Union.

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**IORA** Indian Ocean Rim Association (IORA) is an inter-governmental forum comprised of 14 countries: Australia, Bangladesh, the Comoros, India, Indonesia, Iran, Kenya, Madagascar, Malaysia, Mauritius, Mozambique, Oman, Seychelles, Singapore, Somalia, South Africa, Sri Lanka, Tanzania, Thailand, the United Arab Emirates and Yemen.

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**RCEP** Regional Comprehensive Economic Partnership (RCEP) is a free trade agreement under negotiation between the ASEAN nations and Australia, People's Republic of China, India, Japan, Republic of Korea and New Zealand.

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**TPP** Trans-Pacific Partnership (TPP) is a free trade treaty that preceded the CPTPP, signed but not yet in force. The TPP is made up of the CPTPP nations and until 30 January 2017 included the United States of America.

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**WTO** World Trade Organisation (WTO).

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# An Australian perspective

**Shaun Star**, Associate Professor & Assistant Dean (International Collaborations) and Executive Director, Centre for India-Australia Studies, O.P. Jindal Global University

**Dr Pankaj Jha**, Associate Professor, Jindal School of International Affairs, O.P. Jindal Global University





### Australia's support for Indian accession

Much has changed in the Indo-Pacific region since the inception of APEC in 1989. India's liberalisation process started in the early 1990s, and it has since become not only one of the leading economic powers in the Indo-Pacific but also the world. However, India is still not a member of APEC, despite compelling arguments for its inclusion in the forum. Indeed, many significant APEC members, including China, Japan, Russia and the United States, have all supported India's interest in joining.<sup>1</sup> In addition, Australia has extended bipartisan support for India's bid to join the forum.

Some leading Australian officials have gone a step further by stating that Australia should take a leading role in working with other APEC members to ensure India's bid for membership is realised. Indeed, former Secretary of Australia's Department of Foreign Affairs and Trade and former High Commissioner to India, Peter Varghese, recently published a report commissioned by the Australian Government recommending Australia adopt this approach. The report, "An India Economic Strategy to 2035: Navigating from Potential to Delivery", states that:

**"When APEC was established India's economic integration with the APEC region was more limited than it is now. Today, India's exclusion from APEC is an anomaly. Australia has already signalled its support for Indian membership of APEC and the government should work with other APEC members to bring this to fruition. APEC membership offers an opportunity for India to engage on best practice trade facilitation and customs procedures without needing to commit to binding targets. APEC membership would also complement efforts to work with India and other likeminded countries through the G20."**<sup>2</sup>

The 'Varghese Report' expressly recommends that the Australian Government "... should take the lead in working with other countries to bring India into APEC".<sup>3</sup> It notes this would (i) be beneficial for the bilateral relationship; (ii) be consistent with Australia's Indo Pacific Strategy; (iii) bring India into the scope of APEC's trade facilitation work; and (iv) ensure that India would be a party to any FTA that APEC may eventually finalise.

The Australian Government in its response to the Varghese Report has confirmed that "Australia will continue to seek opportunities to advocate for Indian membership of the Asia-Pacific Economic Cooperation."<sup>4</sup> This recommendation has received bipartisan support, with both sides of politics

endorsing that India should be permitted to become a member. The Hon. Jason Clare MP, Australia's Shadow Minister for Trade and Investment, recently echoed this viewpoint during a speech in New Delhi, stating:

**"For Australia, India is a partner in seeking to forge regional institutions in the Indo-Pacific and so needs to be part of the APEC. India needs to represent the Indo-Pacific in APEC, which doesn't make sense without India."**<sup>5</sup>

Former Australian Prime Minister Kevin Rudd noted that India's inclusion in APEC would be beneficial on multiple levels, namely:

**"APEC membership would help the world, I believe, in two concrete ways. It would bolster India's economic development, which is of course the number one priority of the current government. And secondly, India's inclusion in APEC would facilitate greater regional trade and investment, and would lead India to play a greater role in the region at large."**<sup>6</sup>

However, Australia's support for India's inclusion hasn't always been the case. A brief review of India's significant economic reforms and growth explains why the narrative has changed in recent decades.

### India's trade and economic liberalisation

India's economic liberalisation process started in the early 1990s and has gained momentum ever since. Reforms improving the ease of doing business have placed India among the most promising economies of Asia. It has now attained the status of the second largest economy in terms of Purchasing Power Parity, and is predicted to be the second largest economy in the world by 2050. Over the last decade, India has stressed on building economic linkages with Asian economies. This has manifested through the signing of the India-ASEAN Free Trade Agreement in 2009 and CEAs with Singapore and Malaysia. Further, India has reached the final negotiations stages with ASEAN and its six dialogue partners towards the RCEP trade pact, and has been looking to enhance its service sector presence in Asian markets.

India has made significant improvements in infrastructure development, particularly via the integration of manufacturing and production centres, along with the development of greenfield airports and small and medium sized ports. Due stress has also been laid to developing freight corridors and expressways, so that a networked economic system can be developed. National policies, including Security and Growth for All in the Region (SAGAR), and the integration of ports





through Sagarmala (String for Oceans), envisage the large federal country as one economic entity.

Further, the Golden Quadrilateral Highway Network, river-linking plans to promote inland waterways, and sub-regional initiatives such as the India-Thailand-Myanmar Trilateral Highway network and the Bangladesh-Bhutan-India-Nepal transport network are further integrating South Asia's economies. These projects are facilitating the development of mature markets and are strengthening consumption, services and the availability of labour.

As per the Economic Survey of India 2017-2018, the services sector accounts for 54.40% of India's Gross Domestic Product, the industrial sector 29.73% and the agriculture and allied sectors sharing 15.87%.<sup>7</sup> In this context, with a recent average economic growth rate of 7.5 per cent per annum, India's inclusion in APEC will reap dividends.

### India's APEC ambition

India has been aspiring for APEC membership since 1994 and there have been acknowledgements of India's possible role in the organisation once it is admitted as member. In September 1994, alluding to India's interest in APEC, then Indian Prime Minister P.V. Narasimha Rao stated, "I don't want to knock on closed doors". In response to this, then Singaporean Prime Minister Goh Chok said, "... the doors may be closed but are not locked". Two years later, then Singaporean Foreign Minister S Jayakumar conceded, "... it would be hard to imagine an Asia-Pacific century without India's participation".<sup>8</sup> However, even after the moratorium on new membership ended in 2010, India is yet to find the place in the organisation.

Apprehensions cast on India's prospective membership includes concerns that Indian entry into the organisation would tilt APEC's balance favour towards Asia, with Pacific countries not adequately represented. The argument might hold some weight, but for an organisation which has most East Asian countries as members (including China, Japan and Korea), as well as six ASEAN countries, it is justified to include India in the grouping. With India preparing for its final negotiations and possible signing of the RCEP agreement (which is more limited in size than the 21-member APEC), APEC provides India with larger transcontinental expanse and the possible opening up of India's market to a larger group of countries.

India meets the five prerequisites to support an application to APEC, whereby the applicant country:

1. Is located within the Asia-Pacific region;
2. Enjoys considerable economic ties with APEC economies;
3. Has adopted a market oriented economy and free trade policy;
4. Has adopted many economic parameters as enunciated in the APEC statements; and
5. Can work on an individual plan of action to meet membership criteria, and focused plans of actions to satisfy APEC's programmes.

