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DISCUSSION PAPERS

India and the Asian Economic Community

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India and the Asian Economic Community

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I. Introduction

The 1990s have witnessed a strong trend towards regional integration, particularly among the developed countries. This trend is exemplified by Europe's advancement towards an economic union[1]. The European Central Bank (ECB) came into existence in 1998, and the European currency, Euro became the monetary unit of the European Union (EU) in January, 2002. Thus, the EU is now much more than a Regional Trading Arrangement (RTA). Each member has consented to constraints relating to policy autonomy and sovereignty in certain areas, and is committed to the development of the European institutions, including a European Constitution.

In 1994, U.S., Canada, and Mexico formed a Regional Trade and Investment Agreement (RTIA), called NAFTA. This agreement is much more limited compared to the agreement among the EU members. All EU and NAFTA members however belong to the OECD (Organization for Economic Cooperation and Development), a club for high-income countries.

There have also been regional trading arrangements involving low and middle-income countries. Examples include MERCOSUR (Southern Common Market, established in 1994 comprising, Argentina, Brazil, Uruguay and Paraguay); and AFTA (Association of South East Asian Nations, or ASEAN Free Trade Area) which became operational in 2003. The ASEAN as an organization was set up in 1967, and it currently comprises all Southeast Asian countries, except East Timor.

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In East Asia, urgency of greater consultation and coordination in economic policies has been particularly felt since the 1997 East Asian crisis (Bird and Rajan, 2002). In the South Asian region, economic cooperation has been limited, even though SAARC (South Asian Association for Regional Cooperation) has been in existence since 1985 (RIS, 2002). There have also been sub-regional cooperation arrangements in Asia. Notable examples are BIMST-EC (comprising Bangladesh, India, Myanmar, Sri Lanka, and Thailand); and the Mekong-Ganga Cooperation Group, involving India, Cambodia, Laos, Myanmar, Vietnam and Thailand. India already has a functioning FTA with Sri Lanka; a common market with Nepal; and is negotiating an FTA with Thailand. There have also been attempts by some Asian countries, notably Singapore, to engage in bilateral free trade arrangements (Rajan *et al.*, 2001). Thus, Singapore and India signed an agreement in April 2003 to begin detailed negotiations on the Comprehensive Economic Cooperation Agreement (CECA)[2].

Nevertheless, compared to the two major trading regions, Europe and North America, an Asia-wide economic forum has been conspicuous by its absence. It is in the above context that this paper analyzes India's role in the proposed Asian Economic Community (AEC) designed to fill this gap. It is envisaged that in the initial stages, the AEC will comprise Japan, ASEAN, China, India and South Korea (JACIK) (Kumar, 2002a). The membership includes all the major economies in Asia[3], and the ten-member Association of Southeast Asian Nations (ASEAN) regional grouping. ASEAN has played a major role in keeping regional conflicts under reasonable check. However, since the 1997 economic crisis in East Asia, ASEAN has been searching for relevance and attempting to regain pre-crisis dynamism and importance (Asher *et al.* 2003). The viability of JACIK will not be affected if ASEAN decides to apply an ASEAN minus X formula (which would give ASEAN members an option to join JACIK at their convenience).

Since the initiation of India's Look East Policy in the early 1990s, bilateral relations between India and ASEAN have progressed rapidly. Thus, India became a sectoral dialogue partner of ASEAN in 1992; full dialogue partner in 1995; and a member of the ASEAN Regional Forum (ARF) dealing with security issues in July 1996. The first ever ASEAN-India summit hosted by Cambodia in November 2002 represented another important milestone in bilateral relations.

During the summit, India proposed negotiations for Regional Trade and Investment Agreement (RTIA), with ASEAN. It is envisaged that such an agreement will be operationalized within a decade[4]. India's current negotiations with Singapore and Thailand for closer economic cooperation framework would make this task easier, as both are among the key economic partners in Asia. The progress could be even more rapid if such discussions also take place with the other two important partners, Malaysia and Indonesia.

While India has been interacting with ASEAN for more than a decade, it has been formally cooperating with two of the JACIK members from Northeast Asia, namely China and South Korea, as a part of the Bangkok Agreement concerning trade cooperation, which has been operational since 1975 (Mukherjee, 2003). China however joined the agreement only in 2001. It is anticipated that with the accession of China, not only will the Bangkok Agreement be of greater benefit to existing members, but that more countries are likely to join the agreement. Mukherjee has argued for a shift from the positive to a negative list as the basis for the trade liberalization among the members of the Bangkok Agreement (2003, pp. 4-5). If this is accepted, then more rapid trade liberalization among the members may well occur.

Economic engagement between India and China has been deepening in recent years. Both countries have decided to focus on economic issues and leave political and security issues to be resolved at a latter date. Thus, direct economic relationship between the two has been growing rapidly[5]. Both countries wish to focus on domestic tasks and require rapid economic growth and greater integration with the world economy. This common interest requires cooperation even as they compete in different economic sectors. Thus, each side is now more focused on the opportunities for mutual gains than on competitive challenges from each other. There are signs of selective intra-industry trade and investment emerging, improving business competitiveness of both countries (Nagpal, 2003, p.21). The Confederation of Indian Industry (CII) has decided to launch its East Asian headquarters in Shanghai from July 2003. It has also decided to launch India Club in Shanghai. The institutional base for deeper business interactions between the two countries is therefore being laid.

