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**INDIA AND ASEAN: THE EMERGING ECONOMIC RELATIONSHIP
TOWARDS A BAY OF BENGAL COMMUNITY**

SANJAYA BARU

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Core-6A, 4th Floor, India Habitat Centre, Lodi Road, New Dlehi-110 003

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Foreword

In recent years, in the context of the changing economic scenario prompted by the resolution of the Cold War, the liberalisation of the Indian economy, and the “Look East” policy pursued by India, there has been a significant enhancement in economic ties between India and the ASEAN countries. There was a doubling of trade between India and the ASEAN countries in the 1990s. ASEAN emerged as the third largest foreign investor in India after the US and EU.

This paper by Dr. Sanjaya Baru seeks to explore the rationale for the creation of an alternative regional economic forum comprising of some member countries of ASEAN and SAARC. Dr. Baru argues that the Bay of Bengal Community would facilitate speedier trade liberalisation and increased regional capital flows, and offer prospects of widening the network for outward oriented growth in this part of Asia. This forum will emerge as the natural bridge between South Asia and South East Asia and will play a very important role, given the inability of SAARC to widen economic links within the sub-continent. The liberalised Indian market would offer meaningful opportunities to the ASEAN economies. Strategically, a closer linkage with the Indian subcontinent would go a long way in ensuring the prospects of peace and stability in the region.

The arguments presented in this paper need to be debated and discussed. It is hoped that the paper serves a useful purpose in generating further discussion on this subject.

Isher Judge Ahluwalia

Director & Chief Executive
ICRIER, New Delhi

TOWARDS A BAY OF BENGAL COMMUNITY

The 'Asian economic miracle' of the 1980s and the early 1990s, the impressive performance of South-East Asia both in terms of economic growth and human development, the end of the Cold war, China's emergence as a major military and economic power in Asia, and India's increasingly outward-oriented economic policy have all combined to mark a new phase in India's relations with Asia to her East. India unveiled a "Look East" policy of befriending her Asian neighbours, particularly the member countries of the Association of South-East Asian Nations (ASEAN) in the early 1990s, after having launched a new phase in its own economic development with a more open trade and investment regime. India's renewed interest in closer economic and political relations with her south-east Asian neighbours was reciprocated by many of them who seemed to be pursuing an unstated "Look West" policy of increasing their interaction with India. The perceptible increase in two-way trade and the flow of tourist and business traffic between India and Asean countries was paralleled by increasing official interaction and India's membership of the ASEAN Regional Forum (ARF) and it securing a "dialogue partner" status in ASEAN.

Notwithstanding the recent Asian economic crisis, India and ASEAN have tried to restore momentum to this new relationship, which is now reflected in the fact that in 1999 India's trade with ASEAN has once again increase at a faster pace than her trade with other regions of the world. More recently, India has shown keen interest in the emergence of a new regional association, BIMSTEC (Bangladesh, India, Myanmar, Sri Lanka and Thailand Economic Cooperation), which is likely to emerge as a bridge between South-Asia and South-East Asia, between SAARC and ASEAN and, in particular between India and ASEAN. In pursuing its "Look East" policy with renewed vigour, India is merely 're-discovering' an ancient link with the region.

1. Historical Background and the Evolution of India-ASEAN Relations

India's links with the member countries of the Association of South East Asian Nations (ASEAN) is ancient and civilisational. It is well known, for instance, that in Valmiki's *Ramayana* there are references to places identified as China, Java and Sumatra as likely places of Goddess Sita's concealment.¹ Maritime historians have found evidence of Indian interaction with societies spanning the entire Indian Ocean rim well into 1000 BC and earlier. ²The Kingdoms of the Andhra and Orrissa coasts were active in promoting maritime contact with the people of Indo-China and the interest shown by the Mauryas and Andhras encouraged emigration to the Indonesian Archipelago and other surrounding islands.³

It is believed that about 600 AD, the Saka kings of Gujrat set sail and reached the west coast of Java. According to the distinguished naval historian, Rear Admiral Sridharan, "This was the first wave of emigrants from the west coast of India to have settled in Java and contributed in a large measure towards the spread of Indian art and culture."⁴ There is evidence of intimate contacts between the Sailendras, who were the

Hindu rulers of Malaya Peninsula and the Indonesian Archipelago, and the Palas of Bengal.

Both Dravidian and Aryan people have had contact with the people of the South-East Asian region. Of the many Indian dynasties which made contact with the region, the Kalinga dynasty played the most important role in promoting emigration to the region, particularly to Java and as early as 75 AD. Historians believe this marks the beginning of “Hindu” influence in the region. As Sridharan notes: “There is no doubt that from as back as 75 AD, if not earlier, the Hindus began to make a descent on the Indonesian Archipelago and eventually left the imprint of Hindu civilisation. Indian art and architecture, Hindu and Buddhist religious customs and manners. The island of Bali shows that even to this day there exist visible signs of Hindu culture and civilisation.”⁵ Buddhism also had an equal, in some places greater, impact. Indeed, in large parts of East and South-East Asia today it is Buddhism, which has left an even greater impression than Hinduisim.

It is clear that until the arrival of Arab traders in the Indian Ocean in the second century, AD, the Indian merchants held an unchallenged monopoly of overseas commerce in the Indian Ocean waters. Sridharan notes that:

The takeover of trade from south Indian merchants by the Arab middlemen apparently came about at the end of the Chola period. So long as the Cholas wielded their naval power, the Arabs do not appear to have ventured to interfere. But the decline of the Chola power and decadence of the Sri Vijaya Empire had created a vacuum in overseas commerce and Arabs stepped in and in their trade rivalry effectively kept the Chinese away from the Indian Ocean. With the passing away of the overseas trade to the Arabs there was little or no direct interest taken by Indians in overseas commerce and they were content to trade with the Arab intermediaries and agents who sailed with their wares between the East and the West.

This however did not weaken the enduring civilisational influences and for centuries India and the countries of ASEAN have retained a strong cultural bond. The well-known Indonesian scholar O. Abdul Rachman notes, for instance:

From their birth places, in India, the great religions of Hinduism and Buddhism found their way to Indonesia, where they mingled with the indigenous belief systems to become an enduring and integral component of Indonesian culture, Islam also arrived in Indonesia by way of the Indian subcontinent. During their long process of consolidation, adaptation and growth in Indonesia, these great religions came to be seen by comparing, for example, any of a wide range of religio-cultural expressions and artefacts – such as temples, shrines, ceremonies, and classic literature such as the Mahabharata and Ramayana – in their respective Indian and Indonesian contemporary manifestations...⁶

Another Indonesian scholar, Soedjate Djiwandono, quoted President Sukarno as saying:

In the veins of every one of my people flows the blood of the Indian ancestors and the culture we possess is steeped through and through with Indian influences. Two thousand years ago, people from your country came to Jawadvipa and Suvarnavdipa in the spirit of brotherly love. They gave the initiative to found powerful kingdoms such as those of Sri Vijays, Mataram and Majapahit. We then learned to worship the very Gods that you now worship still and we fashioned a culture that even today is largely identical with your own. Later, we turned to Islam; but the religion too was brought to us by people coming from both sides of the Indus.⁷

