

Seminar on
Emerging East Asian Regionalism: Options for India
February 10, 2005
RIS Conference Hall, India Habitat Centre, New Delhi

The recent ASEAN Summit has given an impetus to broader regionalism in Asia with the proposed launch of an East Asian Community at an East Asian Summit to be held in November 2005 in Malaysia. The list of countries that will participate in the East Asian Summit is yet to be finalized. This is an important development of potential major significance for India and needs an urgent policy response. Prime Minister Dr. Manmohan Singh has indicated the importance India attaches to her integration with East Asia by calling at Laos Summit for an Asian Economic Community combining Japan, ASEAN, China, India and Korea (JACIK).

In order to brainstorm on the topic, a seminar on **Emerging East Asian Regionalism: Options for India** was organised on Thursday, 10 February 2005 at RIS.

Dr. Mukul Asher, Professor, LKY School of Public Policy, National University of Singapore made the key presentation. Ambassador A.N. Ram, former Secretary (ER), Ministry of External Affairs kindly chaired the Seminar.

The Seminar opened with the introductory remarks by Dr Nagesh Kumar, Director General, RIS. Dr Kumar in his remarks said that since 1991 India has vigorously pursued the 'Look East Policy'. As a part of the policy India tried to consciously develop its links with East Asia, beginning with ASEAN and gradually engaging the Northeast Asian countries. This partnership and engagement of East Asia by India has been very dynamic. Today, India is a full summit level partner of the ASEAN, since the last couple of years, the Third India-ASEAN Summit concluding recently at Vientiane.

Dr Kumar further said that US is no longer the largest trade partner of India, but it is East Asia. Therefore, things have changed since the "look East Policy" in a very substantial manner. If one looks at business dynamics, it is visible how Indian companies are becoming active in East Asian markets, while the East Asian companies have emerged as

some of the largest sources of investment in India. For instance, the recent \$8 billion investment of Bosco (Korea) in one single plant in India is the biggest FDI made by any company ever in India. An Indian company, Tata Motors, has taken over the Daewoo Heavy Vehicles' Unit. and has integrated it with its Indian operations. Tata Steel has taken over Nat Steel in Singapore. So one can view a pattern that is emerging. India is integrating with East Asia.

Further on, Dr Kumar said that the India –China trade has nearly doubled with in one year to \$13 billion and China is also projected to become one of the most important trade partners' of India. India has joint study groups to study FTAs or comprehensive economic partnerships with China, Japan and Korea. It has already signed Free Trade Agreement with ASEAN. So, the level of integration with ASEAN countries from India's side is substantive and growing. In this context, the announcement of East Asian Summit at Vientiane assumes significance. The question in front of us is whether India should be a part of the East Asian Community and how would that be beneficial for both India and East Asia.

Dr Kumar said that RIS has been supporting the process of India-ASEAN-East Asia integration with its studies over the past few years, through its programme on Asian Economic Community. The last two conferences of RIS on Asian economic integration- in Delhi in March 2003 and in Tokyo in November 2004 – resulted in a proposal to develop this Asian Community in a phased manner through JACIK- Japan, ASEAN, China, India and Korea. This proposal has been carried forward by Prime Minister Manmohan Singh through his speeches in Delhi and Vientiane. Thus, India has displayed its keenness in integrating with East Asia. Dr. Asher's presentation would highlight on the gains to be made by both India and East Asia, under such a scenario.

Dr Kumar then handed over the proceedings to the Chairperson, Ambassador A.N Ram, who he stressed, was a key figure in the formulation and strengthening of India's 'Look East Policy'.

Ambassador Ram began his address began emphasising on the significance of the seminar. He said it was important primarily because of three reasons, Firstly, its timing is apt. India-East Asia-Southeast Asia had been a neglected area from the point of India

foreign policy making and attention. However, it is time, he said that we give time and focused attention to this lacuna. Secondly, he pointed out, no organisation other than RIS has worked more on the subject of India and its relations with its neighbours, East and Southeast Asia. RIS's expertise in this area is unsurpassed and thus a seminar under their auspices is certainly of significance. Thirdly, he highlighted, the presence of Professor Asher, who has written and researched extensively on this subject, is also of significance. Also, since he lives and works in Singapore, his views and opinions may be different from that of Delhi and should be thus of extreme interest.