New Delhi has been working to eliminate all trade barriers by 2020 as part of RCEP requirements, which would fulfil APEC's membership criteria.<sup>9</sup> However, the bigger question is whether India is prepared and currently capable of meeting APEC's futuristic rules, including its business facilitation processes and digitised procedures. However, recent Indian policies are showing promising signs. APEC prerequisites are being met in terms of business procedures, structural reforms, regional connectivity and business travel measures. Further, India has embarked on new programs to remove corruption at different levels of its bureaucracies, and is endorsing a digital payment system through the Jan Dhan (People's money) banking network. Under this programme, 80% of adult Indians now have a bank account. Further, India has been at the forefront developing new programs such as Skill India and Digital India, as well as adopting a uniform Goods and Services Tax (GST) to simplify the taxation system under one regime.

### The challenges confronting India in APEC

The challenges India and APEC would have to face would principally be India's capacity to overcome the existing trade barriers between India and members. While India has understandable market access sensitivities with major economies, especially China, it needs to reduce its tariff structures and non-tariff barriers. Further, for India to harmonise with APEC's specific standards and regulations, as well as implement digital and simplified customs procedures, it would need to be given time to do so. India would also need to progress to comply with APEC standards in terms of gender parity in workforce pay, social equity across rural and regional areas, and in green townships.





## Conclusion

Within India, there have been perceptions that Australia has not made significant efforts to include India in APEC, Australia being a founding member and previously declaring Indian accession in Australia's strategic and economic interests.<sup>10</sup> However, now India has made significant progress in economic reforms and trade liberalisation, its candidature for membership ought to be considered. It is put that any issue of membership balance between Asian and Pacific countries is not a viable reason for Indian non-inclusion.

Australia has a lot to benefit from pushing India's inclusion, particularly as the encouraged tariff reductions on certain commodities would benefit Australian industry. In terms of regional integration, there is a lot to gain from having a superregional body that contains the strategic heft and economic influence of China, India, Japan, the US and Australia, and the inclusion of India would have a significant impact on consumption and production. With the US withdrawal from the TPP (and its absence from RCEP discussions), India's inclusion in APEC would create a useful instrument for Indo-Pacific-wide economic discussion and liberalisation negotiation.



# An Indian perspective

Ritika Passi, Associate Fellow and Project Editor, Observer Research Foundation





## Indian membership: Hanging between rhetoric and reality

APEC turns 30 this year amid fragmenting multilateralism and strengthened geopolitics, symptoms of an international system in flux. Competition and divergence in the form of US-China tensions was on full display at the 2018 APEC summit, with its failure to produce a joint statement. Representing more than a third of the world population, 47% of global trade and 60% of world GDP, the Asia-Pacific's primary economic dialogue too faces the spectres of unilateralism and protectionism, threatening its *raison d'être*.

Amid such transition and transformation persists the question of the forum's enlargement, with pointed reference to India. India is the fastest growing large economy, a rising actor in the Asia-Pacific, and an increasingly legitimate stakeholder in regional and global governance. Ever since an official membership moratorium expired in 2010, momentum has gathered for India's accession at various points,<sup>1</sup> but with no substantive result.

APEC last admitted new members in the previous millennium; is it finally ready to give new voice to a 21<sup>st</sup> century institution? More than two decades after first knocking on APEC's doors, is India finally ripe for admission?

India's more confident global outlook and engagement, on the back of its growing economic weight, is in lockstep with APEC's need to advance its regional integration agenda and renew its relevance in a new economic and strategic landscape. However, rhetoric and reality clash on both the economic and geopolitical prongs of accepted reasoning for India's membership. Unless the two gaps identified below are squared away — from both India's and APEC's ends — the idea of adding India to APEC will remain more exciting than its actual prospects.

## The economic opportunity and challenge: Reconciling foreign and trade policies

India's growth trajectory aligns with APEC's agenda of enhancing regional integration through trade and investment liberalisation and facilitation across the Asia-Pacific. India is expected to become the fifth largest global economy this year, and its share of world GDP has more than doubled in the last 30 years. Critically, foreign trade accounts for an increasing share of India's GDP, growing from less than 15% in the early 1990s to around 40% at present — on par with Indonesia, and higher than Japan, the US and APEC-hopeful Colombia.<sup>2</sup>

In short, there is nowhere else for India to grow but outward. Its stance at trade negotiations attests to this realisation, which has shifted from that of an inward-oriented obstructionist to a consensus-builder. Its status as an emerging power has played a role in this realisation, as has the changing structure of its economy. New requirements have come to the fore, such as the further integration of its flourishing services sector into global value chains, greater foreign investment and easier skilled worker flows.<sup>3</sup> Equally reflective of this awareness have been India's domestic economic reforms, such as to its internal tax structure and its efforts to make the country a more hospitable environment for business.<sup>4</sup>

The material benefits on offer to APEC member economies by the addition of India to the forum include increased access to India's labour force and booming consumer markets, as well as increased investment opportunities. In return, India will gain opportunities to raise its trade and investment profile in the region, gain access to APEC's resources and expertise (including, importantly, the APEC Business Advisory Council), and proactively participate in topics of conversation at APEC forums that strongly resonate with India's own developmental interests, such as automation, SMEs, and women's economic participation.

While a bird's eye view acknowledges strategic convergence on the economic value of India's APEC membership, significant divergence exists between India and APEC in terms of inclination, behaviour and appetite on economic and trade issues. The shift in how India sees itself, from "a country of farmers [to] a country of consumers"<sup>5</sup> is incomplete, and likely to remain so for the coming decades. Firstly, India bears the burden of an unfinished developmental agenda, rising inequality and the insistent weight of an agrarian population that accounts for anywhere between one half to two-thirds of its citizenry. Secondly, a dogmatic mindset persists in India's pursuit of foreign trade as a balance sheet of exports versus imports. A poorly developed manufacturing sector, insufficient structural reforms (particularly in land and labour markets) and gaps in investment and innovation have resulted in a lack of global competitiveness, and thus a defensive posture at trade negotiations. An overriding objective to achieve ever-higher exports and fewer imports<sup>6</sup> betrays a flawed understanding of the benefits of trade liberalisation.<sup>7</sup>

There is thus a gap between India's protectionist impulses and its leadership's globe-trotting economic diplomacy (note the 2014 blockade of





the WTO's Trade Facilitation Agreement by the Modi government, which has prioritised economic relations in its foreign policy engagement). India must rethink how it defines 'national interest' when it comes to global trade, especially in the face of its domestic priorities and structural economic changes. Only then will announced policies and necessary reforms firmly take root and lead to more effective signalling, including to APEC, of its intent to engage with the outside world.

It is no surprise that several APEC members are wary of India playing spoiler to the forum's economic agenda. Given the consensus-based nature of the forum, India could slow the pace of reform. However, just as New Delhi needs to narrow the divergence between its foreign and trade policies, APEC member states must also reconcile their own respective gaps between foreign and economic worldviews regarding India. They must not seek to leverage India's rise at the expense of its economic realities: India's growth story will not be linear, and it will remain answerable to a diverse democracy. Demands for any 'demonstration' on India's part of its readiness to join APEC must be tempered against this reality.

Indeed, APEC's framework of voluntary and unilateral liberalisation, within an environment of regional peer learning and pressure as well as technical support, offers a time-tested pathway for India's integration within the region. Previous new entrants into APEC, such as Indonesia, Malaysia, South Korea and Vietnam, have undergone the same process.

Closing the gap between the aims of foreign and trade policy will require earnest political will and sustained diplomatic firepower to back up credible intent from New Delhi to become a functioning member of APEC, and from APEC member countries to expand the forum.