India's relations with South Korea have focused on realizing synergies between Korea's competitive advantage in electronics hardware, and India's in chip design and software. Both countries regard each other as an important partner in diversifying economic relationship to lessen the risk of over-dependence on the current major trading partners. India also regards South Korea as an important source of foreign investment, particularly in manufacturing and in infrastructure.

India and Japan appear to have established a firmer basis for wide-ranging economic and political cooperation. The need to protect sea-lanes in the Indian Ocean and the Malacca Straits, combating international terrorism, stake in checking North Korea's nuclear ambitions, complementarities in developing advanced technologies, including in chip design, biotechnology, space and defense sectors, and the need to diversify their economic partners have contributed to this welcome development. Japan is a major bilateral aid donor to India; and a major investor, particularly in motor vehicles, electronics, and entertainment sectors.

Table 1
Selected Indicators of JACIK Member Countries

Country	Population Million (2001)	GNI (2001)		GNI Per Capita (2001)		External Debt (2000)	
		US $ Billion		US $		US $ Billion	% of GNI
		Current value	PPP	Current value[a]	PPP		
JACIK	2939	7192.1	14127.0	2447.1	4806.7	709.1	10.2
World	6130	31500	46403	5140	7570.0	n.a.	n.a.
Share of JACIK in World (%)	47.9	22.8	30.4	47.6	63.5	n.a.	n.a.
India	1033.4	474.3	2530.0	460.0	2450.0	99.0	21.8
China	1271.9	1131.0	5415.0	890.0	4260.0	149.8	13.0
Japan	127.1	4574.2	3487.0	35990.0	27430.0	-	-
Korea	47.6	447.7	863.0	9400.0	18110.0	134.4	28.0
ASEAN[b]	459.3	564.9	1832.0	1230.7	3991.3	325.9	57.7
Indonesia	213.6	144.7	628.0	680.0	2940.0	141.8	96.0
Malaysia	23.8	86.5	198.0	3640.0	8340.0	41.7	52.0
Philippines	77	80.8	336.0	1050.0	4360.0	50.1	64.0
Singapore	4.1	99.4	100.0	24740.0	24910.0	-	-
Thailand	61.2	120.9	401.0	1970.0	6550.0	79.6	64.0
Vietnam	79.6	32.6	169.0	410.0	2130.0	12.7	36.0

Table 1 (continued)

Country	Foreign Exchange Reserves (2000)	ODA (2000)	FDI (2000)		Merchandise Exports (2001)	Merchandise Imports (2001)	
	US $ Billion	$ per capita	US $ Billion	(as % of GNI)	US $ Billion	US $ Billion	
JACIK	868.6	n.a.	68.4	1.0	1245.1	1114.2	
World	1539.8	n.a.	1167.3	3.7	6163.2	6354.7	
Share of JACIK in World (%)	56.4	n.a.	5.9	27.0	20.2	17.5	
India	37.9	1.0	2.31[c]	0.5	43.9	50.5	
China	168.3	1.0	38.4	3.6	266.1	243.5	
Japan	354.9	-	8.2	0.2	404.6	350.0	
Korea	96.1	-4.0	9.3	2.2	150.6	141.1	
ASEAN[b]	211.4	n.a.	10.2	1.4	379.9	329.1	
Indonesia	22.5	8.0	-4.5	-3.0	56.7	31.2	
Malaysia	29.5	2.0	1.6	1.9	88.5	74.4	
Philippines	13.1	8.0	2.0	2.7	33.6	31.4	
Singapore	80.1	0.0	6.4	6.9	121.7	116.0	
Thailand	32.0	11.0	3.4	2.8	64.2	60.2	
Vietnam	3.4	22.0	1.3	4.1	15.1	16.0	

Notes:
- nil or negligible
n.a.: not available
[a] World Bank estimates based on World Bank Atlas method
[b] Excludes Brunei, Cambodia, Laos and Myanmar as complete data are not available. Thus, JACIK referred here cover 10 member countries instead of 14 member countries.
[c] The official Foreign Direct Investment (FDI) figures do not report reinvested earnings and intra-company loans and thus remain underestimated when compared with IMF's standard measurement guidelines (Srivastava, 2003, Table 3)
GNI refers to Gross National Income
ODA refers to Official Development Assistance

Source: Calculated from World Bank, *World Development Report,* 2003 and IMF, *International Financial Statistics Yearbook*, 2001.

The significance of JACIK as a proposed grouping can be better understood on the basis of selected indicators provided in Table 1:

(i) JACIK countries account for nearly half of the world's population; about quarter of the world's income measured in current values, and about 30% of the income measured in Purchasing Power Parity (PPP) terms.

(ii) However, on a per capita basis, the income of JACIK as a group is only slightly more than two-fifths of the world's average in current value terms and slightly more than three-fifths in PPP terms. The group however contains countries such as China, India, and Korea which are among the fastest growing countries in the world.