In his survey of world history, the eminent historian Fernand Braudel refers to India and East Asia as the “greatest talks of all world economies” of the pre-industrial, pre-capitalist era. Braudel talks of the “Far East” as comprising “three gigantic world-economies”:

“Islam, overlooking the Indian Ocean from the Red sea and the Persian Gulf, and controlling the endless chain of deserts stretching across Asia from Arabia to China; India, whose influence extended throughout the Indian Ocean, both east and west of Cape Comorin; and China, at once a great territorial power – striking deep into the heart of Asia – and a maritime force, controlling the seas and countries bordering the Pacific. And so it had been for many hundreds of years.”⁸

“The relationship between these huge areas” says Braudel, “was the result of a series of pendulum movements of greater or lesser strength, either side of the centrally positioned Indian sub-continent. The swing might benefit first the East and then the West, redistributing functions, power and political or economic advance. Through all these vicissitudes however, India maintained her central position: her merchants in Gujrat and on the Malabar and Coromandel coasts prevailed for centuries on end against their many competitors – the Arab traders of the Red Sea, the Persian merchants of the Gulf, or the Chinese merchants familiar with the Indonesian seas to which their junks were now regular visitors.”⁹

Discussing the place of the ‘East Indies’ in this ‘Asian super-world-economy’, Braudel adds:

The logical confluence of trade, the crossroads lying at the centre of this super-world-economy could hardly be elsewhere than in the East Indies. Geography placed this region on the edge of Asia, halfway between China and Japan on the one hand, and India and the countries of the Indian Ocean on the other. But if geography proposes, history disposes, and in this instance refusal or acceptance could take innumerable forms depending on the actions of the super-powers of the Far East: China and India. At times when both were prosperous, in control of themselves and simultaneously engaged in outside activities, the centre of gravity

of the Far East was quite likely to lie, and to remain for a longer or shorter period, somewhere near the Malaca peninsula and the islands of Java and Sumatra. But the sleeping giants were both slow to arouse and invariable slow to act.

Only at the beginning of the Christian era, that is rather late in history, did Indian really recognise and start to take an interest in the East Indies. Her sailors, merchants and missionaries exploited, educated and evangelised the archipelago, successfully transferring to it her superior political, economic and religious way of life. The islands were thus converted to Hinduism.¹⁰

Indian and Chinese traders made the islands of the East Indies a “busy crossroads of trade” for several centuries, and created, what Braudel calls, the “super-world-economy” of the Far East that had attained levels of economic and social development exceeding those of Europe at the time. Rediscovering this ancient link between India and the countries of the ASEAN, Indian foreign minister, Mr. Inder Kumar Gujral, told the ASEAN Post-Ministerial Conference in Singapore in July 1996:

ASEAN and India are no awkward strangers. We have been neighbours and friends in time, space and existence for as long back as we can remember. Our habits, customs and social mores, our myths and legends, the clothes we drape, the cuisine we savour, the art, craft and design that is our shard legacy, even the languages we speak – all bear testimony to this good neighbourliness. Then there are the pilgrim trails that wind their way through our diverse lands. Our merchants and traders too linked us together for centuries as they ventured across the Indian Ocean and the Bay of Bengal as well as over land and mountain routes to ply their wares in our thriving bazaars and towns. The footprints of South-East Asia are to be seen in every aspect of India’s ethos.¹¹

European expansion into the Indian Ocean region and colonialism altered the nature and course of India’s relations with South-East Asia. As historian K M Pannikar notes, the victory of the Portuguese along the western coast of India in early 16th century “laid the firm foundations of the European mastery of the Eastern seas which continued for over 400 years.”¹² Beginning with the Portuguese, followed by the Dutch and then by the British and French, the maritime links between India and the South-East Asian nations was almost completely dominated by Europeans and India’s independent links with the region revived only after her Independence and the decline of colonial power in the region. Indian political leadership, especially the first Prime Minister Jawahar Lal Nehru, brought India’s relations with the rest of Asia, especially East Asia, to the centre-stage of India’s relations with the world immediately after India attained independence from British colonial rule.

The First Asian Relations Conference at New Delhi in 1947, and the First Asian African Conference at Bandung in 1955 tried to define a new post-colonial relationship between the developing countries of the region. Both these Conferences marked important milestones in India’s redefinition of its relations with South-East Asia.

However, both proved to be non-starters.¹³ The Cold War, tensions between India and China and the Vietnam war combined to draw the nations of this region apart, each looking elsewhere, often outside the region, for friends rather than exploring the prospects for a deeper pan-Asian relationship.

India's second attempt at re-exploring its relations with the countries of the ASEAN, after the unsuccessful attempts made in Nehru's time, came in the late 1970s when India began moving away from its 'inward-looking' import-substituting model of industrialisation and sought an increased share of world trade and investment. In a detailed study of this new phase of India-ASEAN relations, Charan Wadhwa concluded that the 1970s saw a significant increase in India-ASEAN trade, but that still this was very limited in scope and marginal to the corporate plans of Indian industry and trade.¹⁴

Wadhwa notes that in the 1970s India-ASEAN trade grew rapidly but still, in overall terms, remained a low priority for both, India's trade with the ASEAN countries as a proportion of its world trade was small, a mere 1.5% of her total exports and 0.39% of total imports in 1971-72 (values in Rupees). During the 1970s there was an increase in India-ASEAN trade so that by 1978-79 these shares had gone up to 4.2% and 5.2% respectively.

Based on a detailed country-wise and commodity-wise study of India-ASEAN trade, Wadhwa concluded that the commodity composition of bilateral trade between India and individual ASEAN member countries pointed to the existence of an increasing tendency towards "complementarities in the trade structure of India and the ASEAN countries in recent years. India can look to ASEAN not only for markets for its exports but also for its much needed imports."¹⁵

A view from ASEAN has been expressed as follows:

It has become increasingly clear that the industrial countries in general, and the United States and Japan in particular, will continue with their mercantilistic and self-centered economic policies for some time to come. Therefore, neither ASEAN, in terms of access to markets and technology transfer, nor South Asia, in terms of access to markets and to concessional development finance, can expect much satisfaction from the industrial countries. This development, in conjunction with the continuing balance of trade, payments, and budget deficits in many of the ASEAN and South Asian countries, has increased the urgency for these countries to expand their economic relations.¹⁶

If this optimism was not reflected in actual trends during the 1980s, it was both due to the inadequate openness of the Indian economy and the persistent inward-orientation of its corporate sector, and the increasing integration of the ASEAN economies with Japan and the OECD economies and their relative disinterest in South Asia in general and India in particular. ASEAN "Look East" policy and the consequent Japan-orientation, as well as Japan's integration with ASEAN through the so-called "flying geese" model of industrial re-location reduced India's appeal to ASEAN. While the ASEAN economies

infact became more integrated with the world economy, especially the OECD economies, during the 1970s and 1980s, India's external liberalisation was hesitant and slow till 1991. Indeed, the *Postscript* quoted above anticipated this outcome when it concluded:

It should, however, be stressed that various problems indicated in the Overview to this volume are not likely to be resolved in the short term. Moreover, even if political will is exhibited in favour of expanding relations, the nature and structure of the economies of the two groupings would continue to be an important constraint. Therefore, for the foreseeable future, only relatively modest improvement in economic relations between the two regions may be expected, compared with their relations with the industrialised countries.¹⁷

It was not, however, the inability of increased economic relations that inhibited India-ASEAN relations in the Cold War period as much as the politics of the Cold War which constrained economic relations. India's relations with Vietnam and Cambodia and the conflicts in Indo-China remained a major barrier to improved India-ASEAN relations. As Djiwandono notes, "In the eyes of India, together with China and the US, ASEAN seemed bent on 'bleeding Vietnam white'. India did not agree with the ASEAN prescription to resolve the Cambodian conflict and expressed sympathies with Vietnam. ASEAN did not appreciate this, and therefore India was viewed a threat to regional stability, projected as a surrogate of the Soviet union, a destabilising factor in the region."¹⁸

The end of the Cold War, the dissolution of the Soviet Union, the emergence of China as a regional Super Power, the liberalisation of economic policy in India and ASEAN's desire to find new markets and investment opportunities in India, have combined to improve the environment for India-ASEAN economic relations today. Increased people-to-people contact, now made easier with better transport access demonstrated, for example, by the fact that Indians are the largest number of tourists visiting Singapore, has also helped.