### **The external opportunity and challenge: Reconciling timing and function**

India's weight and ambition align with the need to revitalise APEC in a new political and economic climate. Firstly, India is a lynchpin of global growth and an advocate for strengthened globalisation. Southeast Asia has been a traditional and increasingly pointed target of India's external outreach. Secondly, it has a real stake in pursuing rules-based regional governance, to ensure a conducive environment for inclusive development that is not dependent on any one regional power.<sup>8</sup> To this end, recent years have seen renewed Indian

bilateral and trilateral engagement in the Indian Ocean, while a new Indo-Pacific division in its foreign ministry ties together Indian engagement across IORA, ASEAN and the nascent 'Quad'.

Indian membership of APEC thus helps respond to the opportunities and challenges of increased protectionism and slowing growth in the West on one hand, and China's unchecked regional advance on the other. In India, APEC will find an alternate market for labour, consumers and investments, and an additional counterweight to help check unilateral economic ambitions in the region. It will also help APEC embrace some notion of 'Indo-Pacific' and give it a renewed purpose in a renewed 21<sup>st</sup> century.

But does the ongoing era of fragmented globalisation put paid to the potential benefits of India's inclusion into APEC? The emergence of RCEP and CPTPP will create winners and losers in the region, which make it necessary for India to participate in the emerging trade architecture. At worst, these narrower processes are a consequence of the failure of APEC to sufficiently advance trade liberalisation in the region; at best, APEC becomes a 'halfway house' between RCEP and a qualitative, CPTPP-like arrangement. In either case, this fragmentation shifts the goalposts for India in this region and raises questions about APEC's role and function in today's age.

Moreover, India has a seat at the table in other key decision-making forums. For instance, the EAS also discusses trade, albeit under a broader ambit, and also brings together regional leaders. Critically, it connects both Asia and the Pacific and is based on ASEAN centrality, a tenet in India's Act East policy and Indo-Pacific vision that is missing in APEC. At the global stage, the G20 has emerged in the last decade as the "economic steering committee of the world."<sup>9</sup>

In contrast to India, not all APEC member economies subscribe to the concept of the Indo-Pacific. Instead, they insist on "more obvious candidates" in the Pacific proper for future membership. Furthermore, some even wish to "double down" on the existing membership instead of thinking about expanding, given a multilateral system in distress.<sup>10</sup> As declared by a Chilean trade representative (Chile is APEC's 2019 Chair), "If the issue of membership brings about a stalemate, then better to be as we are right now."<sup>11</sup>

A political appetite persists for India's accession to APEC in New Delhi, rejecting notions of APEC's redundancy.<sup>12</sup> However, India should reassess whether the time has come and gone for it to





truly capitalise on its membership in APEC, and accordingly prioritise this goal in its foreign policy. At the same time, APEC must conduct its own bracing reality check on the extent of its function and ambition, including its membership.

This second gap, between the opportune time to seize the APEC opportunity and the function the forum serves, will not be as easy to resolve.



# An Indonesian perspective

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### APEC in the new world disorder

An amber light flashed last year in Port Moresby, Papua New Guinea. For the first time in the history of APEC, Summit leaders were unable to produce a joint statement. Papua New Guinean Prime Minister, Peter O'Neill, gave a clear indication on what caused the unprecedented stalemate, "the two big giants in the room." Reaffirming what experts inside and outside the region might have already assumed, he was referring to China and the United States. These two giants have been in a period of so-called 'Trade War' since last year.

Prime Minister O'Neill elaborated that APEC could not agree on issues relating to WTO reforms, and disappointedly suggested the particular issues could be raised at the WTO itself. Understandably, the following question arose: can APEC stay relevant in the current state of rivalry in regional trade, regional architectures and geopolitics? These kind of rivalries have never existed before within the organisation. Russia was among the latest economies to become an APEC member, alongside Peru and Vietnam in 1998, seven years after the Cold War.

### India on the sidelines

Now that the two giants are in contention within the forum, the aforementioned question regarding APEC's relevancy can only be positively answered by coming up with new measures and reform. Such measures should let go of the considerations of 30 years ago and instead focus on the next 30 years. It is in this context it is worth mentioning the other big giant currently sitting on the APEC bench, waiting to play on the field: India.

It is increasingly difficult to digest why the world's fastest growing major economy and the region's third largest economy is idling on the sidelines. To understand why India is yet to become an APEC member, it is important to ask the right questions. First and foremost are: why should India join APEC? Why should APEC welcome India? What are the benefits and risks? What have been the resisting factors?

### Indian membership: Now is the time

APEC was established in the spirit of growing regional economic interdependence, its main goal to bolster regional prosperity and economic integration. Since APEC is focused on trade and economic issues, members are described as economies rather than countries (hence the membership of Chinese Taipei and Hong Kong). As one of Asia's largest economies, the discussion

on India's admission to APEC has been going for decades.

There are a lot of reasons why India should become an APEC member. Firstly, to manage any challenges facing the planet, China and India must be at the table. One third of humanity is governed from two capitals, Beijing and New Delhi.<sup>25</sup> India's seven biggest states have 740 million people, equivalent to the total population of all the G7 countries. Further, the combined economic rise of both China and India over the last 20 years has lifted a billion people out of poverty. These factors alone should be enough to award India a seat at APEC.

India is currently the fastest growing global economy and the third largest economy in the region. If India joins APEC today, it will be the 4<sup>th</sup> largest economy within the organisation. A few months ago, Standard Chartered released a forecast that India will outsize the US economy by 2030. For a forum of Asia's economic elites, representing 60% of the world economy, having an economy of such potential excluded from the region's premier economic forum is incomprehensible.

The stalemate that occurred at the APEC Summit last year may yet prove to be an opportunity for the forum to re-consider India's admission. India could provide a balancing counterweight to the status quo. Former Australian Prime Minister, Kevin Rudd, advocated that India's admission would provide for a truly Asia-Pacific wide economic landscape in APEC. He further stressed the growing Indian middle class will reach 450 million by 2030, which will offer huge opportunities to help offset the impact of ageing populations in other APEC economies.<sup>26</sup>

### India's accession: No significant opposition

Notwithstanding its promising statistics and tremendous potential, India is yet to become a member of APEC. There are several factors that might be in the way of Indian membership. One of them is a perception that India might disrupt consensus procedures around APEC's processes of greater trade facilitation. While such perceptions may be relevant 30 years ago, they may not be relevant today and will certainly not be in 30 years.

While adding a seat can create a new dynamic in regards to APEC consensus procedures, it does not necessarily mean it would slow down processes. One might refer back to the Doha Round negotiations, where India at the time was a tough negotiator. However, one cannot possibly only hold on to the risks and ignore the benefits. Having India as a member will produce opportunities to





interact outside of trade negotiation settings, and help build confidence between leaders. It is worth noting that India's trade with APEC economies has already grown rapidly, and it has negotiated a trade agreement with all but four APEC members.

Unlike other admission processes, where there are often clear countering arguments, India's admission to APEC has no significant opposition. With a US-China trade deal still a work in progress amid the current posturing of an intense trade war, China is unlikely to not welcome India on board. Certainly from Beijing's point of view, APEC could help provide a new market in India if current trade relations with the US continue to sour.

Domestically, India's ease of doing business is improving and corruption levels are slowly decreasing. According to Mr. Dhawal Doshi, an Indian national who has been conducting business in South East Asia for the last decade, Indian vigilance against corruption is growing and it is becoming increasingly difficult for corrupt activity to go on unabated. Further, Mr Doshi emphasised that most Indians are in support of India joining APEC. As India has grown since the post-colonial era, it has become more outward looking and is increasingly seeing trade and investment as an opportunity to create jobs.

A final factor for consideration regarding India's prolonged non-admission is India's geography, and its lack of a Pacific Ocean border (which all current members have). A flaw in any non-admission argument based on an approach of geographical exclusion is that it neglects the fact APEC is designed to integrate the region, and enhance trade and economic flows.