(iii) The share of JACIK in total FDI in the world remains rather small (5.9%) in 2000. FDI as a percentage of income is less than a third of the corresponding share for the world as whole. This reflects the fact that most of the FDI is between the developed countries, particularly the US and Europe.

(iv) Among the JACIK countries, ASEAN as a group exhibits the highest external debt to income ratio (58% in 2000). Such a high ratio could make export-dependent ASEAN economies vulnerable to prolonged adverse conditions in their external environment. In contrast, the external debt is at a more manageable level for other JACIK members.

(v) The data on per capita Official Development Assistance (ODA) reflects the well-known tendencies of countries with relatively moderate population receiving higher level of ODA than countries with large population such as China and India. The difference in the level of per capita ODA between low-income India and middle-income ASEAN countries such as Thailand, Indonesia and the Philippines is particularly striking. This reflects the high priority attached by Japan and the other donor countries and multilateral institutions to ASEAN countries.

(vi) JACIK countries accounted for about one-fifths of the world's merchandise trade; and more than half of the foreign exchange reserves. The manner in which these countries will utilize their reserves will be a factor in the future developments of the international financial capital markets.

The rest of the paper is organized as follows. Section II briefly discusses India's current priorities and its vision for the future. In section III, possible contribution that India could make and the benefit that it can derive as a member of JACIK are discussed. The final section provides the concluding observations.

II. India's Current Priorities and Vision

The 1991 reforms have set in motion an irreversible process of integration with the world economy in a market-consistent manner. Such wide-ranging structural reforms undertaken in 1991 have led the Indian economy to grow at an average annual growth rate of 5.9% during the 1992-93 to 2002-03 period (Goswami, 2003). Some of the positive indicators of the external sector are reflected in small balance of payments surplus, low external debt to GDP ratio, moderate foreign exchange reserves of US $79 billion (as of May 17, 2003)[6], emergence of Indian exporter (Nagpal, 2003) and rising involvement of Indian companies abroad. The reforms have thus resulted in significant increase in India's capacity to participate in the international economy and India is well on its way to becoming a trillion dollar economy (Morgan Stanley, 2003).

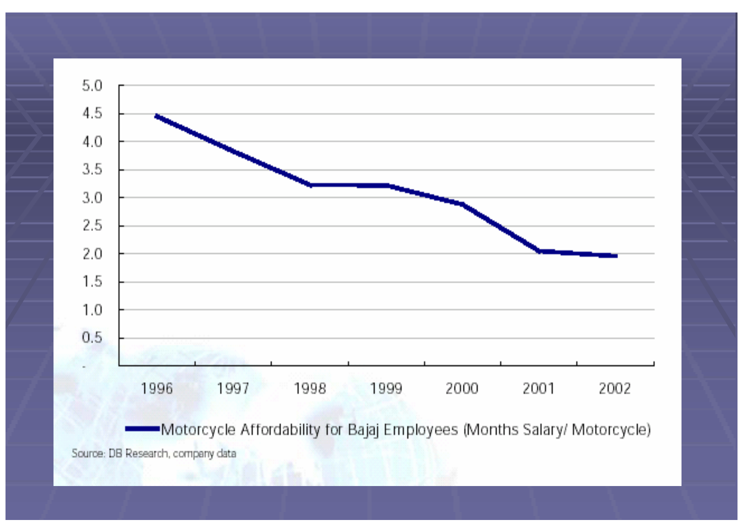
India's 2003-04 budget has enunciated five priorities. These are poverty eradication, infrastructure development, fiscal consolidation, agriculture and related aspects, and enhancing manufacturing sector efficiency designed to give further impetus to the reform process. As a part of this process, peak rate of customs tariff was reduced to 25% for all except those constituting agricultural products. This has brought India's average tariff levels closer to some of the ASEAN economies, and thus improved its cost competitiveness. India has already committed itself to progressively reduce its tariff levels further to be comparable with that of ASEAN within a time span of about 2-3 years (Kumar, 2002b).

Further, as a part of addressing the infrastructure bottleneck, new infrastructure projects involving development of highways, modernization of railway network, as well as modernization of the major seaports and airports are being implemented[7] (Woods, 2003; Sanyal, 2002; Awasthi and Ganguly, 2003; Krishnan, 2003). The measures proposed in the power sector are potentially far-reaching[8]. Significant reforms have also taken place in the telecommunication sector. Thus, the international tariffs have been slashed by over 20%, with plans being made to develop India as a major hub for IT enabled services. There has been a new initiative to promote the comparative advantage in India's service exports in areas viz. health, education and tourism.