2. ASEAN's Economic Miracle

It is fair to say, however, that the new relationship of the 1990s between India and ASEAN was not defined as much by ancient historical and cultural ties as by ASEAN's phenomenal economic success in recent times and India's desire both to learn from this experience as well as participate in the growth process unleashed by the new engine of growth in Asia. The ancient cultural and economic ties offer only a distant background to contemporaneous economic relations. Today ASEAN has as much to offer, perhaps more, to India as India has to offer ASEAN and the relationship is seen as mutually beneficial in largely economic terms. ASEAN's phenomenal success as a group of modern industrial and trading nations has opened new opportunities for renewed India-ASEAN interaction.

Much has been written about the "East Asian Economic Miracle" and, admittedly, its impact is not even across the region. Indeed, Singapore is the only ASEAN economy

which can be classified as belonging to the ‘top’ rung of Asian economies. Along with South Korea, Hong Kong and Taiwan, Singapore is undoubtedly among the “Asian Tigers”. However, Indonesia, Malaysia and Thailand have been classified as the “Newly Industrialising Economies (NIEs) and, together, all these countries constitute Asia’s “Highly Performing Economies” (HPAEs).¹⁹ Other ASEAN economies have not done so well. Thus, Philippines, Vietnam, Laos and now Cambodia and Myanmar, remain the laggards.

The magnitude of ASEAN’s miraculous growth performance is brought out by such simple economic and social indicators as income per person, literacy and longevity. In 1960, (Table 1), real GDP per capita (in Purchasing Power Parity dollar, PPP\$, terms) was estimated to PPP\$1, 783 for Malaysia, \$985 for Thailand, \$1,183 for Philippines and \$490 for Indonesia; by 1992 the comparable figures were PPP\$7,790, \$5,950, \$2,550 and \$2,950. India’s real GDP per capita in PPP\$ was \$617 in 1960 and went up to \$1,230 by 1992. Singapore is in a superior league and data are not available for Laos, Cambodia and Vietnam. Clearly, in 1960 India was on par with countries like Thailand and Indonesia, in per capita income terms, and not too behind Philippines and Malaysia. By 1992, with the exception of Philippines, all the others had increased their per capita income by several-fold leaving India far behind.²⁰ In terms of GDP per capita valued in US dollars the contrast is even more stark. (Table 2)

The last three decades have been a period of high economic growth and improved human development for most of the ASEAN economies. The Indian economy did not perform very impressively during the 1960s and 1970s, but since 1980 there has been an acceleration of growth.

The ‘economic miracle’ of East and South-East Asia has been the subject of much intellectual enquiry and debate among economists and other social scientists. Alternative economic and sociological paradigms emphasising either the role of the ‘State’ or the ‘Market’, or even of cultural and political factors (‘Asian values’) have been used to explain the truly remarkable growth performance of the region. Notwithstanding the recent economic crisis in the region (See last Section), the fact remains that many of the ASEAN economies have moved to the famous Rostowian “Take-Off” stage.

Whatever the final consensus on the explanation for the East Asian miracle, two or three factors will remain common to all explanations. First, most of these economies focussed fairly early in their industrialisation process on land reform and investment in agriculture – both of which increased agricultural productivity and agrarian prosperity; second, they all invested in literacy, education and health; and, finally, they exposed their industrial sector to the challenge of global competition.²¹

Table 1: Human Development Indicators and Per Capita Income: India and ASEAN, 1960-97

| Country | Life Expectancy at Birth | | Infant mortality/1000 Live Births | | Adult Literacy % | | Real GDP per capita (PPP\$) | |
|-------------|--------------------------|------|-----------------------------------|------|------------------|------|-----------------------------|-------|
| | 1960 | 1997 | 1960 | 1997 | 1960 | 1997 | 1960 | 1997 |
| India | 44.0 | 62.6 | 165 | 71 | 34 | 54 | 617 | 1670 |
| Indonesia | 41.2 | 65.1 | 139 | 45 | 54 | 85 | 490 | 3490 |
| Malaysia | 53.9 | 72.0 | 72 | 10 | 60 | 85.7 | 1783 | 8140 |
| Philippines | 52.8 | 68.3 | 79 | 32 | 83 | 94.6 | 1183 | 3520 |
| Singapore | 64.5 | 77.1 | 36 | 4 | -- | 91 | 2 409 | 28460 |
| Thailand | 52.3 | 68.8 | 103 | 31 | 79 | 94 | 985 | 6690 |
| Vietnam | 44.2 | 67.4 | 147 | 32 | -- | 92 | -- | 1630 |
| Brunei | 62.3 | 74.2 | 63 | 9 | -- | -- | -- | 29773 |

Source: *Human Development Report, 1999. (UNDP), OUP. 1999.*

**Table 2
GDP Per Capita, (US\$), India and ASEAN, 1960-1997**

| Country | 1960 | 1980 | 1997 |
|-------------|------|------|-------|
| India | 206 | 262 | 465 |
| Indonesia | 190 | 354 | 785 |
| Malaysia | 708 | 1678 | 3387 |
| Philippines | 418 | 680 | 652 |
| Singapore | 1510 | 5581 | 15467 |
| Thailand | 300 | 718 | 1870 |
| Vietnam | -- | -- | -- |
| Brunei | -- | -- | -- |

Source: *Human Development Report, 1999.*

In a comprehensive study of the East Asian miracle the World Bank has suggested that:

Common to East Asia's success were policies for macroeconomic stability, human resource investments, and outward orientation quite different from what happened in most other developing regions. Because these economies to a large extent took international prices as an ultimate guide to domestic resource allocation, macroeconomic stability was seen as central to maintenance of competition. In addition, a number of regimes had a strong aversion to inflation, which strengthened the hands of technocrats. In the area of human resources, strong public policies were often augmented with high household investments in

education. And in many areas, including export promotion, it was not just the design and selection of policies; it was also efficient implementation. By any standard, implementation of policies was East Asia's forte.²²

Economists critical of even this “revised” Bank view suggest that greater emphasis must be placed on the role of domestic savings and high investment rates as well as investment in higher, and technical, education rather than literacy alone, in explaining the East Asian miracle. While sharp differences still exist in explaining the success of the ASEAN economies, there is now considerable consensus which emphasises the role of enlightened and development-oriented governance.²³ Where many of the ASEAN countries have lagged behind is in moving towards more democratic systems of governance. This may also explain the fact that while ASEAN's record on poverty eradication has been better than that of South Asia, Poverty and unemployment remain a major challenge for the countries of the region.²⁴ Indeed, weak democratic institutions could well become the Achilles' heel of many strong economies.

