

ISSUE BRIEF

*"Advancing the Strategic Potential of India-US
Relations, Accelerating India's Economic Development"*

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India's Agenda for an "Asian Century"

by Amb. Hemant Krishan Singh



As erstwhile geo-political and geo-economic constructs of "East Asia" and "South East Asia" begin to coalesce into the broader geographical canvas of an "Indo-Pacific" region, it is time to focus attention on aspects critical to India's future in an "Asian Century". India's economy has globalised and a third of its external engagement is already with the Asia that lies to the East of the subcontinent. While determining policies that bolster India's emergence as a major regional and global power, India must broaden its convergences with strategic partners and play a proactive role in shaping the emerging security and economic architecture of the Indo-Pacific. This paper explores policies and thrust areas that can guide Indian policy making from a long-term perspective.

Regional Projection for 2050



There are very good reasons for the increasing importance of Asia reflected in the policy

pronouncements of major powers, including the US. The ADB's "Asian century scenario" estimates that Asia's share of global GDP will double to 52% (US\$ 174 trillion at market exchange rates) by 2050. With a per capita GDP of US\$ 40,800 (PPP), Asia would by then enjoy incomes similar to Europe today. Seven countries (China, India, Indonesia, Japan, ROK, Thailand and Malaysia) will be the main drivers of this economic transformation, providing 91% of Asian GDP growth and 53% of global growth between 2010-2050. By mid-century, they will comprise 75% of Asia's population, contribute 90% of Asia's GDP, and account for 45% of global GDP (Tables 1-3).

As Asia reoccupies its historic position as the main engine of the world economy after 300 years, its role in global affairs will inevitably grow as will the power and influence of its seven major economies.

None of this, of course, is pre-ordained. As the ADB has pointed out, regional economies will need to constantly adapt to economic headwinds, progress economic integration, mitigate competition, sustain productivity gains and maintain comparative advantage.

Links of Interest ICRIER - Wadhvani Chair

India – US Insight

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"Advancing Strategic Asia"

by Amb. Hemant Krishan Singh,
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Table 1

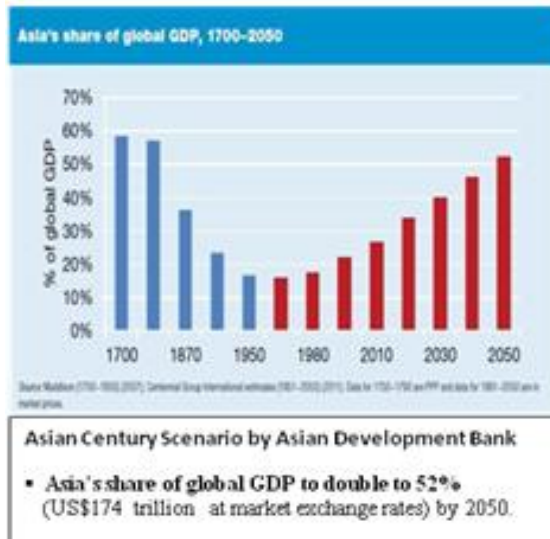


Table 2

	2010 GDP (MER trillions)	2050 GDP (MER trillions)
PRC	5.7	62.9
India	1.4	40.4
Indonesia	.7	11.4
Japan	5.4	8.2
Republic of Korea	1.0	3.7
Thailand	.3	3.2
Malaysia	.2	2.6
Total Asia-7	14.8	132.4

Seven countries (China, India, Indonesia, Japan, ROK, Thailand and Malaysia) will be the main drivers, accounting for 91% of Asian GDP growth and 53% of global growth between 2010-2050. By 2050, they will account for 45% of global GDP.

Table 3

Economic 2050 outcomes under two scenarios—Asian Century and the Middle Income Trap		
Share of Global GDP (MER)	Asian Century	Middle Income Trap
Asia	51%	32%
PRC	22%	11%
India	14%	6%
United States	14%	21%
GDP (trillions \$ MER)		
Asia	148	61
PRC	63	21
India	40	12
United States	40	40
World	292	191
GDP per capita (\$ PPP)		
Asia	38,600	20,300
PRC	47,800	23,700
India	41,700	17,800
United States	98,600	98,600
World	36,600	25,900

Source: Conference Group projections, 2011.