## India and the Indo-Pacific: A 21<sup>st</sup> century mentality for APEC

As APEC celebrates its thirtieth year, APEC should let go of some of its 30 years old considerations and consider breakthroughs for the next 30 years. US President Woodrow Wilson once said that every man sent out from a university should be a man of his nation as well as a man of their time. Decisions in APEC need to be made by people of our time.

Currently, we are no longer speaking of the Asia-Pacific, we are speaking about the Indo-Pacific. Recently, calls have grown louder for APEC to admit India, and even for APEC to consider changing its name to Indo-Pacific Economic Cooperation (IPEC). Such forward thinking are needed to make breakthroughs and ensure APEC moves forward with the times.

In the current geostrategic environment, there is much Cold War mentality, suspicion and lack of trust. To help counter this, Indian admission to APEC should be seen as an opportunity for an economic giant with tremendous potential to make a contribution toward the region's prosperity. In this time of economic rivalry, Indian admission and contribution around the APEC table may help avoid such stalemates as occurred at last year's APEC Summit.

If the perception of potential Indian disruption to consensus procedures still exists to the extent it is a stumbling block to accession, APEC member economies must understand it is within India's rights to constructively negotiate and compromise, as it is theirs. As India grows larger on the global stage, India is understanding its constructive contributions can provide stability to the regional order.

APEC need breakthroughs, ideas and bold initiatives to capture 21<sup>st</sup> century opportunities and manage contemporary challenges. To let go of the 20<sup>th</sup> century mindset and make progress in the 21<sup>st</sup> century, Indian membership of APEC would be a step forward towards greater cooperation, enhanced strategic trust and regional prosperity.





# A Japanese perspective

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## Reconceptualising India in APEC

As a co-founder of APEC, Japan has been generally supportive of India's participation in the framework, given India's growing political and economic importance and shared values and interests with Japan. Yet, amidst the changing nature of global economic challenges, the role of India and India's participation in APEC should be reconsidered and reconceptualised. This piece discusses whether and how India's membership in APEC would help APEC retain both its relevance, and its effectiveness in managing emerging uncertainties and challenges to the free, open and rules-based international economic order.

## Structural change and challenge to the free, open rules-based order

The challenge to the existing economic order stems from fundamental structural changes that have been undergoing since 2000. The share of developing countries in total global production (GDP) has risen from 20.8% in 2000 to 39.8% in 2018.<sup>27</sup> In 2018, emerging economies outperformed advanced economies in annual GDP growth rate, recording 4.7% on average compared to advanced economies' 2.1%.

China leads this trend as the most successful emerging economy in the world, which is now the second largest global economy with nominal \$US 14.22 trillion GDP.<sup>28</sup> Despite its success, Beijing is still very sensitive to some types of liberalisation that could harm the manoeuvrability of its state-owned-enterprises (SOEs). It is also reluctant to respond to other countries' concerns about forced technology transfers, opacity around SOE subsidiary enterprises and weak intellectual property rights protections. While Beijing follows international rules in many international organisations, it occasionally casts open doubts on the legitimacy of existing international laws, criticising them as Western-made.

Meanwhile, advanced economies have suffered from economic growth stagnation, anti-globalisation movements and domestic backlashes against immigration and economic liberalisation. The United States and the United Kingdom, the two leading architects of the current international order, are ironically acting against the system and institutions they created post-World War II. The United States expresses dissatisfaction about the special and differential treatment granted to developing countries, some emerging economies' lack of market access reciprocity, its susceptibility to economic espionage, and the state-led economic model.<sup>29</sup>

President Trump's trade war against China, which should be condemned as it could be against international rules, reflects the end of American patience for co-binding herself to the rules whilst allowing China to avoid taking responsibility for its cherry-picking approach. Thus, although President Trump is often labelled the disrupter of the existing international order, the fundamental problem is the existing system's shortcomings in its ability to address structural challenges. To make matter worse, the two great powers have begun exchanging "tit-for-tat" actions outside the existing rules.

## APEC's relevancy and the role of India

Recalling the pre-WWII era, in which trade protectionism increased tensions between great powers, regional countries including Japan are severely concerned about the potential inclination towards economic "blocking" or "decoupling" policies. This is where states cut economic ties with potential strategic adversaries in order to preserve military superiority. In this situation, the mission of APEC – to build a dynamic and harmonious Asia-Pacific community by championing free and open trade and investment – has never been more important. The question is how relevant is APEC, and how capable is APEC of accomplishing this open regionalism in the midst of great power competition. APEC has to face three challenges stemming from great power rivalry, and India has a role to play in all of them.

Firstly, APEC has to not only send more signals, but act in support of the WTO. Although APEC among others failed to revitalise global liberalisation processes of the early 2000s, especially the Doha Round, APEC since its formation has indicated a united intention to support the WTO and the global free trade system. As seen at the last APEC summit meeting in Port Moresby however, members failed to reach agreement over the joint statement for the first time in history. This was due to the disparity of positions between the United States and China, including over the issue of WTO reforms.

Notwithstanding political difficulty, APEC should play a role as an epistemic community and constructively contribute to WTO reform debates. Of course, APEC members should be against any unilateral and protectionist measures against WTO rules. However, they should also address some members' concerns over non-tariff barriers that are not covered by existing rules, such as forced technology transfers and unfair trade practices. In this process, various working groups under APEC, especially eco-tech groups, will be useful sources of wisdom. While these working groups could





be a good entry point for India to more actively participate in rule-setting efforts, the presence of India would also enhance the policy relevance of discussions in APEC. Although this does not directly lead to policy implementation, India's integration into regional economic discussions is vital in sustaining a free, open, inclusive and rules-based world economic order.

Secondly, great power competition has made "regional connectivity" a major economic agenda for the Indo-Pacific region. Originally in 2013, Chinese President Xi Jinping declared the concept of both a land and maritime Silk Road, followed by the establishment of the Silk Road Fund in December 2014. China also led the development of the AIIB and eventually launched it in December 2015 with 57 signatories.<sup>30</sup> BRICS members also agreed in July 2014 to build an alternative investment bank, the New Development Bank. China's initiatives and developing states' demands for better infrastructure has now pushed other advanced countries, namely Japan and the United States, to promote their own connectivity projects as alternative infrastructure funding models for the broader Indo-Pacific.

APEC also created the APEC Connectivity Blueprint for 2015-2025. Its purpose is to promote physical, institutional and people-to-people connectivity, via public-private partnerships and regional initiatives, seeking to find its original role over bilateral agreements and the project pursuits of individual states.<sup>31</sup> Challengingly, APEC's current membership delineates from South Asia and even within Southeast Asia (Cambodia, Laos and Myanmar are not APEC members), which inevitably makes its connectively blueprint mismatched and less relevant in catering for the physical and institutional needs of the region. Further, given APEC's articulation that RCEP with the TPP is one of the pathways towards a future FTAAP,<sup>32</sup> it is no longer legitimate to exclude India (or the remaining ASEAN members) from trade and investment liberalisation processes.

Finally, while APEC remains an important and long-standing forum for regular dialogue among regional states' leaders and business sectors, it is no longer the sole platform to facilitate regional economic cooperation. Since the early 2000s, APEC member economies' primary tool for economic liberalisation has become bilateral free trade agreements, and more recently plurilateral trade negotiations such as TPP and RCEP. Further, the G20 has emerged as one of main institutions not only for financial cooperation, but also for signalling the importance of free trade involving all the major economies, including BRICS. While having more opportunities for dialogue is not necessarily a negative, it is

becoming administratively harder for state leaders to attend and engage all regional forums, therefore each forum is required to be more cutting-edge and relevant.