The ASEAN economies also benefitted from what has come to be called the “flying geese” pattern of industrial development in Asia. The ‘flying geese’ paradigm suggests that industrialisation can spread from one country to another if they are linked in such a way that as the more advanced country within a group moves forward, along the technological ladder, it shifts its low technology industries to other countries which come to occupy its hitherto held space in the international division of labour. Economists have suggested that industries vacated by Japan, the industrial superpower in Asia, first moved to countries which emerged as the ‘Asian Tigers’, namely, Taiwan, South Korea, Singapore and Hong Kong, and subsequently to the ‘newly industrialising economies’ of South-East Asia. Thus, the process of industrialisation has spanned out from Japan to East Asia to South East Asia. It is indeed possible that India-ASEAN relations can be strengthened further when this process brings India into its fold, with labour-intensive industries moving out of the higher wage economies of East Asia and ASEAN to lower wage and larger economies like India. To a large extent this process has already happened with respect to China. China has most definitely been drawn into Asia's ‘flying geese’ formation. India is still at the periphery of this process.

3. ASEAN – Objective and Achievements

The Association of South East Asian Nations, ASEAN, was established in 1967 at Bangkok. The original signatories to the ASEAN Declaration were the foreign ministers of Indonesia, Malaysia, the Philippines, Singapore and Thailand. Brunei joined the organisation in January 1984, Vietnam in 1995. The ASEAN Declaration sets out the objectives of the organisation as follows:

- (i) To accelerate economic growth, social progress and cultural development in the region through joint endeavors in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community of South East Asian nations;

- (ii) To promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries of the region and adherence to the principles of the United Nations Charter;
- (iii) To promote active collaboration and mutual assistance on matters of common interest in the economic, social, cultural, technical, scientific and administrative fields;
- (iv) To provide assistance to each other in the form of training and research facilities in the educational, professional, technical and administrative spheres;
- (v) To collaborate more effectively for the greater utilisation of their agriculture and industries, the expansion of their trade, including the study of the problems of international commodity trade, the improvement of their transportation and communication facilities and the raising of the living standards of their peoples;
- (vi) To promote South-East Asian studies; and
- (vii) To maintain close and beneficial cooperation with existing international and regional organisations with similar aims and purposes, and explore all avenues for even closer cooperation among themselves.

ASEAN's first summit meeting was held in Bali, Indonesia, in February 1976. Two documents were signed at the Summit. One, a "Treaty of Amity and Co-operation, laying down principles of mutual respect for the independence and sovereignty of all nations; non-interference in the internal affairs of another; settlement of disputes by peaceful means; and effective cooperation among the five." In 1987, ASEAN adopted a Protocol which allows other states within and outside the region to accede to the Treaty. Laos, Vietnam and Myanmar have since signed this Treaty. Second, the Summit adopted a "Declaration of Concord" giving guidelines for action in economic, social and cultural relations. These covered the maintenance of political stability; the establishment of a 'Zone of Peace, Freedom and Neutrality'; the promotion of social justice and improvement of living standards; mutual assistance in the event of natural disasters; and cooperation in economic development.

1. Trade

In 1977 ASEAN adopted a 'Basic Agreement on the Establishment of ASEAN Preferential Trade Arrangements', however this initiative did not make much headway and by the late 1980s, when the GATT Uruguay Round negotiations were in progress, it covered barely five percent of intra-ASEAN trade, since member countries were permitted to 'exclude sensitive products' from the preferential trade list. It was only in 1992 that ASEAN heads of government were able to sign an agreement seeking to create

an 'ASEAN Free Trade Area' (AFTA) by 2008. Consequently, a common effective preferential tariff (CEPT) scheme was introduced in January 1993. The CEPT covered all manufactured products, including capital goods, and processed agricultural products (together accounting for two-thirds of intra-ASEAN trade), and excluding only unprocessed agricultural products. While the CEPT committed ASEAN members to a speedy tariff reduction schedule, with maximum tariff rates reduced to 20% within a period of five to eight years and to 0%-5% during the subsequent seven to ten years, actual movement was much slower and in 1993 ASEAN trade ministers modified CEPT in the light of the AFTA agreement.

In 1994 ASEAN agreed to speed up the AFTA schedule and brought its launch date forward to 2003. Accordingly, it was agreed that tariffs would be reduced to 0%-5% within seven to ten years, or even earlier in some cases. In September 1995, on the eve of signing the Marrakesh Agreement which created the World Trade Organisation in the place of the erstwhile GATT, ASEAN members agreed to further bring forward the AFTA deadline to 2000. ASEAN ministers emphasised the importance of maintaining momentum in trade liberalisation in order to ensure ASEAN's continued relevance in relation to other regional groupings. However, ASEAN heads of government agreed in December 1995 to maintain the objective of achieving AFTA by 2003, while pursuing efforts to eliminate or reduce tariffs to less than 5 % on the majority of products by 2000. Trade liberalisation was to be extended to certain service industries, including banking, telecommunications and tourism. In June 1996, ASEAN completed a draft legal framework for regional cooperation in order to simplify and to harmonise customs procedures and legislation. The customs agreement was to complement AFTA in facilitating intra-ASEAN trade. As a result of this movement towards increased trade and economic cooperation intra-ASEAN trade has increased in recent years and by the mid-1990s, ASEAN has become a truly regional economic grouping.

2. Security

In the Nineties, ASEAN pursued other political goals along with trade liberalisation and economic cooperation. In 1992, ASEAN agreed to cooperate on security matters and to utilise the Post-Ministerial Conferences (PMC) as a forum for discussion of questions relating to security with its dialogue partners and other countries. Clearly, the end of the Cold War, the rapid growth of the Chinese economy and of China's influence in the region as well as the phenomenal success of ASEAN economies had contributed to a new self-confidence for the group. In July 1992, ASEAN foreign ministers issued a statement calling for a peaceful resolution of the dispute concerning the Spratly Islands in the South China Sea, which are claimed, wholly or partly, by China, Vietnam, Taiwan, Brunei, Malaysia and Philippines. This was in response to a Chinese government resolution of July 1992 claiming Spratly to be within China's territorial waters. At a subsequent PMC, ASEAN urged the United States to maintain its military presence in the region, but to compensate Philippines for the departure of US forces from that country.

In 1995 ASEAN heads of government adopted a treaty establishing a South-East Asia Nuclear Weapon Free Zone. The treaty was also signed by Cambodia, Myanmar and Laos, all new entrants to ASEAN. The Treaty prohibits the manufacture or storage of nuclear weapons within the region. Individual members were left free to decide whether port visits or transportation of nuclear weapons by foreign power through territorial waters should be allowed or not.