Source: ADB

Better governance and institutional capacity to meet public pressures for faster progress will hold the key if Asia is to avoid the alternate scenario of falling into a middle-income trap, the economic and social costs of which will be staggering, restricting Asia's GDP to just \$65 trillion (at market exchange rates) and per capita GDP to \$20,600 (PPP) by 2050. Hopefully, Asia will avoid a "perfect storm" to achieve the optimum economic targets projected by the ADB.

The foremost challenge this scenario poses is that India cannot squander its development potential of ±9% annual GDP growth. With its current economic slowdown, macro-economic imbalances, stalled reforms and policy paralysis, there are clear downside risks for India which should spur immediate action. It has been argued that India failed to derive full strategic advantage from its economic success between 2003-2007, which had positioned India at the centre-stage of global attention. Now, more than ever, India needs to

rediscover the national coherence required to regain the lost momentum and expand leadership, which, despite the complexities of India's domestic politics, we can hope will be forthcoming.

Asian Community Building

The significance of 2005 as a decisive turning point for India's re-emergence in the Asian power calculus cannot be overestimated. By becoming a founder member of the East Asia Summit (EAS) against formidable odds, India reclaimed its long-standing economic and strategic space which it had ceded because of misplaced ideological mindsets in the 1960s and '70s. 2005 was also the year when Asia's most industrialised power, Japan, shaken by anti-Japanese protests in China, turned decisively towards India as its new Asian partner of choice. These twin geo-strategic gains remain India's greatest assets in

Asia today.

Hobbled by the absence of pragmatic economic policies, India missed out on the East Asian boom of the 1980s and 90s. This first phase of Asian economic integration was largely led by Japan through FDI, manufacturing technology, infrastructure building and the development of regional production networks. As a result, East Asia today is among the world's most highly integrated regions. India is the least integrated with this dynamic region, both in terms of trade and production networks (Tables 4 and 5).

The last two decades have undoubtedly seen much progress, but India's Look East Policy (LEP) remains an unfinished business of catching up. It took six years to conclude an FTA with ASEAN on trade in goods, conclusion of FTA chapters on services and investments has been pending since 2009. PM Dr. Manmohan Singh's idea of an "Asian Economic Community", articulated strongly at the start of his first term, has become a distant refrain. This

situation must be remedied, as India has the most to gain from regional economic integration (Table 6).

Multiple tracks and platforms have emerged for regional economic integration, including EAFTA among APT countries, ASEAN+6 CEPEA, FTA between ASEAN Community (2015) and +1 partners, an as yet undefined East Asian Community and a re-energised TPP. India's options are more limited than those available to other East Asian countries. We must move rapidly to conclude the India-ASEAN FTA and maintain the momentum of progress on CEPEA.

Having led by precept and manufacturing prowess in the past, Japan is now mentoring a second, more institutionalised phase of Asian integration through the Economic Research Institute for ASEAN and East Asia. ERIA has recently finalised its Comprehensive Asian Development Plan 2 (CADP-2), a grand spatial design for infrastructure development and economic integration dovetailed with ASEAN's own Master Plan for ASEAN Connectivity (MPAC). The Mekong-India Economic Corridor (MIEC) is the centrepiece of CADP-2 (Map 7). India needs to pursue a determined strategy to enhance India-ASEAN physical and institutional connectivity comprising, *inter alia*, the following elements:

(i) Strengthened focus on Myanmar (and Northeast India).

Table 4 : Top ten ASEAN trade partner countries/regions, 2009 as of 15 July 2010

value in US\$ million; share in per cent

Trade partner country/region ^{1/}	Value			Share to total ASEAN trade		
	Exports	Imports	Total trade	Exports	Imports	Total trade
ASEAN	199,587.3	176,620.1	376,207.3	24.6	24.3	24.5
China	81,591.0	96,594.3	178,185.4	10.1	13.3	11.6
European Union-27	92,990.9	78,795.0	171,785.9	11.5	10.8	11.2
Japan	78,068.6	82,795.1	160,863.7	9.6	11.4	10.5
USA	82,201.8	67,370.3	149,572.1	10.1	9.3	9.7
Republic of Korea	34,292.9	40,447.4	74,740.3	4.2	5.6	4.9
Hong Kong	56,696.7	11,218.6	67,915.2	7.0	1.5	4.4
Australia	29,039.3	14,810.8	43,850.1	3.6	2.0	2.9
India	26,520.3	12,595.5	39,115.8	3.3	1.7	2.5
United Arab Emirates	10,569.5	13,797.0	24,366.5	1.3	1.9	1.6
Total top ten trade partner countries	691,558.3	595,044.0	1,286,602.3	85.3	81.9	83.7
Others ^{2/}	118,930.9	131,310.1	250,241.0	14.7	18.1	16.3
Total	810,489.2	726,354.1	1,536,843.3	100.0	100.0	100.0

Source: ASEAN Merchandise Trade Statistics Database (compiled/computed from data submission, publications and/or websites of ASEAN Member States' national ASEAN Free Trade Area (AFTA) units, national statistics offices, customs departments/agencies, or central banks.)