### Support for Indian membership, but challenges ahead

As of 2018, India's GDP accounts for \$US 2.97 trillion.<sup>33</sup> From a Japanese business perspective, India's economic growth potential attracts many Japanese companies. To enhance APEC's relevancy as a forum for providing best practice ideas in a free, open and rules-based economic order, India's membership that has in the past been seen as an obstacle to free trade should be reconceptualised as a new impetus to revitalise APEC. For example, APEC's sub-groups are increasingly working in the e-commerce space, which is growing exponentially.<sup>34</sup> Given that India is expected to be the second largest e-commerce market in the Asia-Pacific by 2024, exceeding Japan, India's participation in rule-making and norm setting processes will be indispensable in making APEC rules the basis of 21<sup>st</sup> century rules.<sup>35</sup>

That said, there are outstanding challenges working India into APEC. First and foremost, India should clarify why she needs APEC, and how India can contribute to APEC's mission. The current Modi administration has proactively implemented significant reforms, such as in currency and goods and services taxes, and has lowered hurdles for foreign enterprises to invest in India. However, India still has to tackle many domestic reforms. One survey finds that Japanese companies are still attracted to China as a desirable destination for their investment, when considering labour costs and the procurement of intermediate goods.<sup>36</sup> Further, it is still unclear how India can align its "Make in India" policy, in which the administration seeks to cultivate the domestic manufacturing sector, with the free and open economic concepts of APEC.

APEC states and India should be careful not to over-securitise the participation of India. India and Japan have enhanced their security cooperation in the face of China's increasingly assertive maritime actions, and with BRI in mind have agreed on various economic initiatives in the Indo-Pacific (such as the Asia-Africa Economic Corridor).<sup>37</sup> However, both states have never labelled their foreign policy as anti-China. India's role in APEC would not be about containing China's influence or suppressing the interests of emerging economies. Due to similarities in attitudes towards global governance, Delhi and Beijing may be aligned in developing preferable rules for developing economies vis-à-vis advanced

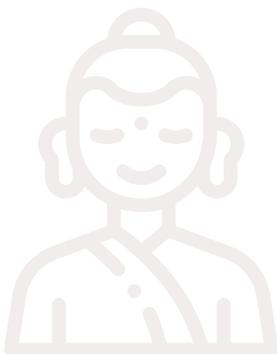




economies such as Australia and Japan. It should be reiterated that India's membership in APEC should be to revitalise the framework and make it a relevant platform for best practice economic policy development across the region.

Although there are risks in negotiating economic reforms and trade liberalisation with India, and the notion of India as a revitaliser of APEC could be a sharp double-edged sword, it must be seen as a necessary risk. APEC needs to keep itself alive and

competitive across the alphabet soup of regional and global economic cooperation initiatives. For decades, Japan has supported India's further efforts to integrate herself into the regional and global economy, including APEC. Now is the time for Japan, India and other regional countries to utilise India to revive APEC as a relevant framework to address the multiple challenges facing the global economy.



# A Malaysian perspective

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### Background of Malaysia-India trade relations

Malaysia joined APEC in 1989, discouraged by the stalled progress made at the Uruguay Round of the WTO, just like the other founding members. APEC serves as a platform to discuss mechanisms for growing the economic interdependence of the Asia Pacific, which is in Malaysia's interest. As a small, open economy, Malaysia is very much dependant on trade to boost economic growth. The Malaysian Competition Commission proudly announces that Malaysia has, "continuously contributed to the initiatives of APEC in creating greater prosperity of the region by promoting regional economic integration".<sup>38</sup>

Trade ties between Malaysia and India started in 2003, through the ASEAN-India FTA. Eight years after the inking of the trade pact, India signed the CECA with Malaysia in 2011, after it signed a similar agreement with Singapore in 2005. Initially the agreements covered areas of economic cooperation and contained a common list barter as an assurance building measure. In 2010, the ASEAN-India Trade Area came into force as an upgrade from the existing trade pact between the two blocs. In 2014, India signed a separate FTA with ASEAN covering services and investments, marking a long and beneficial partnership between the two entities.

India has showed interest in joining APEC long before 2015. Despite India being one of the fastest growing countries in the region, members of APEC are somewhat divided towards letting India join the trade forum, particularly as APEC aspires to create the binding trade pact FTAAP. India's entry into APEC has been blocked due to opposition for various reasons, including its unfavourable treatment towards FDIs and its inability to perform sustainable economic reforms.

### A case for India joining the APEC

Market access beyond national boundaries is a critical determinant in strengthening export performance. In general, the region has experienced a drastic improvement in foreign market access levels since the late 1980s, which has been followed by an increase in trade activities, especially export performances. Analysis undergone by UNCTAD emphasises this link within the East Asian and Pacific countries, the biggest beneficiaries of increasing foreign market access. With a bigger market share within and beyond the region, this has served as an impetus for diversification efforts and participation in more dynamic global value chain linkages.<sup>39</sup>

To date, countries in the region are already signatories to a number of FTAs both bilateral and multilateral. Further to the applicable ASEAN and 'ASEAN plus one' FTA partners, some APEC members also undergoing ratification of the newly signed CPTTP. In a nutshell, bigger is better when it comes to trade blocs in the Asia Pacific region.<sup>40</sup>

For APEC members, greater integration with India would translate to an alternative source for intermediary goods, namely manufacturing goods. With a new source of imports, this may be a sustainable channel in offsetting the high dependency many countries have with China. Additionally, as India has a sizeable labour market, it boasts advantages for sourcing services in sectors such as IT and financial services, among others.

Apart from offering large market access to APEC members, India also offers another channel in alleviating trade tensions between the two major powers China and the US. With its somewhat moderate foreign policy initiatives, increasing cooperation initiatives between Japan, India and Australia could be beneficial in softening tensions between the two major economies. With its strategic location in the Indian Ocean, India can play a role in championing smaller countries in the region that are not keen in pivoting towards the US.<sup>41</sup>

### Challenges of RCEP with India

To date, Malaysia, India and 14 other countries are under pressure to finalise negotiations for RCEP. Based on ASEAN-centrality, RCEP extends ASEAN's FTA reach to include all of its 'plus one' trade partners. It is important to note that RCEP includes India, while the CPTPP does not. When finalised, RCEP will be the second recent major Asia-led trade agreement, after the US' exit from TPP in 2017 facilitated the CPTPP, and may be instrumental in boosting global trade in the wake of rising protectionism in other parts of the world. The newly established market would cover 3.6 billion people and a GDP of USD25 trillion, much larger than the US economy.<sup>42</sup> In the 2015 APEC Leaders' Declaration, APEC members supported the conclusion of RCEP and noted RCEP as a possible pathway to the FTAAP.<sup>43</sup>

Despite progress, major stumbling blocks remain on the pathway towards the realisation of RCEP. Firstly, while most member countries have existing FTAs with one another, some do not. These include India and China, and Japan and Korea. More time will be needed for them to negotiate from scratch, and this will impact on time needed to finalise negotiations.





Secondly, another factor complicating the negotiation process of RCEP are the different levels of economic development across the large number of countries involved. These countries have different priorities and national interests, which further impede finalisation of the trade pact. While most countries prefer a simple manufacturing-oriented trade deal, India specifically is pushing for the liberalisation of the services sector and increased freedom of movement for skilled workers. Additionally, India is not offering encouraging tariff reductions to its counterparts, while voicing disagreements about rules concerning investments and intellectual property rights.

These difficulties negotiating with India in part explain why agreement on market access remains one of the most difficult challenges for RCEP to date. With only four of the 21 chapters finalised, whether the final product will be an in-depth and inclusive economic integration pact, or simply a basic cooperation commitment with little improvements from the ASEAN plus one framework, remains to be seen.