ASEAN's relations with China took an important step forward when ASEAN decided to establish a forum to discuss and cooperate on security issues, namely, the ASEAN Regional Forum (ARF) in 1993, with an express intent to involve China in regional dialogue. The first ARF meeting was held in July 1994 after the ASEAN foreign ministers meeting in Bangkok. The participants included ASEAN's 'dialogue partners' at the time, namely, Australia, Canada, the EC, Japan, South Korea, New Zealand and United States, as well as China, Laos, Papua New Guinea, Russia and Vietnam. It was agreed at the meeting that members would seek to improve security in the region, exchange non-classified military information, cooperate in regional peace-keeping, nuclear non-proliferation and other 'confidence-building measures' (CBMs). At the annual ARF meeting in Brunei in 1995, the future evolution of ARF was visualised as proceeding in three stages: the promotion of CBMs (including disaster relief and peace-keeping activities); the development of preventive diplomacy; and the elaboration of approaches to conflict.

ASEAN has been called an "example of pragmatic regionalism", based on equality, constant consultation, collective effort and mutual benefit.²⁵ Regionalism in ASEAN has been built on the firm foundation of national self-interest of its members. Economic cooperation and collective security have been the basis on which the ASEAN member countries have built a successful regional economic and political organisation.

4. India Looks East, ASEAN Looks West

The real turning point in India-ASEAN relations came with economic liberalisation in 1991, the end of the Cold War and the enunciation of India's "Look East" policy by Prime Minister P V Narasimha Rao. As a publication of the Indian Ministry of External Affairs recently observed: "There was a confluence of interests. A new world order, the economic reforms in India along with its "Look East" policy, coincided with ASEAN's "Look West" and regionalisation drive."²⁶

Under the "Look East" policy India pursued increased trade and investment cooperation with South Korea and Singapore. Apart from extending India's enduring relations with Vietnam, the policy also pursued greater economic relations with Malaysia, Thailand and Indonesia. India became a 'Sectoral Dialogue Partner' of ASEAN at the ASEAN's Singapore Summit in 1992, and a 'Full Dialogue Partner' at the Bangkok Summit in 1995.²⁷ In February 1995 the ASEAN-India Business Council was set up. India was invited to the meeting of the ASEAN Regional Forum (ARF) in July 1996. At this it was decided that ARF would only admit as participants countries that have a direct influence on the peace and security of the East Asia and Pacific region.

Commenting on these decisions of the ASEAN, Mr. Gujral remarked at the Jakarta PMC: “The ASEAN decision to make India a Full Dialogue Partner is based on your farsighted assessment about the political and strategic convergence, acceleration of economic relations and their future potential, and complementarities in areas that were hitherto not evident or remained unexploited. A key objective of India and ASEAN to move from derivative to direct relationship so that there are no distortions, no misperceptions, no ignorance and no intermediation.”²⁸

There has been a doubling of trade between India and ASEAN countries in the 1990s and a marked increase in joint ventures and foreign direct investment between the two. Sections VI and VII provide a comprehensive account of India-ASEAN trade and investment relations. Suffice it to say, that ASEAN has emerged as the third largest foreign investor in India, after the United States and European Union. The recent economic and financial crisis in some of the ASEAN countries has slowed down the momentum of India-ASEAN trade and investment flows. However, once countries like Malaysia and Thailand cross the hump, perhaps by year 2000, this growth momentum is likely to gather pace once again. India has set for itself the ambitious target of increasing India-ASEAN trade to US\$15 billion by year 2000.

There are two dimension to India’s new relationship with ASEAN. First, the trade and investment dimension (which is documented in subsequent sections of this paper); second, the foreign policy and strategic dimension. Neither of these relations has equal value to all ASEAN countries. Clearly, India’s economic relations with some are more developed than with others. Similarly, India’s political and strategic relations with some are more developed than with others. Suffice it to say that in no case is the relationship purely unidimensional.

The economic relationship is stronger with countries like Singapore, Malaysia and Thailand – which have emerged as important trading and investment partners for India. Singapore is in many ways the hub of the India-ASEAN relationship and played a key role in ASEAN’s decision to designate India as a “Full Dialogue Partner”. Singapore has major investment plans for Tamil Nadu and Karnataka. There are now direct flights from Singapore to Chennai, Bangalore and Hyderabad, apart from Delhi, Bombay and Calcutta. Malaysia is expected to invest in road and port development in Andhra Pradesh and Orissa. Thailand’s relations with India have been further strengthened with the creation of another regional economic grouping, the Bangladesh-India-Myanmar-Sri Lanka-Thailand Economic Cooperation group, BIMSTEC.

On the political side, India has traditionally had very good relations with Vietnam and now this relationship has been deepened with increased Indian investment in Vietnam and growing two-way trade. India’s defence relationship with Indonesia and Malaysia has also been an important dimension of her relations with this region. This aspect of India-ASEAN relations has acquired higher profile with the emergence of China as a new global ‘superpower’ and an Asian economic giant.

China looms large over the region and in the new ‘balance of power’ which all ASEAN member countries are trying to help shape, India, Japan and the United States will be increasingly viewed as checks and balances against growing Chinese economic and military power in the region. All ASEAN member countries are committed to developing friendly and profitable relations with China, and are equally committed to good relations with other major powers in the region, including India. The Indonesian strategic policy thinker Djiwandono notes, for example: “China and India, despite its bilateral problems, are now both ASEAN dialogue partners and participants of ARF. Indeed, in terms of power politics, the engagement of the two largest nations in the world, along with the US, Japan and Russia, might help create a regional balance of power in East Asia and the Asia-Pacific region as part of the global balance that includes the European Union.”²⁹

Djiwandono goes on to add: “In fact, with the establishment of ARF, ASEAN strives to engage and bring the major powers into a regional structure. In that way, they may play their proper roles commensurate with their respective potential capabilities so as to maintain regional peace, security and stability.” Thus, the comprehensive scope of India-ASEAN relations should not be lost sight of in any evaluation of purely economic benefits and costs. India-ASEAN dialogue and relationship is wide-ranging and will be long-enduring. It is as much interested in building an economic relationship as in improving political and social understanding.

5. India and ASEAN After the Asian Economic Crisis

The Asian economic crisis (1997-98) cast a shadow on India-ASEAN relations, hurting particularly the two-way trade and investment flows. While all ASEAN economies were not equally hurt by the crisis, Thailand and Indonesia being the worst affected, the crisis did divert attention and slowed down the process of regional economic cooperation between India and South-East Asia.

Several hypothesis have been put forward to explain why such an unexpected crisis occurred in so many Asian economies in such quick succession. The two major hypotheses discussed worldwide are those of Lawrence Summers and Paul Krugman respectively. Summers is joined by the dominant view within the International Monetary Fund (IMF) in holding the view that it was the large and unsustainable current account deficits (CADs) of the key Asian economies, particularly Thailand and Indonesia, along with pegged exchange rates which snowballed a payments crisis. Krugman places the blame mainly on the failure of financial intermediation, that is the over-extension of bank loans for speculative purposes, mainly investment in real estate and stock market.

In an authoritative survey of the debate, Rakshit has rejected both hypotheses.³⁰ To quote Rakshit, “The first hypothesis appears inadequate on the following grounds: (a) all afflicted economies in the region did not run large current account deficits; (b) large inflow of foreign funds following relaxation of controls on capital account constitutes an optimal process of capital stock adjustment in the world economy; (c) in Asian countries foreign capital inflow supplemented rather than replaced domestic saving; and (d)

slowdown in export growth in 1996 can not be attributed to pegged exchange rates or to the 1994 Chinese devaluation. The Krugman explanation, though elegant, seems unsatisfactory in view of the fact that (a) the postulated behaviour of economic agents is based on irrational expectations; (b) a major part of investment was not routed through banks; (c) there was no evidence that investment was concentrated in socially unproductive ventures; and (d) even in the first half of 1997 financial ‘experts’ had no inkling of the impending troubles.”