Ambassador Ram then requested Professor Asher to express his views.

India and East Asia: Case for a Stronger Economic Partnership

Professor Asher made a presentation on 'India and East Asia: Case for a Stronger Economic Partnership'. He began by stressing that if the 21st century has to belong to Asia, India ought to be an integral part. However, India will have to work towards it and the mindsets of the people in East Asia will have to change to bring this about. If India were not an integral part then it would be difficult to call this century an Asian one. India has a lot to contribute as well as a lot to gain.

Professor Asher said that a number of seemingly difficult issues could be tackled, once the mindsets change. India's domestic reforms and the "look East Policy" are significant examples of what a change in the mindset can bring about. Indian elites have to realise that India has substantive gains from East Asia. East Asia's Per Capita Income is higher than that of India's by manifolds. India is expecting a GDP of around \$500 billion in the coming years. With that kind of GDP India cannot just rely on markets like Europe-that are increasingly becoming matured in terms of demography-and the US, which is also a matured economy. India, thus, needs to find its growth poles, which it is going to find in East Asia. Even in Asia, Japan, Korea and even China will be maturing demographically. Under these circumstances India's demography would be of a huge advantage. India's demographic complementarities with most of these countries will give India many economic opportunities.

Moving over to his presentation, Professor Asher said that while discussing why East Asia should partner India i.e. what India can contribute, it is also important to emphasise

that Indian mindsets also need to change and there is a need to develop much deeper expertise at all levels- diplomatic, academics, business, student or general elite- about East Asia. Professor Asher said that the perceptions in India about East Asia are very outdated and cliché. ASEAN countries are put on a higher pedestal and termed as dynamic when compared to India. However, India is competing very well with ASEAN. Therefore, to talk about India as a laggard and ASEAN as dynamic just puts India at a psychological disadvantage. India needs to regain that psychological advantage. There is need to build India's image with regard to why it is going to be of benefit to East Asia and provide a win-win situation.

Dr. Asher further pointed out that India has been doing considerable unilateral liberalisation, which has paid off as its growth performance, where India has been able to sustain a growth rate of 5.9 percent in real terms for over two decades. Given India's inflation rate, that translates into 10-11 percent growth in nominal terms, which given the GDP of 600 billion today would mean that India is adding \$60-70 billion to its GDP every year. Not many developing countries can claim such growth. India has done well with its 'Look East policy', but now is the time to go the next stage.

Pointing at India's existing partnerships, Professor Asher said, in today's world India needs to work at the level of its perception abroad. China outscores India at this front by a fairly wide margin. The perceptions about China and the realities in China have a huge chasm. The perceptions are extremely favourable. But, the reality is, 'if you want to invest and start up business rapidly, go to China, but if you want to make money, come to India'. Not very many companies have made money in China. But still the China lure has been very successful. On the other hand India's perception has been much lower than its reality and potential. India's perceptions will have to be changed, where soft skills will be important and it will have to go much beyond just Information Technology. India's image outside is still largely negative. India is still trapped in its 'South Asia' image, which was largely a Cold War construction and restrictive in moving out to the larger Asia or the World. However, now if India has to feed its large population, it will have to approach all regions of the world and look for strategic advantages.

Speaking with reference to Merchandise trade, Professor Asher said that India's trade with East Asia is approaching \$ 30 billion and is expanding rapidly, particularly with

China. As far as trade between India and ASEAN is concerned, it primarily comprised of India-Singapore trade, until recently. However India-Singapore trade is now declining in relative importance. Malaysia, Indonesia, Thailand are all emerging. Vietnam is also a potential country, with which India needs to have much closer economic relations.

As India expands its cooperation with East Asia, there is a lack among Indian intellectuals – academicians, media, business people etc. – of knowledge about these countries. Not many people in India can speak/understand their language, read their newspapers or have any kind of friendly communication with in these countries. Such issues matter, because, in today's globalised world cooperation and competition go hand in hand.