The reforms in India have led to the improvement of India's trade and investment environment (Nagpal, 2003; Kumar, 2002b; Woods, 2003). India's trade has been growing over time and crossed the crucial milestone of US $100 billion for the first time during the fiscal year, 2002-03. It is expected that the increasing competitiveness of Indian exporters would provide further impetus to the export growth (Nagpal, 2003; Sarma and Mehta, 2002; Kumar 2002b). There has been a progressive liberalization of the capital account, which has contributed to increased flow of two-way investments both in and out of India. The foreign ownership of up to 74 percent of equity is now allowed in selected high-priority infrastructure sectors, ranging upto 100 percent foreign ownership on an automatic basis for investment proposals in ports, roads and power generation. Not only can Indian companies invest in subsidiaries and joint ventures abroad, but individuals, companies, and mutual funds can also invest in overseas listed companies[9] . In the case of mutual funds, the limit has been raised to US$ 1 billion on mutual funds from the current US $500 million. As a result, both equity and portfolio investment abroad have been considerably liberalized. In the process, India is inching further towards capital account convertibility. Some of the broad indicators of the investment climate suggest that India's profile is not significantly different from China's, Brazil's or even Thailand's, despite the gaps in FDI received[10] (World Bank, 2002).

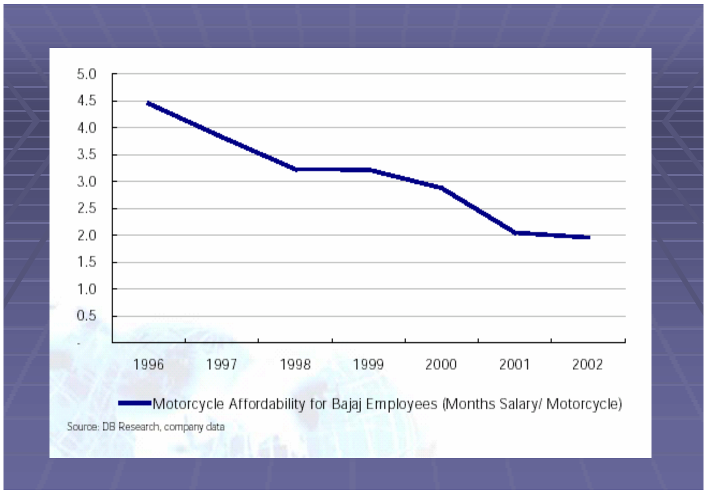
The reforms have thus had a significant positive impact on the living conditions of the general population in India[11]. Thus, according to the census of 2001, there has been an increased access to basic amenities viz. permanent housing, access to safer drinking water and electricity, banking facilities, and a boom in demand for consumer durables, over the past decade. The focus on rural development as one of India's current priorities announced in the recent budget is likely to lead to a quantum improvement in the present situation. The affordability of India's industrial workers in buying the products they produce has also improved significantly as shown in Figure 1a and 1b.

Figure 1a
Affordability of Bajaj Employees, 1996-2002



Source: *Scott (2003)*

Figure 1a
Affordability of Bajaj Employees, 1996-2002



Source: *Scott (2003)*

With focus on long-term development in key areas, the strategic thinking underlying India's recent budget of 2003-04 has thus been similar to that pursued by several East Asian economies such as Thailand, Malaysia, and China. This thinking emphasizes stimulation of domestic demand, particularly through infrastructure and rural development. There now appears to be a degree of budgetary policy convergence between India and East Asia.

The reforms have also meant that India's shift towards markets is now consistent with its decentralized polity and strong civil society. India thus has sustainable and durable political stability arising from its institutional strengths and political traditions. It also has economic resilience and momentum as incremental reforms have acquired a critical mass, reflected in genuine progress in certain key areas such as infrastructure, and education (Woods, 2003; Sanyal, 2002; Krishnan, 2003).

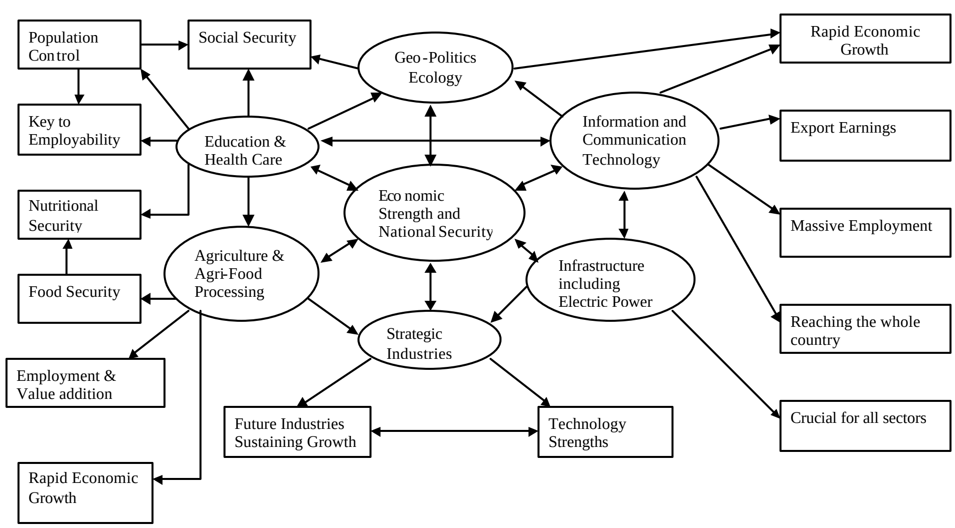
There has also been a perceptible shift in the approach and the attitudes towards the need for national economic strengths and India's ability to compete in both economic and non-economic fields with the rest of the world. The British-type cultivated cynicism among the intelligentsia is being replaced by greater degree of pragmatism and desire to enhance India's position among the community of nations. An upward mobility of ordinary middle class whose sons and daughters have risen in prominence through their merit and hard work has contributed to this shift[12].