Rakshit’s own explanation focusses attention on the excessive dependence of the concerned economies on the global market and their inability to deal with a cyclical downturn in global demand for their exports. This ‘external shock’ was compounded by what Rakshit calls a “coordination failure”, namely the inability of different agents to react in a planned manner to this sudden shock. It was made worse by the fact that the cash flow problems created by a decline in export demand had a cascading effect with corporates forced to renege on debt payments, adding to the NPAs of banks and to a crisis in the banking system.

There was a steep fall in the exports of four ASEAN economies, Thailand (24.6 percentage points), Malaysia (21.8 points), Philippines (11.9 points) and Indonesia (4.3 points), in 1996. Says Rakshit: “Apart from its immediate impact on the countries’ macroeconomic performance in general and balance of payments in particular, the crucial significance of the decline lay in two important features of the miracle economies. First, such sharp deceleration in export growth rates had not occurred for a long time and marked a serious break from the steeply rising trends in export growth these countries had enjoyed since 1990. Second, the shake-up in investors’ confidence was due in no small measure to the high degree of openness of these economies.”

The external shock delivered by a collapse of export demand had internal repercussions with cutbacks in domestic investment and demand, corporates becoming ill-liquid and renegeing on bank loans. A crisis on the trade front was transmitted to the banking sector and thereon to the financial sector. All this raised doubts in the minds of foreign investors whether the Asian ‘tigers’ had stopped roaring. Negative expectations on the economic front were compounded by political uncertainty in the wake of the end of the Cold War and the new relationship between China and the United States.

The crisis undoubtedly had a direct negative impact on India as well as on Indo-ASEAN trade and investment relations. The ASEAN-5 (Singapore, Malaysia, Thailand, Indonesia, and Philippines) had emerged as important sources of foreign direct investment and export markets in the 1990s. India’s ‘Look East’ policy helped double the share of the ASEAN-5 in total FDI into India in the period 1992-97. India-ASEAN trade had also increased, and so its disruption during 1997-98 hurt Indian exports as well as capital flows into India. While India’s exports to the world declined by – 2.8% in April-November 1998, its exports to some ASEAN economies declined by between 40 and 70 percent. (Tables 1 and 2) As the *Economic Survey* of the Ministry of Finance, Government of India, (1999) noted, “The economic contraction in the East Asian countries resulted in a sharp decline in import demand, ... Since Asia accounts for about

one fifth of India's exports, India could not escape the fallout from such import compression."

Beyond this, India was largely spared the so-called "contagion" effect of the financial crisis. In an analysis of the impact of the Asian economic crisis on India, the Deputy Governor of the Reserve Bank of India, Y Venugopal Reddy, claimed that India had been "spared from the 'contagion', and managed to record a GDP growth of 5 per cent and contain inflation at 5 per cent during 1997-98.³¹ While the Rupee took a knock in the last quarter of 1997, and portfolio flows into India dried up for a few months, there was no withdrawal of such funds out of India.³² Consequently, India's current account deficit remained well within manageable levels at - 1.4% in 1997-98 and 1.0% in 1998-99. The rapid recovery of some of the ASEAN economies rekindled hopes in India of a resumption of the increasing economic relationship with the region. As the *Economic Survey*, 1999-2000 observed, the recovery of East Asian economies and improvement in the global trade environment augurs well for Indian exports in the current financial year."

6. Recent Trends in Indo-ASEAN Trade Relations

India has had trade links, particularly in spices and textiles, with South-East Asian countries for a very long time. However, in the post-Independence period India's trade relations with this region were not particularly significant or encouraging. In part due to the politics of the Cold War era, wherein India and ASEAN found themselves on different sides of the global divide, and in part due to India's 'inward-oriented' development process, because of which India's share in world trade declined from 2.0% in the early 1950s to 0.5% in the 1980s, India-ASEAN trade relations were marginal to both sides. Both India and ASEAN focussed much more on their trade with North America and Western Europe than with each other.

Attempts to revive the historic pre-Cold War era trade relations received initial momentum when India was made a Sectoral Dialogue Partner of ASEAN in 1992 and India launched its "Look East" Policy. As shown in Table 3 below, India's trade with ASEAN accelerated at a faster pace than her trade with the rest of the World or even with the industrial economies in the 1990s. The share of India's trade with ASEAN as a percentage of its share with the rest of the world increased from around 4.0% in the 1970s to over 5.0% in the 1980s and to over 8.0% in the 1990s. (See Table 4)

The economic crisis in South-East Asia hurt this process and India-ASEAN trade declined more sharply than India's trade with the world in the post-Crisis year of 1998, but there has since been a recovery in the trade volumes. (Table 5)

Table 3
Rate of Growth of India's Total Trade, 1975-97

| Region | 1975-97 | 1975-90 | 1991-97 |
|----------------------|----------------|----------------|----------------|
| World | 8.0 | 8.48 | 9.95 |
| Industrial Countries | 8.18 | 8.94 | 8.3 |
| Indonesia | 11.6 | 3.3 | 129.07 |
| Malaysia | 10.24 | 14.18 | 14.91 |
| Philippines | 12.17 | 4.84 | 26.31 |
| Singapore | 13.34 | 16.79 | 13.39 |
| Thailand | 13.83 | 11.93 | 15.24 |
| Vietnam | 12.56 | -1.6 | 12.3 |
| Brunei | 12.73 | 20.79 | 51.92 |
| Myanmar | 5.0 | 9.4 | 17.15 |
| ASEAN | 11.77 | 12.66 | 18.15 |

Table 4
India-ASEAN Trade in the Global Context

| Period | India's Trade with ASEAN as % of India's Trade with World | ASEAN's trade with India as % of ASEAN's trade with world |
|---------------|--|--|
| 1974-79 | 3.8 | 1.45 |
| 1980-91 | 5.4 | 1.78 |
| 1992-97 | 8.0 | 1.70 |

Source: *Direction of Trade Statistics*

Table 5
Regional Trends in Indian Exports – 1997-99

| Region | Growth Rate (April – November) | | |
|---------------------|---------------------------------------|-------------|-------------|
| | 1997 | 1998 | 1999 |
| World | 3.5 | -2.8 | 11.7 |
| Asia (excl M. East) | -1.7 | -20.6 | 18.2 |
| China | 0.7 | -26.6 | 24.3 |
| Hong Kong | 6.1 | -9.6 | 27.8 |
| Indonesia | 5.0 | -73.6 | 91.2 |
| Malaysia | 1.5 | -44.5 | 43.9 |
| Philippines | 48.3 | -60.1 | 20.6 |
| Singapore | - | 38.1 | 36.5 |
| Thailand | -14.7 | -11.1 | 32.4 |
| Vietnam | 1.1 | 5.5 | 8.3 |

| | | | |
|-------------|------|-------|------|
| Middle East | 4.1 | 20.6 | 5.9 |
| Russia | 13.8 | -20.5 | 37.9 |
| U.K. | 3.6 | -13.3 | 15.7 |
| Japan | -5.1 | -16.1 | 2.4 |
| U.S.A | 1.6 | 8.2 | 16.5 |
| Europe | 4.2 | -3.8 | 9.8 |

Table A.1 (Appendix) shows that the value of trade between India and seven of the significant trade partners in ASEAN, increased from US\$243 mn in 1975 to about \$2.4 bn in 1990, but declined to about \$1.9 bn in 1991, the year of India's BoP crisis. In fact, trade between India and ASEAN-7 grew by 407.4% during 1975-80, 204.3% in 1981-90 and by 284.4% in 1991-96. Interestingly, while there was a slump in India's exports to the region. In the pre-crisis year 1996, as a share of India's exports to the Asian region, exports to Asian-7 stood at over 40% , while the share of imports from ASEAN-7 as a percentage of India's imports from the Asian region was 54% in that year.