Given the partners' different priorities, tariff elimination on various products is not expected to be standardised at the entry-into-force date, likely shaping the agreement into a collection of bilateral agreements among ASEAN 'plus one' partners. Further, the absence of discipline chapters could limit the relevance of RCEP, and due to certain chapters present in CPTPP but missing from RCEP, RCEP will likely result in a diluted form of economic integration compared to the original TPP agreement.

For example, the RCEP agreement does not include a chapter on state-owned-enterprises (SOEs), which would create provisions on acceptable behaviour in the domestic marketplace, level the playing field and prevent the crowding out of both local and international firms. Presently on the ground, the dominance of SOEs in the region allows them to function in an almost oligopolistic manner. This impacts small and medium sized enterprises negatively as they are unable to compete efficiently among the giants of SOEs. Provisions in the competition chapter of RCEP would address this issue to some degree.

Issues are further compounded by the unequal treatment across Asia in the awarding of government procurements. Unfortunately, a chapter on government procurement is not included in the RCEP framework. Without this chapter and its provisions, governments have the freedom to award projects to local and international firms according to their own mechanisms, processes and standards without much transparency and justification.

Additionally, a labour component is not included in the RCEP negotiations even though it is instrumental in addressing the rights of the region's workers, both skilled and unskilled, in terms of wages, working conditions and the empowerment of unions. Such a chapter would also address the issues of exploitation and human trafficking, and push for immigration policy reforms in member countries with issues related to labour movement.<sup>44</sup>

Finally, the absence of an environment chapter in RCEP may lead to negative environmental outcomes, due to the lack of monitoring by each government in the wake of drastic liberalisation process. An environment chapter is vital in addressing fundamental issues like pollution, overfishing, over-logging and the illegal trade and smuggling of endangered species between members.





## Conclusion

Presently, given India's determination in RCEP negotiations in pushing for the liberalisation of its services sector first and foremost, while offering unambitious tariff cuts on its imported goods, it will not be surprising to see the same approach used in other future FTAs. As FTAAP aspires to be more inclusive, negotiations on the terms of these missing chapters will take a significantly longer time for members that have not had an FTA covering these chapters. Further, even though terms and parameters of the agreement need to be ironed out beforehand, the ratification process needs to also take place before entry-into-force date. As the biggest democracy in the world, India's ratification process will be challenging as new acts must be introduced and tabled domestically to accommodate the binding agreement, whether it be provisions within labour, environment or SOE chapters in future mega-trade deals.

It is of importance to highlight these missing chapters, especially if APEC is seriously thinking of utilising the RCEP framework in the future as a basis for FTAAP. The future of mega-trade deals would not only encompass traditional trade chapters but would also include such chapters and sectors that are impacted by trade activities. The FTAAP when realised, borne by the aspiration of APEC, should be just as ambitious as the original TPP if not more. It is at this juncture where APEC need counterparts who are like-minded, willing to liberalise and reform their trade structures, and commit to integration cooperation beyond trade issues. The question remains if India can be such a partner for Malaysia and the other APEC members.



# A View from Singapore

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### APEC membership: Hopes flicker to ebb

Geography doesn't characterise India as a Pacific economy. However, geographical deterrence can be overcome by fostering regional alliances given the requisite political will. This was evident from India's aspirations to become a member of APEC. India's low eligibility as a Pacific economy didn't restrain the US from supporting India's interest in APEC membership. Other major APEC members, including Australia, China and Russia, were also enthusiastic about India's bid. A little more than three years ago, India's efforts to join APEC had gathered strong momentum. The APEC Leaders' Summit in Manila in November 2015 was expected to have been a decisive occasion in this regard. However, nothing happened.

Today, India's membership of APEC is hardly being discussed in global or domestic policy circles. Several developments are responsible for the lack of discussion. These include the change in the US Presidency from 2017, the emergence of the Indo-Pacific, a visible change in the American world view and approach to regional trade relations, and the continuing incongruence between India's foreign and trade policies. All these, particularly the Indo-Pacific, have had far-reaching impact on the prospects of India's economic and strategic relations with Asia-Pacific. Membership of APEC is certainly not the highest priority for India under current circumstances.

### Change in the US Presidency

President Obama was the Chief Guest at India's annual Republic Day celebrations on 26 January 2015. On the occasion of his visit, the US and India announced a Joint Strategic Vision for the Asia-Pacific and the Indian Ocean region. The Vision underscored US support of India's interest in joining APEC, noting the Indian economy as a 'dynamic part of the Asian economy'.<sup>45</sup> India's interest in joining APEC was also evident as it took to upgrading its Look East Policy with an Act East Policy, with the objective of deepening engagement with the Asia-Pacific. However, there weren't any formal discussions on India's membership at the Leaders' Summit in Manila. The Obama Administration's preoccupation, thereafter, was entirely with the Presidential election.

President Obama's vision of APEC had a role for India, which in turn, suited India's aspirations to play a greater role in the region, primarily for economic gains, and for geostrategic reasons including balancing China. However, India's bid for APEC membership with US support was to be shelved until a new US President took office, and

President Trump's entry into office changed these perceptions. This followed changes in the pattern of US engagement with the Asia-Pacific, as the US withdrew from the TPP. Over time, the Asia-Pacific has been almost entirely replaced from the US vision of the region by the Indo-Pacific.

### Growth of the Indo-Pacific

Much before President Trump articulated the US vision of the Indo-Pacific,<sup>46</sup> and the Administration's Asia Reassurance Initiative Act (ARIA) 2018 spelled out US priorities for the region, Japanese Prime Minister Shinzo Abe reflected on the confluence of the Indian and Pacific oceans in a speech delivered to the Indian Parliament in 2007.<sup>47</sup> The more recent US articulation of the concept underlines its recognition of the importance of Indian Ocean, in addition to the Pacific Ocean, in global geo-economics and geopolitics. This immediately enhances India's significance in the larger regional strategic context, which has begun emerging with the growth of pan-continental connectivity. The preoccupation with the Asia-Pacific prevented a natural entry for India in the discourse connecting to APEC and the region because of its 'non-Pacific' character. The Indo-Pacific, by virtue of its inclusion of Indian Ocean, removes the hindrance. From an Indian perspective, this is a far more acceptable construct to engage with given it doesn't require India to be 'accommodated' as it had to be in the Asia-Pacific.

### US view of regional trade relations

APEC's plans for moving towards FTAAP have hit roadblocks after Donald Trump became the US President. There were possibilities of a US-led TPP providing a core template for the FTAAP. Further elements could have been added to the template from the ongoing RCEP talks, particularly those specific to ASEAN-style FTAs, such as flexibilities on market access liberalisation schedules for individual economies. However, the US withdrawal from TPP, which was primarily a grouping of APEC member economies, was the first jolt to FTAAP aspirations. Though the remaining TPP members salvaged the agreement without the US with the CPTTP, the US absence has greatly reduced the scope and impact of the agreement. The US shift towards a bilateral approach for assessing trade relations – as opposed to a broader regional vision as in the TPP – also reflects its ostensible lack of interest in pursuing FTAAP. APEC's ambition of formalising trade and economic relations between its members through a formal economic architecture thus looks remote in the absence of visible US interest, US-China trade tensions and the increasing preoccupation





of major APEC members like Australia and Japan with the Indo-Pacific. With FTAAP receding in the background, shadows are cast on APEC's long-term effectiveness as a regional economic organisation. Such prospects might have dampened India's energies in pursuing membership of APEC.