India's Vision

India has achieved a fair degree of political consensus in pursuing its vision to become a developed nation by the year 2020. To realize this vision, India envisages achieving a growth rate of 8% per annum. This is reflected in India's 10th Five Year Plan (2002-2007)[13]. The policymakers and businesses realize the need for major reforms in various sectors, including more result or outcome oriented mind-set and political processes if the vision is to be achieved.

Figure 2 provides an illustration of integrated actions which will be needed to achieve the vision. These actions are indeed quite wide ranging, and recognize the linkages between quantity and quality of population and labor force, improvement in social indicators, the role of technology, particularly information and bio-technology, infrastructure, and the need to create strategic depth. The vision regards creation of knowledge-based economy in its wider context, i.e. applying existing knowledge in relevant areas to bear on a particular problem, as well as creating new knowledge and brain-arbitrage, as the key to rapid economic growth and development (Kalam and Rajan, 2002).

Figure 2: Vision for Developed India: Integrated Actions



Source: President A.P.J. Abdul Kalam's website: http://www.presidentofindia.nic.in/
For more details, refer to *Kalam and Rajan (2002).*

The integrated actions envisaged in Figure 2 are likely to occupy India's energies and attention for a considerable period. Even as India becomes more competitive, particularly finding complementarities with firms from other countries, constructive economic cooperation, and peaceful co-existence with the rest of the world, including with JACIK countries, have become essential if India is to make progress towards achieving its vision. Since other JACIK countries, particularly China also has similar desire, there is likely to be a congruence of interests among the members.

III. Harnessing Complementarities between India and JACIK

The existing sub-regional co-operation initiated under the framework of ASEAN and SAARC is unlikely to exploit the full potential of the regional economic integration across Asia as the extent of complementarities are likely to be limited at the sub-regional levels. The diversities in levels of economic development and capabilities across a pan-Asian economic community are much wider and provide for the requisite economies of scale and scope, and therefore mutually beneficial linkages across member countries (Kumar, 2002a).

India's merchandise trade with the rest of JACIK countries has expanded significantly in both absolute and relative terms (Table 2).Thus, between 1995 and 2000, India's exports to other JACIK countries increased from US $5.2 billion (16.9 percent of the total) to US $7.5 billion (17.8 percent of the total). India's imports from other JACIK countries increased much more significantly from US $6.3 billion in 1995 (18.1 percent of the total) to US $13.4 billion in 2000 (26.0 percent of the total). Indeed, with some of the constituent members such as ASEAN, India's imports have risen even faster, more than doubling in share from 7.1 percent in 1995 to 14.6 percent in 2000 (Table 2). The above figures do not include trade in service transactions whose importance has been growing (Kumar, 2002a; Asher *et al*., 2003; Sarma and Mehta, 2002). The above figures also do not reflect emergence of the Indian exporter in the last two to three years (Nagpal, 2003). Indeed, Indian companies are increasingly targeting rest of the JACIK countries for trade and investment.

Table 2

India's Merchandise Trade with JACIK Countries

	Amount (US $ mn.)				**Share in Total (%)**			
	Exports		Imports		Exports		Imports	
Country	**1995**	**2000**	**1995**	**2000**	**1995**	**2000**	**1995**	**2000**
China	283	1230	881	1717	0.9	2.9	2.5	3.3
Japan	2130	2397	2234	2737	7.0	5.7	6.4	5.3
Korea	394	895	717	1459	1.3	2.1	2.1	2.8
Indonesia	501	477	384	1266	1.6	1.1	1.1	2.5
Malaysia	355	659	770	2117	1.2	1.6	2.2	4.1
Philippines	122	151	15	70	0.4	0.4	0.0	0.1
Singapore	807	978	966[b]	3158[b]	2.6	2.3	2.8	6.1
Thailand	461	547	146	622	1.5	1.3	0.4	1.2
Vietnam	97	120	15	16	0.3	0.3	0.0	0.0
Myanmar	21	61	160	287	0.1	0.1	0.5	0.6
ASEAN[a]	2364	2993	2456	7536	7.7	7.1	7.1	14.6
JACIK	5171	7515	6288	13449	16.9	17.8	18.1	26.0
Total	30630	42101	34707	51633	100.0	100.0	100.0	100.0

Note: [a] refers to All ASEAN members excluding Cambodia, Laos and Brunei as their trade with India has been quite negligible.
[b] includes re-exports. Some double-counting may therefore be present.

Source: Computed from IMF, *Direction of Trade Statistics Yearbook*, 2001

An analysis of the detailed product and sector breakdown of merchandise trade is beyond the scope of the paper[14]. However, it does appear that India needs to focus on further diversifying both the import and the export basket.