Dr Asher further said that any forum such as the ASEAN, BIMSTEC should be used by India for enhancing its bilateral commercial advantages by. Quoting examples of the US, China etc. Professor Asher said these countries do not shy from pursuing their commercial interest at any forum. Indian diplomats and politicians should also look for the country's commercial advantage at any forum before any commitment. Professor Asher stressed that political niceties are a passé because India's vision has changed. We now see India to be a part of the developed world in two to three decades. Thus, India has to concentrate on its GDP clout and move ahead from South-South or Third World Cooperation. India has to seek benefits from its relationships, unlike the past. India needs to learn to make deals and look for strategic advantages.

Continuing on the issue of merchandise trade and services trade, Professor Asher that they are not going in the right direction for India. Japan has been a country of concern for India in this regard. They have not had an open mind about India. However, that is changing now and hopefully Japanese would get more vocal about their support to India.

Stressing on services' trade, Professor Asher said that India is known for services' competitiveness. However statistics show a very humbling position for India. India's exports of services in 2003 were only \$25 billion, amounting to only 4 percent of the market. To rectify this, India needs to move beyond its penchant for concentrating only on IT services to a more comprehensive services basket. India has just woken up to its tourism potential and now needs to develop it, especially health sector tourism. India has

also begun to look at educational services' export. However, that would impinge upon India's educational infrastructure, as it is an industry that would generate thousands of jobs. Therefore, services now need to be concentrated upon in a disaggregated manner.

Professor Asher said that currently the net balance of India's services' trade is barely positive. What really should matter in terms of India being a service provider is that the gap between India's exports and imports widens in favour of exports.

Thereafter, Professor Asher concentrated on how India's Diaspora could contribute towards India's strengthening. He said that off late India has become active on that front. However, it has not been of much worth. Giving various concessions, such as in the recent NRI conclave, is not going to be a useful strategy, because, considering the financial positions of the non-resident Indians, whatever the government could provide would be never sufficient and there would always be demand for more. Professor Asher gave the example of Singapore and Japan to demonstrate how India could leverage its Diaspora.

Singapore has set up an India Club, which gives full membership to only those holding Indian passports and to those companies, which are registered under the Indian Companies Act. However, associate membership is given to anyone keen on promoting India's interests, belonging to any nation. So here the Diaspora is helping build relations in a business oriented way between India and rest of the world. There are lectures and analytical interactions among the members, who, when write about India, help create a superior perception of India. It is interesting to note that people are scared to write anything negative about China. The interests of the Chinese leaders are always internalised in their analyses. Thus, official reports always depict a favourable perception of China. However, the case with India is not same. India's achievements may be highlighted but never without apprehensions. China's market clout and cohesiveness with in the government allow them to breed such trepidation. However, India does not enjoy any such position. In fact, India is just seen as another country, and often still-through Cold War lenses in many quarters. However, such mentality is not so rampant in East Asia, which is thus, helpful for India.

If India has to have \$500 billion trade, it can't be with US and Europe alone. It is here that East Asia fits into the Indian trade scenario. A favourable thing for India is that East Asia still has excess of savings. Post office accounts alone have \$ 3 trillion savings. East Asia's business strategy involves high savings and high investments. However such a pattern cannot continue for long. Japan's savings are decreasing and even China's ICOR is expected to fall. In such a scenario India with its strong capital markets and governance can easily fill in the gaps. India has developed strong financial and commercial markets, unlike the East Asian ones which are very conspicuous. All it now needs to do is show them to the world, without losing any further time. Professor Asher highlighted that India has also not advertised the fact that 80 percent of the companies in India have profits with in the assured period.

Most of the firms in India, said Professor Asher, now have plans to move to Southeast Asia. Professor Asher said that in their forthcoming book they advise that investment agencies should establish their bases in India, which would give leverage to countries like Thailand and Vietnam.

Another area of cooperation that India could explore is with Japan in its possible nuclear programme in future. With huge uranium stocks and a changing mindset this could occur as soon as with in 6 months. Other areas of cooperation between Japan and India relate to economic-trade, investments and knowledge intensive activities, core technologies, energy /trade security, demographic complementarities etc.