Notes: - 1/ identified/ranked based on share of total trade
2/ includes trade of all other countries and those that could not be attributed to specific countries. Some figures may not sum up to totals due to rounding off errors.

Source: ASEAN Secretariat

Table 5: Intra-Asia (ASEAN+6) Trade: Electric Machinery, Parts and Components

	Compositional Shares by Groups of Countries			
	Exports to ASEAN+6		Imports from ASEAN+6	
	2000	2009	2000	2009
ASEAN	41.8	37.6	52.6	33.3
China	6.6	15.6	18.0	42.9
Japan	37.9	23.6	14.4	9.6
Korea	13.1	22.6	12.9	11.1
India	0.2	0.3	0.6	2.1
ANZ	0.4	0.2	1.5	1.1
Total	100	100	100	100

Source: Prof. Shujiro Urata, Waseda University

- (ii) Participation in the development of Dawei port in Myanmar and completion of Trilateral Highway connectivity.
- (iii) Development of Chennai and Ennore ports as major gateways to ASEAN, linked to DMIC and a new Bengaluru-Chennai Corridor.
- (iv) Incremental opening up of the Andamans for fishing, regional transit trade and tourism linkages with ASEAN.

Given India's poor track record on project execution, we have much to learn from China's successful infrastructure diplomacy with ASEAN. Enhancing India-ASEAN connectivity must become our overriding regional priority, for which effective coordinating mechanisms within the Government of India and with ASEAN need to be established.

Regional Security

The main factors impacting on regional security in the Indo-Pacific are tensions in the Korean peninsula and the South China Sea. North Korea's decision to defy the international community and test a long-range missile under the guise of a satellite launch has once again highlighted the fragility of the security situation in Northeast Asia. On the other regional flashpoint of the South China Sea, there has been some downscaling of China's assertiveness of 2010-2011, which not only backfired regionally but also drew a US riposte in the form of a rebalancing or "pivot" towards Asia.

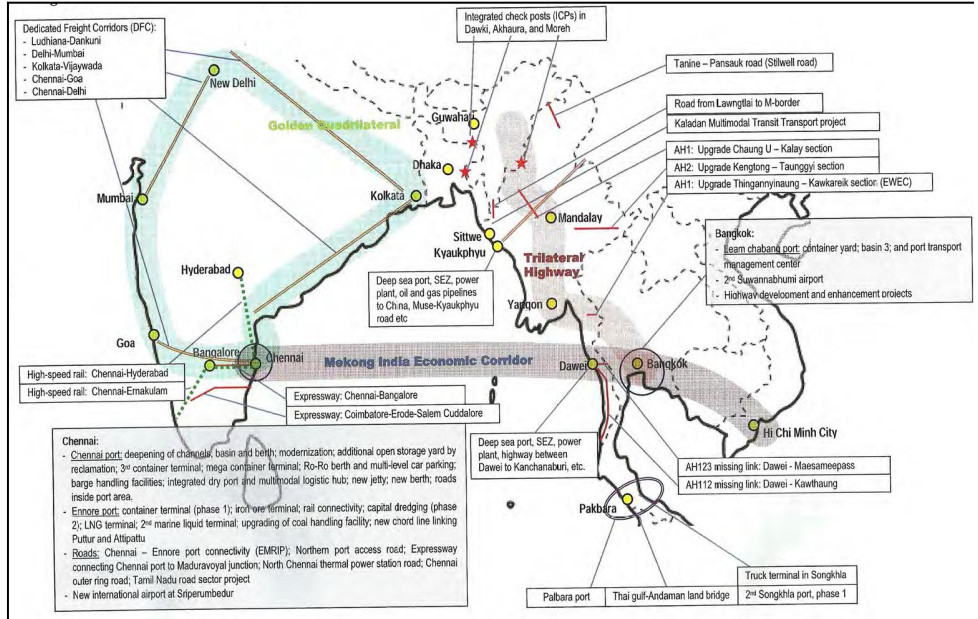
In reality, however, there has been no change in China's claim to virtually the entire South China Sea, as recent incidents in areas disputed with the Philippines indicate. Despite "guidelines" for implementing the 2002 Code of Conduct agreed with ASEAN, there is also no agreement in sight on a settlement mechanism. In fact, China may well succeed in browbeating Cambodia to prevent a common ASEAN stance