### **Incongruence between Indian foreign and trade policies**

Notwithstanding an upgraded Act East Policy and greater focus on the Indo-Pacific, India continues to suffer from an absence of a robust outward-oriented economic engagement policy. This has led to India's proactive geopolitical outreach with the Asia-Pacific region not being matched by an active economic agenda. Much of the mismatch is due to India's continuing hesitation to offer greater market access to foreign producers and investors in various economic sectors, such as dairy, automobiles, medical equipment and more recently e-commerce. India's eagerness to adopt data localisation policies for the safeguarding of domestic data has also been a contradictory signal to its engaging and active foreign policy, particularly during Prime Minister Modi's tenure. Inward-looking policies have always been impediments to India's chances of becoming a member of APEC,<sup>48</sup> as the latter has steadfastly focused on progressive economic liberalisation and open markets as major economic objectives of its members.

### **India and APEC: To remain mutually exclusive?**

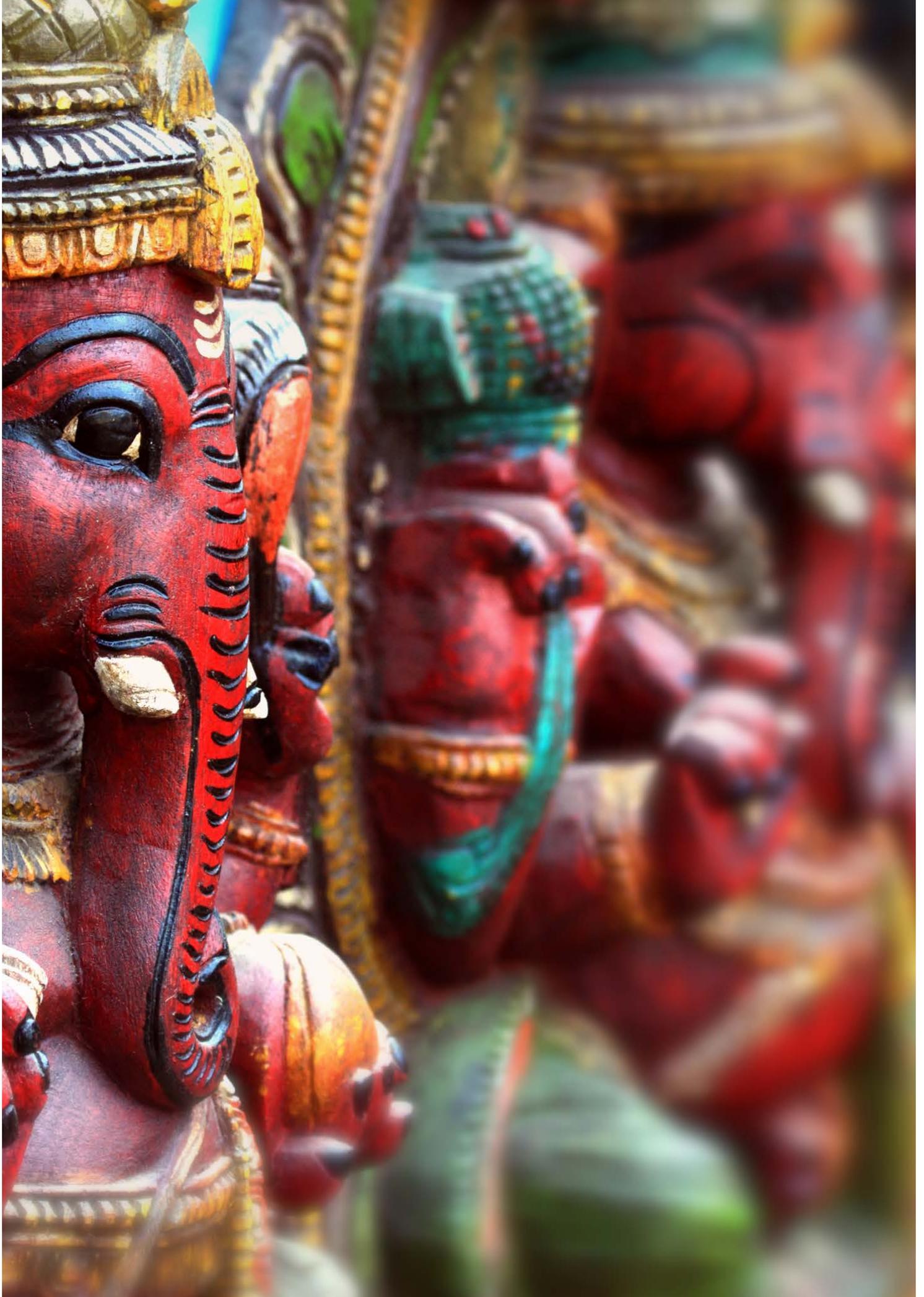
APEC membership appears low on India's current policy priorities. This is of course not to suggest that India is not inclined to becoming a member. However, if the preconditions of such membership are commitments to significant market access liberalisations – in a manner preferred by APEC – India is very unlikely to relent. India's market access offers are unlikely to go beyond what it might commit in goods and services negotiations under RCEP. Indeed, India is unlikely to consider walking the extra mile on the economic agenda for APEC membership given its attention on the Indo-Pacific. India has its position of prominence in the Indo-Pacific purely due to its geography – the same geography that positions it on the far periphery of the Pacific and makes it 'extra-regional' for APEC – and its non-membership would hardly compromise the salience of APEC.

The current geopolitical and geo-economic salience of the Indo-Pacific – a region where India is a natural 'presence' – means that its staying engaged with the Indo-Pacific is a more profitable option.

The Indo-Pacific offers India much of what APEC membership can, in terms of closer economic association with major APEC members including Australia, Indonesia, Japan, Korea and Singapore. The US proclivity to engage bilaterally, as well as that of China and Russia, doesn't leave much to be desired for India in APEC. This is more so given India remains firmly embedded in the ASEAN regional framework due to its role in RCEP and the ASEAN Regional Forum. The role is likely to enlarge and deepen as India acts more purposefully on its 'Act East' policy. A more prominent Indian role in regional affairs is a long-time demand from ASEAN and is likely to be fulfilled through the 'Act East' policy, an initiative unlikely to obtain more teeth by India's entry in APEC. Over time, India is expected to increase its bilateral engagement with Latin American members of APEC, leaving hardly anything more to be leveraged through APEC.

From the perspective of APEC members, the appeal of India's large domestic market is substantial. However, the organisation's hesitation to expand its membership for more than two decades for fear of diluting its distinctive 'character' has made it inflexible to adapt to major global changes. The onset of the Indo-Pacific is an example. Several APEC members look much more engaged with the Indo-Pacific than APEC. APEC requires a robust agenda to re-establish its appeal among the rest of the world. Unless it becomes at least as appealing as the Indo-Pacific, there's little reason for India to invest more energy and efforts pursuing APEC membership.





# A Vietnamese perspective

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### Vietnam and India in APEC

The issue of India's potential accession to APEC has been raised for some time. This is because India – one of the world's fastest growing major economies – is a major contributor to economic growth in the APEC region, and also balances China's growing geostrategic influence. However, when analysed through strategic, political and economic perspectives, India's would-be APEC accession does pose some complications. This is especially so for Vietnam, an emerging economy and active political and trade player in the region and the world.