In his concluding remarks, Professor Asher highlighted:

- ❑ It is time to put behind cold war division of Asia and institutions; Essential that all major Asian economies are represented in the post-cold war New Asia.
- ❑ India's policymaker, business community, media, and researchers on their part need to make concerted and focused efforts to mitigate substantial information and perception gaps in East Asia about India. Proficiency in commercial diplomacy and soft power skills will be vital in this task. India is competing for influence with other Asian countries, such as China, Japan and Korea. More

strategic and tactical nature of its diplomacy and its business expansion in the region is needed.

- The ultimate determinants of India's success in engaging not only East Asia but also other major powers will continue to be its economic and governance records, and perusal of strong and credible national security policies.

Discussion and Questions

Ambassador Ranganathan made the first observation. He said that the problem is that the industry needs to fund the sort of research that is needed, which it doesn't yet, unlike Singapore. Secondly, he said, that the perception argument about India is not very deep. One has to look at the reports from the recent Davos forum and the G7 meeting. No longer, the international developed community is talking about India versus China or India after China. India and China are being referred to in the same breath. While, there is a lot more to be done, the fact is that there is a clear recognition of India along with China as the drivers of growth in Asia.

He further added a good sign that emerged from the Prime Minister's visit to China in 2003 was that the two sides agreed to support regional organisations in Asia. What needs to be done now is that regional cooperation in Asia should be based on a non-exclusive basis. On the basis of all-inclusive cooperation, he hoped that the government in India continues its interest in East Asian integration and that there is no attempt to exclude India. He asked Professor Asher as to where the opposition to India is emerging from and asked him to comment on the larger Asian picture in comparison to that of the world with edifice on regional cooperation.

Ambassador Sahni quoted from the conclusion of the JETRO report of March 2004 to further highlight the point made by Professor Asher that the profitability of Japanese ventures in India had been higher than that in ASEAN and was expected to further increase in 2004. Secondly, he expressed that today India's demographics is considered as an advantage. However, a few years ago India's large population was considered a huge drawback. Considering this, he asked, can it not be that development in technologies, like Nano technology, will not make a smaller population or an older

population, such a disadvantage? Thirdly, he asked, whether the current Japanese reluctance to increase FDI in India may not be a case of waiting to see whether it was not more profitable to export from Thailand to India or other FTA countries rather than put fresh investments in India, because in the past their FDI investments in India used to be only in view with the Indian market as distinct from Malaysia, Thailand etc, which were primarily meant for exports.

Mr. Deepak Bhatnagar, Advisor and Scientist, TIFAC, asked Professor Asher as to how India's scientific expertise could be used for commercial purposes with in the context at hand.

Ambassador B.M Oza suggested that India should know that whether this regional integration process would lead to trade diversion or creation, investment diversion or creation and the complementarities should be studied. A proper cost benefit analysis should be conducted of India's potential association with East Asia.

Further on, another observation was made with regard to India's big country small country hang up. The Indian government was offered grant from South Korea for a sewerage project in Delhi, which was decline. Their offer of training courses to Indians was also not positively responded to. Similarly, India also refused the invitation to join the APEC Committee. These kinds of responses from Indian government to collaborators abroad will only have negative effects on India's bid to integrate with East Asia.

Mr. Prabhash Ranjan, Oxfam, enquired about the potential of Indian Professionals moving to Southeast Asia. Responding to this question, Professor Asher said that there is a tremendous potential and opportunity for Indians in Southeast Asia. Indians professionals are already contributing in Southeast Asia in significant ways. India's diplomatic strategies will play a key role vis-à-vis some countries like Japan; i.e. the way India has done in case of H1B visa in US and similarly with regard to Germany.

Responding to India's demeanour to Korea's offer, Professor said that if India has a problem, it would have to fix it. This is where the Indian think tanks, policy makers and

diplomats need to get their act together and play a significant role. India cannot even afford to lose even the smallest advantage of \$15 million. In fact, Professor Asher suggested the sending of Indian civil servants to Korea Development Institute and Tokyo University for training. Such moves, he said, will bring about the necessary change in mindset.

Professor Asher further said that India has learnt to bilateral gain advantage at the multilateral forums. One such forum, he advised, is BIMSTEC. BIMSTEC has the SAARC countries that India is interested in and also has ASEAN Countries like Thailand.