Table 3 illustrates complementarities between economic structures of India and East Asia. The illustrative table suggests that East Asia’s prowess in IT hardware and electronic equipment can be matched with India’s increasingly sophisticated and sustainable software capacities, and her abilities in chip design. Indeed, East Asia’s need for research development activities in new technologies, such as biotechnology, generic engineering, space research, medical science, and pharmaceuticals can be partly met through investment in India and benefiting from India’s scientific talent pool.

Until now, it is the western companies which have undertaken such investments and collaboration. It is also the western companies which have increased their competitive edge through extensive Business Process Outsourcing (BPO) from India. The companies from other JACIK countries have been slow to exploit the BPO route through India to enhance their competitiveness. The language barrier should not be decisive as Indians are adept at learning new languages. What is needed is substantial reduction in information and perception gaps about India and East Asia; and concerted efforts in India to develop expertise on East Asia and to draw appropriate lessons from the East Asian development experience. India also needs to be able to be more proficient at economic diplomacy, and to learn "soft power" skills.

Table 3
Complementarities between Economic Structures of India and East Asia

East Asia's Strengths	India's Strengths
IT Hardware and Electronic Equipment	Computer Software
Heavy Engineering	Light Engineering and Pharmaceuticals
Product Development and Marketing Underutilized Capacity in Construction	Process Development Huge Potential Demand for Infrastructure
Need and Ability to invest in R & D	Well Developed R & D Infrastructure and Manpower

Source: Adapted from *Kumar (2002b)*

Investment Flows

Table 4 provides available data on approved FDI flows into India from other JACIK countries. As these figures refer to only the foreign equity component, they are significantly understated (Srivastava, 2003). Since 1991, Japan has clearly been the most important investor from the JACIK countries. In 2002, Japan accounted for close to half of the investment from JACIK. The other significant investors were Malaysia and Singapore. During 1996-2000 period, South Korea accounted for nearly 40 percent of investment from JACIK countries. Since then, there has been substantial drop in South Korean investment. Given the dominant presence of South Korean companies in the white goods sector, particularly refrigerators, audio and video systems, and cellular phones, and in the automobile sector in India, the low percentage exhibited by South Korea since 2000 is surprising. One possibility is that much of the South Korea's investment since 2000 has been from reinvested earnings which are not included in the figures. Nevertheless, India and South Korea need to focus on further expanding investment relations.

Table 4
India: Approved FDI Inflows from JACIK Countries

	Amount (US $ mn.)				Share of JACIK member countries in Total (%)			
Country	**1991-1995**	**1996-2000**	**2001[a]**	**2002[b]**	**1991-1995**	**1996-2000**	**2001**	**2002**
Japan	985.6	1810.4	152.6	154.2	4.8	3.8	2.7	6.7
South Korea	172.4	2393.6	13.9	6.0	0.8	5.0	0.2	0.3
Malaysia	519.4	1058.9	22.0	77.6	2.5	2.2	0.4	3.3
Singapore	481.4	777.3	78.8	77.5	2.3	1.6	1.4	3.3
Thailand	816.5	30.5	0.3	0.0	3.9	0.1	0.0	0.0
China	233.1	10.6	0.0	0.0	1.1	0.0	0.0	0.0
Indonesia	109.7	20.6	0.0	26.3	0.5	0.0	0.0	1.1
Philippines	33.1	81.6	0.4	0.0	0.2	0.2	0.0	0.0
JACIK	3351.2	6183.4	267.9	341.7	16.2	13.0	4.8	14.7
TOTAL	20695.5	47613.7	5578.0	2319.3	100.0	100.0	100.0	100.0

Note:
[a] Calculated on the basis of exchange rate at the end of period.
[b] Figures for ASEAN within the JACIK grouping refer only to ASEAN-5 as the contribution of other members to India's approved FDI Inflows were negligible.

Source: Computed from *SIA Newsletter*, February, 2003.

There appears to have been an increasing trend of Japanese companies using their Indian subsidiaries as an export base and as a center for R&D. As an example, a Japanese company, Akai, has made India its export base for South-East Asian and European markets. (The Financial Express, April 29, 2003). Similarly, companies such as Honda, Fujitsu, Suzuki and others have integrated their Indian operations into their world-wide export and/or R&D activities.

The investments by Malaysia have been primarily in infrastructure projects, such as road development. The establishment of representative office of the Confederation of Indian Industry (CII) in Kuala Lumpur has laid the foundation for greater investment collaboration by the companies, including the Small and Medium Enterprises (SMEs) between the two countries. There has been steady investment by Singapore-based companies, including MNCs based in Singapore, in India (Sarma and Mehta, 2002). The investments have been primarily in the telecommunications, information technology, ports, logistics, and the health care sectors. There is also been some investment in India by venture capital companies based in Singapore. The CII has a regional representative office in Singapore. It would be useful if the Singapore Business Federation (SBF) were to reciprocate CII's efforts by establishing an office in India. This could lead to considerable increase in the economic linkages between the SMEs of the two countries. Singapore may also consider establishing an office of one of its major government investment holding companies in India. This may provide mutually beneficial opportunities by combining Singapore's investment capital with India's entrepreneurship (Asher *et al.*, 2003). For the Singapore-based MNCs, India will need to device a separate strategy to enable it to capture a portion of the value- added in the design, production, and distribution chain.