ASEAN's significance as a trade partner for India is, therefore, clear. However, India still does not figure prominently as a trade partner for ASEAN. Even in 1984, when India's share in ASEAN's trade with the world was the highest at 2.54%, only 2% of ASEAN's exports were directed towards India. In fact, from ASEAN's view point India has not been a significant export market. When compared to the other six countries who have been exporting on an average only less than 1% of their goods to India, (except for Malaysia and Singapore, which were among the major suppliers of imports for India in 1996), the single major exception since 1986 has been Myanmar. India has been the second largest importer from Myanmar, almost 21% of Myanmar's exports were absorbed by the Indian market in 1996, even though India's exports to Myanmar are a small part of Myanmar's total imports.

Table 6:
INDIA'S SHARE IN TOTAL TRADE OF SOME ASEAN COUNTRIES, 1991-97.
(Percentage)

| Year | Myanmar | Indonesia | Malaysia | Singapore | Thailand | Vietnam |
|------|---------|-----------|----------|-----------|----------|---------|
| 1991 | 3.19 | 0.51 | 0.84 | 1.13 | 1.49 | 0.62 |
| 1992 | 5.78 | 0.47 | 0.97 | 1.08 | 0.55 | 0.47 |
| 1993 | 5.85 | 0.67 | 0.66 | 1.02 | 0.72 | 0.39 |
| 1994 | 5.60 | 0.87 | 0.79 | 1.02 | 0.72 | 0.43 |
| 1995 | 4.95 | 1.01 | 0.91 | 1.15 | 0.71 | 0.69 |
| 1996 | 4.99 | 1.50 | 1.24 | 1.20 | 0.68 | 0.67 |
| 1997 | 5.67 | 1.39 | 1.21 | 1.29 | 0.74 | 0.59 |

Note: *India/China Total Trade (X+M) With Country X/Total Trade (X+M) of Country X*

7. Recent Trends in India-ASEAN Investment Flows

The 1990s saw some of the ASEAN members emerging as important sources of foreign direct investment in India. In particular, Singapore, Thailand and Malaysia. The period also saw Indian companies investing in some of the ASEAN economies, in particular Thailand, Indonesia and Vietnam. Towards the end of the 1990s and in 2000, the information technology and computer software sector emerged as an important source of outward investment for India, with Indian companies establishing a base in the ASEAN region, in particular in Singapore. As Table 4 shows, in 1991-97 the combined share of ASEAN-5 (Singapore, Thailand, Malaysia, Indonesia and Philippines) in FDI into India was higher, at 5.7%, than of South Korea and Japan, and only marginally below UK's share of FDI in India. This suggests that the region has emerged as an important source of FDI into India.

Table 4
Foreign Direct Investment into India – Country Share (%)

| Country | 1992-94 | 1995-97 | 1991-97 |
|----------------------|---------|---------|---------|
| U.S.A | 30.4 | 24.6 | 25.9 |
| U.K. | 7.6 | 6.5 | 6.7 |
| S.Korea | 0.7 | 5.9 | 4.7 |
| Japan | 4.7 | 3.9 | 4.2 |
| Germany | 3.1 | 3.5 | 3.4 |
| Netherlands | 2.3 | 2.6 | 2.5 |
| France | 0.9 | 2.4 | 2.3 |
| Singapore | 1.5 | 1.6 | 1.6 |
| Australia | 1.8 | 2.8 | 2.5 |
| Italy | 2.2 | 1.5 | 1.7 |
| Israel | 0.0 | 4.7 | 3.6 |
| Thailand | 1.4 | 2.3 | 2.1 |
| Malaysia | 0.4 | 1.7 | 1.4 |
| ASEAN-5* | 3.3 | 6.4 | 5.7 |
| China & Hong Kong | 1.4 | 1.7 | 1.7 |
| Mauritius | 2.4 | 5.7 | - |
| Non-Resident Indians | 7.3 | 3.5 | - |

Note:* ASEAN-5 includes Singapore, Thailand, Indonesia, Malaysia and Philippines. Investment coming in from Mauritius is mainly from offshore companies which operate from offices there because of the tax concessions given to Mauritius based companies in the India-Mauritius bilateral treaty.
Source: India Investment Centre, New Delhi.

The type of industries into which ASEAN investments have come remain diversified, but a major sector in which new investment is expected is the infrastructure

sector including civil aviation, sea and air port construction, road development, power and housing. Indian investment into the region has been wide-ranging including steel, textiles, chemicals and petrochemicals, cement, sugar, pharmaceuticals and, increasingly importantly, software services and programming. The financial crises of 1997-98 hurt this process both ways, but more recent evidence suggests a renewal and rejuvenation of inter-regional investment flows.

8. Towards a Bay of Bengal Community

While India remains firmly committed to multilateralism in trade, it has anxiously pursued membership of regional trade blocs given the fact that most of the major trading economies are all members of major trade blocs like E.U., NAFTA, and ASEAN. India's inability to as yet secure membership of APEC economies. India has also been closely watching China's moves to integrate more closely with Asia-Pacific economies and China's increased clout in the region after the Asian economic crisis.

Given the extent of regional integration worldwide, South Asia, India's immediate neighbourhood, remains relatively unintegrated. The slow progress of regional cooperation within South Asia, particularly the inability of SAARC (South Asian Association for Regional Cooperation) to widen economic links within the sub-continent, largely on account of Pakistani intransigence and unwillingness to play by the global rules of the game in trade, has also forced India to "Look East" for more trade opportunities. While SAARC has progressed from SAPTA 1 to SAPTA 2, creating and widening a preferential trade agreement (PTA), and has placed the creation of a Free Trade Agreement (FTA) on its agenda, the progress on SAFTA has also been slowed down by Pakistani non-cooperation.

Given the slow pace of trade liberalisation within SAARC, India has opted for speedier bilateral trade agreements with Sri Lanka and Bangladesh. Simultaneously, India has also supported the creation of new REGs like the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC) and the Bangladesh, India, Myanmar, Sri Lanka and Thailand Economic Cooperation (BIMST-EC). Regional growth triangles (quadrangles), partly inspired by the example of the Singapore-Malaysia-Thailand triangle, are being tried and if one of these experiments, the BBNI (Bhutan, Nepal and India quadrangle) succeeds long-term solutions for the development of India's backward north-eastern region can be found.