Table 6: Impacts of CEPEA on GDP (%)

	EAFTA (ASEAN+3)			(ASEAN+1) x5		CEPEA (ASEAN+6)		
	Sim 1	Sim 2	Sim 3	Sim 1	Sim 2	Sim 1	Sim 2	Sim 3
Japan	0.01	0.44	0.44	-0.01	0.10	0.05	0.54	0.54
China	0.13	1.66	4.72	0.01	0.20	0.14	1.77	4.84
Korea	1.13	3.56	3.55	-0.04	0.20	1.15	3.72	3.71
Indonesia	0.07	1.74	3.94	0.07	1.00	0.07	1.94	4.14
Malaysia	0.39	5.83	8.62	0.51	3.30	0.50	6.21	9.00
Philippines	0.21	3.94	6.28	0.20	2.20	0.25	4.18	6.52
Singapore	0.06	4.22	4.24	0.10	2.30	0.05	4.40	4.42
Thailand	0.68	4.49	7.02	0.80	2.80	0.74	4.78	7.32
Vietnam	2.21	7.08	9.67	2.33	5.00	2.25	7.33	9.92
Other Southeast Asia	0.09	0.88	2.91	0.11	0.50	0.10	0.92	2.95
Australia	-0.03	-0.09	-0.09	0.01	0.20	0.16	1.35	1.35
New Zealand	-0.03	-0.06	-0.06	0.00	0.10	0.10	1.87	1.87
India	-0.04	-0.10	-0.10	0.31	0.50	0.41	1.30	3.45
Hong Kong	0.00	0.00	0.00	0.00	0.00	0.00	-0.01	-0.01
Taiwan	-0.06	-0.09	-0.08	-0.03	0.00	-0.07	-0.10	-0.10
NAFTA	0.00	-0.01	-0.01	0.00	0.00	0.00	-0.01	-0.01
EU15	0.00	-0.01	-0.01	0.00	0.00	-0.01	-0.01	-0.01
Rest of the World	-0.03	-0.06	-0.06	-0.02	0.00	-0.03	-0.08	-0.08
ASEAN	0.36	3.60	5.67	0.41	2.14	0.39	3.83	5.89
ASEAN+3	0.14	1.18	1.93	0.04	0.30	0.17	1.30	2.05
ASEAN+6	0.12	1.02	1.68	0.05	0.31	0.19	1.30	2.11

Source: Prof. Shujiro Urata, Waseda University

Map 7: CADP2/MIEC infrastructure projects for ASEAN-India connectivity



Source: ERIA

at the next ASEAN and EAS Summits. Meanwhile, the countries of the region are faced with the certainty of China's military and naval expansion which impacts all adversely. China's 2012 defence budget released in March 2012 marks an 11.2% increase over 2011, breaking the symbolic \$100 billion barrier for the first time in

projecting expenditure of \$106.4 billion. This means that China will outspend all of South East Asia's militaries by a factor of three to one and its defence expenditure will be nearly three times that of India.**

In this emerging scenario of growing disequilibrium, India is

increasingly regarded by ASEAN (as well as the US and Japan) as a net contributor to the regional security balance. ASEAN is more open to India playing a greater security role than ever before, not least because of a basic India-ASEAN convergence: regional security needs to be anchored in cooperative frameworks where strategic competition does not override economic interdependence. This is an opportune time for India to elevate security cooperation to the forefront of its ties with ASEAN.

Furthermore, it is clear that the regional strategic balance can best be preserved through stronger security linkages between India, the US, Japan and ASEAN. "ASEAN centrality" will come under pressure, especially in the EAS, under forthcoming ASEAN Chairs Cambodia, Brunei and Myanmar. India must be prepared to play a robust and reassuring role and resist the temptation of remaining a mere spectator.

In terms of regional security institutions, the ARF's contribution (which has mainly centred around CBMs) may relatively decline as the ADMM+ mechanism gains prominence in pursuing its five-point agenda of maritime security, PKOs, HADR, counter terrorism and military medicine. This will certainly require India's Ministry of Defence and its diplomacy to evolve an effective strategy for contributing to regional security. Furthermore, India can join hands with ASEAN in developing a conceptual framework for the Indo-Pacific region covering maritime security, anti-piracy, safety of sea lines of communication, disaster relief, energy security, maritime policing and oceans management.