The Chinese companies have also shown interests in investing in India, particularly in the IT, natural resources, light engineering, and white goods. There are also indications of intra-industry division of labor between the two countries in pharmaceuticals, and engineering industries (Nagpal, 2003). As bilateral relations between India and China continue to improve, it is anticipated that trade and investment relations will deepen.

India’s Outward Investment

As noted in section II, India has substantially liberalized the policy framework enabling Indian companies, individuals and financial institutions to invest abroad. This has led to significant outward investment flows from India to rest of the world, including to other JACIK members. India’s cumulative investments in JACIK countries were valued at US $ 362 million, during the 1990s. Indian companies set up about 400 ventures in other JACIK countries during the nineties. Among the prominent destinations have been Singapore, Malaysia, Thailand and China since 1991 (Kumar, 2002b, Table 10). This trend has been accelerating since 2000, though systematic data collection of India’s outward investments is currently absent. It is strongly suggested that the efforts be made to address this data gap.

There has also been bi-directional manpower flows between Indian and other JACIK countries. Indian professionals and managers as well as lower skilled workers have significant presence in ASEAN. Their presence in Japan is increasing. Nevertheless, India needs to focus on increasing its manpower flows to Japan and Korea.

In manufacturing, logistics, ports, and in industrial parks and real estate management, professionals from JACIK countries are making significant contributions to transferring technical and management skills to India. India should make greater efforts to attract flow of talent from JACIK countries, including students from these countries in India’s tertiary education system. If the Indian Diaspora in these countries finds economic opportunities in associating with Indian businesses, that would also have a positive impact on their socio-economic status, and will help smoothen India’s integration with the JACIK countries.

Possible Areas of Complementarities

The 2003-04 budget proposes India Development Initiative under which US $1 billion per annum will be available for grants and project assistance to countries in Africa and Asia. This may be of particular relevance to less developed newer members of ASEAN.

Some of the areas where India and JACIK countries can cooperate include food security, including agricultural research; pharmaceuticals, including generic drugs and low cost drugs for such diseases as HIV- AIDS; tourism, space technology; rail transport; and media and entertainment. The JACIK countries can contribute to India's development in several areas. These include energy security; food processing technology; plantation sector; infrastructure particularly ports and roads; logistics; industrial parks and real estate management, tourism and others. As India and other JACIK countries begin to understand each other better, and reduce information and perception gaps and establish institutional and infrastructural linkages, the potential for transforming above complementarities into concrete economic cooperation will increase, providing mutual benefits.

IV. Concluding Remarks

Within a decade of their initiation in 1991, India's economic reforms designed to integrate its economy with the world economy in a market-consistent manner have become self-sustaining. Positive results obtained so far have given the policymakers, businesses, and other stakeholders' greater confidence in the country's ability to compete both domestically and internationally. India's decentralized polity and its increasingly market-based economy with decentralized decision making are now in alignment. This will be an important competitive advantage for India in meeting the challenges of the 21st century.

India's energies are focused on achieving the vision of becoming a developed nation through integrated set of policies and actions. There is realization in India that this will require India to become a knowledge-based economy in the broadest sense, including generating commercially valuable new knowledge products. It is only the knowledge-based economy that can support India's large labor force and population of over a billion.

While the political, social, and economic constraints in progressing towards the vision should not be underestimated, India is continuing to acquire capacities and capabilities which make it a valuable economic partner for other JACIK countries. There are indications of significant division of labor and complementarities in design-production-distribution chain emerging in areas such as electronics, pharmaceuticals and biotechnology. India's large market also makes it an important trading partner, particularly for ASEAN. JACIK countries will also find economic opportunities in India's large pool of technical and professional manpower, and in cooperating with India's scientific research institutes.

There is increasing recognition that even as Asian countries engage in competition, Asia-wide communication and dialogue, constructive co-operation, and institution building through JACIK (or similar forum) provide much sounder base for securing Asia's future and its rightful place in the world community than the current sub-regional efforts. There is therefore urgency in establishing an Asia-wide forum such as JACIK. Given India's gradual emergence to a knowledge-based economy and the existence of wide-ranging complementarities with other JACIK countries, India is poised to plan an important role in the proposed new Asian Economic Community.

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NOTES:

[1] The European Union (EU) currently has 15 members but 10 more countries, from Eastern and Central Europe will join the EU by 2004 (Source: http://www.eurunion.org/states/home.htm)

[2] The full report of the Joint study group providing the broad framework for CECA may be found at https://www.mti.gov.sg. The fact that Singapore's Prime Minister was welcomed in New Delhi despite Singapore being significantly impacted by the Severe Acute Respiratory Syndrome (SARS) disease, underlines the importance attached to the CECA by both countries (Sen, 2003).

[3] China, Japan and India are respectively second, third, and the fourth largest economies in the world when measured in terms of Purchasing Power Parity (PPP) (World Bank, 2002).

[4] A taskforce for the proposed RTIA is already operational; and both sides are in the process of identifying "early harvest" programme of non-sensitive items for tariff reduction (Source: The Hindu, May 16, 2003; internet edition: http://www.hinduonnet.com/thehindu/2003/05/16/stories/2003051602321600.htm).