Answering the trade creation/ trade diversion query, Professor Asher said that what India really needs is a JETRO. Concurring with Ambassador Ranganathan's point, he said, that the industry does need to fund research. Also, the Indians researchers and intellectuals who know about India's core competencies as well as needs should focus on how to procure them instead of pointing at the shortcomings, thereby making India's adversaries taller.

Responding to Mr. Bhatnagar's question on scientific leveraging, Professor Asher said that it is very important. India has knowledge of various kinds of technologies, which could be put to use in various parts of the world, especially Southeast Asia. However, India has not been able to spread the knowledge about them. Therefore, he suggested that India should participate in as many technical specifications and registrations as possible. Indian research institutions have only been recently sensitised to the opportunity cost of keeping them in operation and to the need for commercialising their research. There is an immediate and significant need to build the industrial-scientific complex and to use that to license technology abroad etc. However, to be able to do that, said Professor Asher, India will have to get on every possible technical committee, get its degrees recognised abroad, offer technical training to engineers from abroad etc.

Responding to the query on India's perceptions abroad, Professor Asher admitted that they are changing but not in the rest of Asia. This is where India needs to work. India's image in each region will have to be thought and worked upon separately. Talking of East

Asia, Professor Asher, stressed that the perceptions in this regions are still not very good. There are generic reasons for it. One of them is that the financial status of the Indian Diaspora, for e.g. in Singapore and Malaysia, is lower than that of the other citizens of those countries. The reasons behind this phenomenon need to be sought and worked upon. Indian elites are not able to make any significant difference with in these countries, which is also the reason behind India's stagnating perception.

Answering the query on non-exclusive regionalism, Professor Asher said that it is impossible to have open regionalism. Selection and criterion are important. Also, it is impossible to get selected until and unless one is economically important, like China, in today's world. China's trade is touching \$ one trillion and they are far ahead of India in merchandise and service trade. However, India's trade is also approaching a level where it can have a say. India has to maintain its growth at 6 to 8 percent consistently over a 20 – 25 year period. India has done it in the past and is still in a position to do by just concentrating on efficiency gains, which India has many to make, through relatively less expenditure.

Responding to the question on opposition to India's bid, Professor Asher said that it was primarily coming from China and Malaysia.

Concluding Remarks

Towards the end of the seminar, Ambassador Ram thanked Professor Asher for presenting the most fascinating and positive picture of the gains India could make in East Asia.

He further said that there, today, in India, there is a silent revolution underway, where in, the government is becoming less and less relevant, in our day-to-day lives and there is a critical mass, which is surging India forward.

He highlighted that when all the countries in the world are competing for economic space, India finds itself homeless. India cannot anchor its economy on any peg. SAARC and BIMSTEC do not hold enough to complement India's potential. However, China does. Therefore, he proposed that if India, China, Southeast Asia and Central Asian

Republics could form a grouping, it might provide an answer to India's search for an economic space. He added that India and China are not competitors. The booming trade of both the countries indicates that there is ample space for both to grow and that too, to each other's mutual advantage. If India and China come together, they would be in a position to act as a central force rather than operating at a periphery in both ASEAN and East Asia.

Further on, Ambassador Ram said that there are enough complementarities between ASEAN and India. ASEAN should be seen as a launching pad to the larger East Asia-Southeast Asia- South Asia region of which India should be a part.

Ambassador Ram further highlighted that India should ask for its advantages at any forum abroad rather than unilaterally sharing its own experiences. India should only become a desired partner on the basis of its economic success and the advantages it would acquire.

He also highlighted that Southeast Asia is not the fastest growing region of the world, it is East Asia, specifically China. If India is going to base its strategies on growth prospects, it cannot ignore this region. However, he further added that India can also not afford to concentrate on any one region on the basis of exclusivity. India will have to focus on all the regions, where it might get gains. India might have to struggle in future to keep its head above water. Therefore, India will have to cease every opportunity that comes its way both bilaterally and multilaterally. That is the only way in which India can reach that \$500 million trade target, which Ambassador Ram hoped would not be a distant dream but a reality in the near future.

Ambassador Ram concluded by expressing gratitude to the distinguished participants for their active and intellectual participation and Professor Asher for his enlightening presentation. Dr. K.J. Joseph gave the vote of thanks on behalf of RIS.