India's commitment to some of these REGs may increase if the current stand-off between India and Pakistan on the conflict near Kargil further slows down the momentum of economic cooperation within South Asia. SAARC has become hostage to the swings in India-Pakistan bilateral relationship and other SAARC members, including Nepal, Sri Lanka and Bangladesh, have become testy about SAARC's slow progress. The lukewarm response of SAARC leaders to the report of the SAARC Eminent Persons' Group (1998), which has advocated the creation of a South Asian Customs Union by 2015 and a S.A. Economic Union (SAEU) by 2020, suggests that SAARC may not emerge an important REG for India in the near future.

Given this impasse in SAARC, India may well end up investing more energy in its bilateral relationship with other SAARC members and, at the same time, help create and sustain new forums in which the agenda of trade liberalisation can be pursued. The most promising such forum is BIMSTEC. Its membership includes key SAARC countries as well as two ASEAN members closest to India in geographical terms, namely, Myanmar and Thailand. BIMSTEC is an odd name for an REG. Indeed, there is no REG, anywhere in the world, which is named on the basis of the first letter of the name of each of its member countries. This is an untidy formula, which has forced BIMSTEC to change its name at least once, from BISTEC, when Myanmar joined it.

The defining feature of BIMSTEC is that its members are the rim economies of the Bay of Bengal. If BIMSTEC is in fact, viewed as a “Bay of Bengal Community” (BOBCOM), there is good reason to include the two land-locked countries in South Asia which are completely dependent on the Bay of Bengal for their national economic needs, namely, Nepal and Bhutan. If these two countries are added, then BIMSTEC or BOBCOM becomes SAARC *minus* Pakistan *plus* Myanmar and Thailand. India, Bangladesh, Myanmar, Singapore, Sri Lanka and Thailand should come closer and create the Bay of Bengal Community to facilitate speedier trade liberalisation and increased intra-regional capital flows within such a community. The land-locked States of Nepal and Bhutan, directly dependent on this sea, may also be invited to join. If China’s south-western provinces and Malaysia find it useful they may also establish special links with such a group.

It is easy to see why a “Bay of Bengal Community” (BOBCOM) may end up being a far more dynamic group. BOBCOM’s ASEAN component, especially Thailand, can help speed up the pace of trade liberalisation and regional economic cooperation within South Asia at a pace faster than what SAARC has been capable of. In the interest of imparting greater dynamism to such a regional economic group, and in recognition of the fact that it is the largest hub port serving the entire Bay of Bengal rim ports, Singapore should be invited to join the “Bay of Bengal Community”.

It is also becoming increasingly clear that the only “regional” economic links that India can meaningfully forge in the near future, even within South Asia, will be links to her “East” – the Bay of Bengal rim, the Himalayan region and eastwards. As long as Pakistan remains a “rogue” State in the region, sponsoring terrorism and unwilling to restore normal trade relations within the WTO framework, not only will SAARC, SAFTA and SAEU remain hobbled, but even the prospects of regional economic links with Central and West Asia will remain tenuous and limited.

Against this background, a regional economic group based around the Bay of Bengal and linking India, Sri Lanka, Nepal and Bangladesh more closely to the ASEAN economies offers the prospect of widening the network for outward-oriented growth in this part of Asia. BIMSTEC will naturally emerge as the bridge between South Asia, India in particular, and South-East Asia. Through this route India can strengthen its links

with ASEAN and reach out beyond South-East Asia to the Asia-Pacific Community, recreating ancient historical links with this region.

9. The Asia-Pacific Community

Barely a decade ago the 21st Century was regarded the “Asia-Pacific Century”. Such hubris has been missing since the economic crisis in eastern Asia. However, it is clear now that eastern Asia will be an important engine of growth well into the next century and that the varying dynamic of growth in the region is going to alter the balance of power both within the region and globally.

If the next phase of India’s outward-orientation has to proceed apace, it is important that India’s trade with the APEC (Asia-Pacific Economic community) economies must increase, and that India must in fact become a member of APEC. To enable this, the “Look East” policy must be firmly focused on Singapore, Thailand and Korea. India must also re-build its links with Myanmar. India-Myanmarese economic and political relations have been neglected for far too long. There is potential for the development of India’s north-east through greater cooperation with Myanmar, Thailand and Singapore.

The new regional economic links being forged in the Asia-Pacific region can not be ignored by India. The Manila-initiative to create an ASEAN-plus-Three forum bringing in China, Japan and Korea is one such initiative. Singapore’s proposal to create an Asian Free Trade Area (AFTA) is another idea. With the region recovering from the crisis it is easy to see that such initiatives will gather pace. Moreover, with the multilateral trade regime coming under pressure from civil society groups both in the West, particularly in North America, and in other parts of the world, there is the real prospect of regionalism gathering momentum once again. While India should remain committed to multilateralism and should in fact actively campaign against regional trade agreements, even demanding that they be made WTO-incompatible, pragmatism demands that in the interim India should actively seek membership of the new regional blocs being created in Asia

So far we have only explained the rationale for India’s “Look East” policy. The question remains as to why Asia to our east must desire to “Look West” to India. The answer to this question is not very easy. An obvious reason is economic. India’s liberal trade and investment policy of the 1990s has opened up the Indian economy and the newly industrialising. Asian economies can benefit from this. That is clear. There are strategic factors as well. The end of the Cold War and the emergence of China as a major power has alerted a range of countries in Asia, including Japan, Korea, Singapore, Indonesia, Malaysia and Thailand to consider closer relations with India. What motivates each of these nations is quite different. In Thailand there is a conscious “Look West” policy of being more actively engaged with South Asia. In Korea there is a realisation that Japan may have been too slow in responding to market opportunities in India and that Korean brand names have come to stay here and so must be invested in further. Almost all these countries would like to see a balance of power in Asia in which the

United States, China and Japan do not increase their power at the expense of the other. In this context the emergence of a more economically dynamic and strategically secure India can be a positive factor.

For India, therefore, there is once again an opportunity to relate to Asia to its east. However, so far our diplomacy has been desultory, at best sporadic and episodic. Greater consistency, greater commitment to more open trade and investment relations and a willingness to share in the region's problems and not just in its prosperity will help India move closer. Eastern Asia beckons India once again as we enter a new millenium. While India must "Look East" with purpose and commitment, the Asia-Pacific community must also accept the fact that its links with this sub-continent, particularly peninsular India, run deep into the foundation of our combined history, and that India is both a factor for peace and stability in Asia as well as a partner in progress.

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²⁶ ... See *Friends and Neighbours: India and ASEAN*, Ministry of External Affairs, Govt. of India, New Delhi, 1997.

²⁷ ... See V L Rao and R Upendra Das, *India and ASEAN: Issues in Sectoral Dialogue Partnership*, RIS Occasional Paper No. 41, New Delhi, 1993.

²⁸ ... Quoted in *Friends and Neighbours.*, *op.cit.*

²⁹ ... Djiwandono, *op. Cit*, p.13.

³⁰ ... Mihir Rakshit, “Retracing the roots of Asian Troubles, 1996-97”, *Money and Finance*, No. 5, April 1998, (ICRA Ltd, New Delhi)

³¹ ... Y Venugopal Reddy, "Asian Crisis: Asking the Right Questions", Mimeo, (May 1998),

³² ... Y Venugopal Reddy, *ibid.*