[5] Bilateral merchandise trade alone has increased from US $265 million in 1991 to US $ 4,950 million in 2002; with the annual growth rate exceeding 30 percent between 1998 and 2002 (Source: Business Times, Singapore, April 30, 2003). There is however large discrepancy between bilateral trade figures depending on whether the data source is China or India. The Indian official data puts bilateral trade in 2001-02 at US $ 3000 million, substantially lower than China's figures. Reasons for such large discrepancy are not clear, but need to be investigated.

[6] As compared to other JACIK members (see Table 1), India's foreign exchange reserves may be regarded as moderately high.

[7] There has been significant progress in certain infrastructural critical areas viz. telecoms, roads and ports, though much still remains to be done. As an example, The Golden Quadrilateral (GQ) project which involves connecting all four metropolitan areas of Delhi, Calcutta, Mumbai and Chennai by a four land highway spanning 5846 km will be completed by end 2003. The GQ accounts for 2% of total road length and carries over 40% of total traffic. It would thus substantially cut down the transportation cost. Another project of 7300 km in length connecting North-South East-West corridors will be completed by 2007. Hence, these projects promises substantial benefits in the form of lower road-freight costs and ease of road travel (Woods, 2003). The GQ project alone is expected to lead to direct savings of US $2.2 billion per annum (Awasthi and Ganguly, 2003, Table 8, p.17). These do not include indirect benefits such as lower accident rates, greater economies of scale in key input industries such as cement, tourism, and retailing. The Central Road Fund (CRF) financed from per litre surcharge on diesel and petrol has made substantial financing available on ongoing basis. The road projects, by linking economic sectors, will make India's manufacturing industry more competitive both domestically and internationally.

[8] These include de-licensing of thermal power generation, liberalization of the captive power policy, open access to transmission and distribution networks to allow direct sale of power to bulk consumers, fillip to electricity trading, gradual reduction and elimination of cross-subsidies. This would allow consumers to enjoy substantial gains, by having them the freedom of choice in selecting their distributor based on the efficiency and services. Also, good transmission lines would give a huge boost to power trading companies in India to deal with various generating and distribution companies and offer optional packages to consumers (Source: Business Standard, April 16, 2003; internet edition: http://www.business-standard.com/archives/2003/apr/50160403.078.asp). The political economy related challenges however remain in this sector.

[9] Please refer to Business Line, May 21, 2003; internet edition: http://www.blonnet.com/2003/05/21/stories/2003052102640500.htm

[10] It is to be noted that there are substantial differences with respect to reporting of FDI data by India and the above-mentioned economies. Thus, popular perceptions that China has been attracting nearly twenty times more FDI than that of India, needs to be carefully examined. Srivastava (2003) observes that FDI in China involves significant amount of round-tripping (and is thus overestimated), and the actual difference with Indian figures (which is often underestimated while comparing with IMF standards), would be about 2.5 times. Even this figure however underscores China's much greater success in attracting FDI, particularly in infrastructure. Indian policymakers and businesses thus need to consider how the growth-enhancing FDI flows, particularly in labor intensive manufacturing and in infrastructure can be increased substantially. Similarly, India's fiscal expenditure needs to shift at the margin to capital investment as at this stage such investment is likely to crowd-in substantial private investment while making the economy more competitive. What ultimately matters is investment, not whether it is domestic or foreign.

[11] A distinct evidence of this is the fact that in 2001, nearly 52 percent of Indian households had access to permanent housing, as compared to 42 percent in 1991. The number of households having access to safer drinking water has increased by 45 percent over the same period. Although figures for consumer durables were not available in 1991, recent figures suggest that out of a population of about 1 billion, nearly 61 million households had television sets, while 18 million households had access to telephone facilities, with 68 million having access to banking facilities (Source: Business Standard, April 21, 2003; internet edition: http://www.business-standard.com/today/story.asp). There has been a continuous progress in the literacy rates, which has increased from 52.2% in 1991 to 65.3% in 2001 of the population aged seven years and above (Parikh, 2002).

[12] Shekhar Gupta, a senior columnist with the Indian Express has called this group the Hindi Medium Types (HMTs) to emphasize that they do not come from the old elite and the aristocratic families but are essentially from the small town middle class families (Source: Indian Express, February 15, 2003; internet edition: http://www.indianexpress.com/full_story.php?content_id=18424). C.K. Prahalad, the U.S.-based management expert has urged the Indian business to publicize more effectively their success in restructuring and becoming internationally competitive, rather than unduly and almost exclusively dwelling on the challenges (Source: Business Standard, May 1, 2003; internet edition:http://www.businessstandard.com/archives/2003/may/50010503.021.asp)
A recent cover story in major business magazine has highlighted the success of HMTs in a wide-range of business, most of which were started after 1995 (Source: Business Today, May 11, 2003, pp. 45-54).

[13] The details of the 10th five year plan (2002-2007) are provided in http://planningcommission.nic.in

[14] For such as analysis for India-ASEAN trade, see (Sarma and Mehta, 2002).