### From India's non-membership to possible membership of APEC

The main reasons for India's exclusion from APEC relate to its historical pattern of only partial integration with the regional and global economy. This dynamic is changing, with Indian policy determined to strengthen economic ties and connectivity with the Asia Pacific region. This includes India's expression of interest to join APEC in 2015.<sup>49</sup>

The rationale for India's accession to APEC includes the potential economic benefits it would offer: for India, the Indo-Pacific region and the international economy. Its membership would be an important step towards an expanded geographic scope regional integration, and contribute to more dynamic environment for APEC economic growth.<sup>50</sup> India's accession has been supported by the United States, Japan, Australia and Papua New Guinea. For the US, India's accession aligns with its policy of a "free and open Indo-Pacific", a vision articulated by President Donald Trump in his APEC 2017 speech in Vietnam. The US also appreciates that the Indian economy is becoming a more dynamic player in Asia's economic networks. Similarly, former Prime Minister of Australia Kevin Rudd publicly expressed support for Indian membership in 2015, indicating that India could be a new growth driver for the APEC bloc.<sup>51</sup>

Vietnam's perspective must be understood in the context of its strong bilateral relationship with India, as well as its multilateral relationships in a fast-changing regional and global context. India is positioned in Vietnam's foreign policy as a traditional friend, a large and major country, and one of Vietnam's priority partners. Vietnam has deep interests in and benefits from maintaining good relations with India. This includes offering support for India's strategic interests, as Vietnam also enjoys India's support for Vietnam's critical interests. Yet there are also some concerns which Vietnamese policymakers need to balance.

### Vietnamese interests in Indian APEC membership

Vietnam's policy towards Indian accession is strongly shaped by Vietnam's interests in maintaining a comprehensive relationship with India, continuing a history of strong bilateral diplomatic cooperation. Politically, India has been Vietnam's traditional loyal ally in all major fields. For instance, India supported Vietnam in its fight against French colonial rule, and was a supporting voice in international organisations against the US in the Vietnam War. India was one of the first countries that recognised and established diplomatic relationships with the Democratic Republic of Vietnam, and India condemned China's invasion of Vietnam in 1979.

In recent years, India has shared Vietnam's position in the South China Sea, supporting the peaceful resolution of territorial disputes, advocating for compliance with international law (especially the United Nations Convention on Law of the Sea), and supporting regional commitments such as the Declaration of Conduct and a Code of Conduct.<sup>52</sup> Given India also has territorial disputes with China, it is unsurprising India and Vietnam share the same values and interests in this space.

This history of good political relations has facilitated the process of India and Vietnam first upgrading bilateral relationships to the Strategic Partnership level in 2007, and to a Comprehensive Strategic Partnership in 2016. Along with China and Russia, this Comprehensive Strategic Partnership with India is Vietnam's highest level of bilateral diplomatic relationship. Given this traditional context, it would be easy to understand Vietnam would support India as a close and traditional ally in all fields – bilaterally and in international organisations.

At the regional and international level, Vietnam and India cooperate in various regional initiatives, particularly for political reasons. For Vietnam, bringing the 'big elephant' India into the room is a good balance to China. This is fortunately aligned to ASEAN's interest and recent efforts to institutionalise closer ties with India. The reason ASEAN invited India to join RCEP trade negotiations was more for political interests than economic interests: ASEAN is comprised of relatively smaller economies and cannot compete with China economically and politically. Thus, despite the challenges of India's often protectionist economic policies, which risks delaying negotiations and constraining progress, India was still invited by ASEAN to join hands in RCEP.

Vietnam's position is also influenced by a broader balancing policy towards major powers in a fast-





changing regional and global context, recently characterised by emerging strategic competition between the US and China. The US is promoting its Indo-Pacific strategy and formulating alliances on this front with important regional actors, including Japan, India and Australia. These countries support the idea of expanding APEC to include India, partly due to the balancing role India would play in a broadened organisation. For its part, Vietnam supports an Indo-Pacific strategy, as demonstrated in the India-Vietnam joint statement in 2018, which confirmed:

**“[T]he importance of achieving a peaceful and prosperous Indo-Pacific region where sovereignty and international law, freedom of navigation and overflight, sustainable development and a free, fair and open and trade investment are respected”.<sup>53</sup>**

Vietnam also supports China’s Belt and Road Initiative, and the benefits China’s growth brings to the regional economy. Thus, Vietnam starting point of open cooperation and engagement in multilateral organisations means it shares an interest in India’s participation in APEC.

### **Vietnam’s concerns and sensitivities**

There are however certain considerations Vietnam would have to carefully approach. Firstly, in terms of geography, India may not seem to fit well into APEC, as APEC currently only comprises countries located in the traditional Asia-Pacific region. Therefore, if India was to be admitted, then arguments could be made that other South Asian countries should follow suit – notably Pakistan, Sri Lanka and Bangladesh. This would entail a significant change in the composition and agenda of APEC, which has been an effective instrument for Vietnam to advance its longstanding policy of economic opening to regional partners. Ultimately, a consideration is whether APEC members want to expand its membership to

cover a broader geographical area including South Asia, and the implications this would carry for the APEC agenda.

Secondly, from an economic perspective, there are concerns India may be slow to catch up with other APEC members in terms of support for open markets and trade and investment liberalisation. India has traditionally presented an obstacle to open trade and investment commitments, for fears of being overloaded with foreign products. This has been seen in the case of RCEP, which has been held up by disagreements between India and other members of the scope and ambition of goods liberalisation. Given Vietnam’s longstanding commitment to regional trade liberalisation – evident in its active participation in RCEP, and membership in CPTPP – such difficulties are not a positive development. Therefore, if India is to join APEC then it should commit itself to becoming more open and more facilitating of trade liberalisation, rather than creating an obstacle for regional investment in a growing protectionist and anti-globalisation environment.

Thirdly, support for India’s accession to APEC must be viewed in the political context of coordination launched by the US and its allies through the Indo-Pacific strategy to counter China and its Belt and Road Initiative. US tensions with China recently contributed to the failure of an agreement for an APEC communique at the 2018 Papua New Guinea summit. While bringing India to the table could create a new balance of power in APEC, there is the risk smaller countries like Vietnam could be put into the difficult situation of choosing between rival major powers. This is not desirable, as Vietnam views APEC as a mechanism to build a cooperative and rules-based regional architecture. Such a power change could make APEC divided, or turn APEC into a geopolitical battleground, increasing the uncertainty surrounding the future of stability and prosperity in the region.





## Conclusion

Given the above benefits and trade-offs, what are then the avenues for Vietnam regarding support for Indian accession into APEC? Vietnam's bilateral relationship with India is one of its most well-developed, emphasised recently with Indian support for Vietnam's core interests in the South China Sea. It is thus in Vietnam's overall diplomatic interest to support India's accession to APEC. However, if certain reservations are deemed too strong, an option could be for Vietnam to suggest India obtaining observer positions in some of APEC's working groups in the first instance. Such positions will help India clearly understand the internal way APEC functions and operates, so India can map out how to achieve its interests in and strategy for APEC.



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# Acknowledgements

**Hugo Seymour** would like to sincerely thank the contributors to this publication, namely:

**Peter Varghese AO** (Perth USAsia Centre, The University of Queensland)  
**Dr Amitendu Palit** (National University of Singapore)  
**Dr Chu Minh Thao** (Diplomatic Academy of Vietnam)  
**Dr Juita Mohamad** (Institute of Strategic and International Studies Malaysia)  
**Dr Pankaj Jha** (O.P. Jindal Global University)  
**Ritika Passi** (Observer Research Foundation)  
**Ryosuke Hanada** (Japan Institute of International Affairs)  
**Shaun Star** (O.P. Jindal Global University)  
**Zikri Basir** (Parahyangan Catholic University)  
**Davina Designs** (Perth)  
**UniPrint** (The University of Western Australia)  
**Professor Gordon Flake, Dr Jeffrey Wilson, Erin Watson-Lynn, Dr Lisa Cluett and Tammy Wayne-Elliott** (Perth USAsia Centre)

**This report may be cited as:**

Seymour, H. (ed.). India in APEC: Views from the Indo-Pacific, Perth USAsia Centre, May 2019.

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