None of this will be feasible unless the Indian Navy, as a potential blue water force, lays the basis for region-wide deployments for maritime security, anti-

piracy and HADR. Logistics support agreements and access arrangements are, therefore, essential with Singapore, Indonesia, Thailand Myanmar and Vietnam. For expanding the Indian Navy's operational reach in both East and West IOR, LSAs with the US and Japan are also a must.

Initiatives such as the biennial Milan exercise and the IONS platform have already raised the profile of India as a maritime power and security provider. India also needs to develop Port Blair as a hub for regional maritime security and HADR cooperation under the EAS and ADMM+ mechanisms. India's lead in capacity building, inter-operability training and standard operating procedures for disaster relief, the importance of which will gain salience as regional economies prosper and urbanise, can bring wider and shared security benefits to the Indo-Pacific region.

Finally, this will also involve a major accretion of naval power by India across the IOR, for which hardware acquisitions underway may need further enhancement. Strengthening capacity in the specialised domain of expeditionary capabilities need particular attention.

Bilateral Initiatives

In crafting its Asian agenda, India will quite naturally supplement its regional approaches with bilateral initiatives.

As it undergoes a transition to democracy, resource-rich Myanmar is as crucial for India's economic and security interests as is Afghanistan on the other side of the subcontinent. Unfortunately, in comparison with Afghanistan, Myanmar has remained largely neglected. This will hopefully change with the Indian Prime Minister's forthcoming visit to Myanmar. India must mobilise greater political will to prioritise its Myanmar ties and deploy far greater resources for time-bound completion of connectivity projects than has been the case in the past. India should also provide help to Myanmar for naval capacity building.

Recent progress in economic and defence ties with Thailand must be maintained.

Regional giant Indonesia, which mirrors India in its commitment to democracy and pluralism, is vital for Indian interests, as indeed of the region as a whole. India needs to take major initiatives to strengthen security ties and consolidate a broad-based strategic partnership with Indonesia.

India's defence and security ties with Singapore are already an important element of its policies towards South East Asia. There



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is room to further expand this cooperation, especially in terms of naval access arrangements and exercises.

Cooperation with ROK on defence technologies has to be progressed. India's initiative to start an India-Japan-ROK Track 1.5 dialogue is a step in the right direction.

A security cooperation framework with Australia still awaits an opportune moment whose time will surely come.

For a multiplicity of factors including shared values and strategic convergences, India and Japan share perhaps the most important relationship (for both countries) in Asia, one which will increasingly be regarded as regional public goods much like the US-Japan alliance has been seen in East Asia for the past half century. The established agenda for bilateral political, security and economic cooperation with Japan can be buttressed with concrete measures to progress India-US-Japan trilateral cooperation across the Indo-Pacific littoral.

Conclusion

Emerging "Asia", lying between India and Japan, is arguably the most promising region for India's long-term strategic interests, one where regional partners await a more proactive Indian commitment. India must step up exchanges of high-level visits while pursuing both regional and bilateral channels for enhanced cooperation. The conclusion of the long-pending India-ASEAN FTA, progress on India-ASEAN connectivity and pursuit of regional economic integration through CEPEA are fundamental building blocks for securing India's economic future.

The special summit marking 20 years of dialogue partnership with ASEAN later this year will be a good opportunity to elevate security cooperation to the forefront of India's ties with ASEAN.

India's Andaman & Nicobar Islands have remained a neglected backwater despite their strategic location at the western entrance of the Malacca straits. It is high time for India to develop the Andamans as its geographical footprint in South East Asia, including as a regional hub for EAS and ADMM+ initiatives on maritime security and HADR cooperation.

The assignment of a separate Indian Ambassador to ASEAN without waiting for the emergence of the ASEAN Community in 2015 is another step which will be welcomed by ASEAN. Other initiatives worth considering include the opening of an India-ASEAN Centre in New Delhi and the revival of the India-ASEAN JBC.

Maintaining India's privileged ties with Japan and pursuing shared objectives through the India-US-Japan trilateral mechanism need to remain constant elements of an empowered Indo-Pacific policy.

Overall, in "acting" East, India needs to display higher levels of political commitment and ambition than has been the case so far if it is to realise the vast economic and strategic benefits which beckon in an Asian Century.

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