

**IPCS Special
Report**

72

MAY 2009



**Institute of Peace and
Conflict Studies**

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INDIA-ASEAN RELATIONS

Analysing Regional Implications



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ANALYSING REGIONAL IMPLICATIONS

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AN OVERVIEW

India has shared a close relationship with ASEAN countries since the time of its independence. It started expanding its influence in the Southeast Asian region during the 1950s by supporting the Indonesian struggle for independence and involving itself in the Indochina crisis in the 1960s. It also signed friendship treaties with Indonesia, Myanmar and the Philippines and consolidated its bilateral and diplomatic relations with them. However, with the signing of an “India-Soviet Peace and Friendship Cooperation Treaty”, relations between India and ASEAN took a downturn. The ASEAN members’ perception of the Soviet Union was far from benign and the signing of the treaty made them suspicious of India’s intentions.¹ Further, under the influence of the Soviet Union, India recognized the People’s Republic of Kampuchea regime that was propped up in Vietnam in July 1980 and through the decade, built strong political and military relations with Vietnam. This was contrary to the ASEAN view which condemned the Kampuchean regime and resulted in the worsening of relations between India and ASEAN.² Through the 1980s, relations between India and ASEAN were uncertain and plagued by various political and diplomatic differences which resulted in a compromise of economic relations between them.

However, with the collapse of the Soviet Union, India embarked on re-orienting its foreign policy priorities. India initiated its

Look-East policy and began reviving its economic relations with Southeast Asia.³ ASEAN too realized the importance of India as the third-largest economy in Asia and an emerging regional power and saw its significance for ASEAN’s political and economic future. The growing complementarity of views led to the acceptance of India as ASEAN’s sectoral partner in early 1992 and its full dialogue partner in July 1996.⁴

The 1990s saw the rise of regionalism in Southeast Asia. In the aftermath of the economic crisis of the late 1990s, there has been a heightened emphasis on regional economic integration with the consequent proliferation of various Free Trade Agreements (FTAs) involving ASEAN and other countries in the region. With rising economic growth and its emergence as an influential player in the region, India too has adopted a similar policy of establishing closer economic and strategic engagements with ASEAN. At the second ASEAN-India Summit in Bali in October 2003, India and ASEAN signed an agreement to establish a Free Trade Area. The presence of India at the East Asia Summit in December 2005 and its inclusion in the East Asia Community have further testified to the growing synergies between them and suggest a future entailing greater integration in the region.

The objective of this paper is to highlight the trends in the interactions between India and ASEAN and elaborate the relations between them. While their motivations for

¹ Mohammad Ayoob. 1990. *India and Southeast Asia: Indian Perceptions and Policies*. London: Routledge.

² Zhao Hong. “India’s Changing Relations with ASEAN: From China’s Perspective,” *East Asian Institute Working Paper* No. 133, October 2006.

³ Ibid.

⁴ Syed Hamid Albar. 2002. “ASEAN-India Partnership: Opportunities and Challenges,” *India-ASEAN Partnership in an Era of Globalization*. New Delhi: Research and Information System for the Non-Aligned and Other Developing Countries.

developing stronger ties are largely economic in nature, they rest to a large extent on definite geopolitical considerations. The paper examines these factors and attempts to provide an understanding of the direction in which their relations are heading, along with an analysis of the dynamics affecting it.

I RISE OF REGIONALISM IN SOUTHEAST ASIA

ASEAN, established in August 1967, has, for long, been the only official organization that pursued regional economic integration in East Asia. It is responsible for several economic integration initiatives in East Asia including the ASEAN Free Trade Agreement (AFTA), the ASEAN Framework Agreement on Services (AFAS) and the ASEAN Investment Area (AIA). As part of the ASEAN vision 2020, it aims to establish an ASEAN Security Community, ASEAN Economic Community, and ASEAN Socio-Cultural Community by 2020. By achieving a free flow of goods, investment, services and a reduction in poverty and socio-economic disparity across the region, it hopes to develop into a single market and production base by 2020.⁵

Most of these initiatives came about in the late 1990s as part of the shift in ASEAN's policies towards regionalism. This change played out in the form of several regional and bilateral trade agreements. While the agreements were largely between ASEAN economies, many also included South Asian countries like Bangladesh, India, Myanmar, Nepal, Bhutan, and Sri Lanka. There were also significant agreements between ASEAN and the other major East Asian

economies.⁶ While regionalism increased in popularity due to obvious benefits arising from greater market access and reduced business costs, there were various other reasons which brought about a preference for regionalism among the ASEAN economies.

First, the East Asian financial crisis highlighted the need for effective prevention, management, and resolution of financial crises and contagion. There was growing dissatisfaction with the way the IMF handled the crisis and a need was felt for the establishment of a self-help mechanism between the East Asian economies, one that would include information exchange, policy dialogue, a regional liquidity support arrangement, financial sector development, and joint policy making in critical areas such as exchange rate policy coordination.⁷

Second, with the growing integration of both trade and FDI in the region there has been a growing need for a formal institutional framework for facilitation of trade and investment, harmonization of rules, standards and procedures and dispute settlement. The deepening financial and macroeconomic interdependence has also given rise to the need to resolve the problem of "collective action" by internalizing externalities and spill over effects that arise from interdependence. Given that a country's shocks and crises can easily be transmitted to other economies within the same region, the need to establish financial safety nets has been recognized in the region.⁸

Finally, there has been a tendency towards regionalism as a defensive response to the proliferation of regional trade agreements

⁵ Masahiro Kawai and Ganeshan Wignaraja, "ASEAN+3 or ASEAN+6: Which Way Forward," *Asian Development Bank Institute ADBI Discussion Paper No. 77*, September 2007.

⁶ Mukul G Asher and Rahul Sen, "India-East Asia Integration: A Win-Win for Asia." *Research and Information Systems for the Non-Aligned and Other Developing Countries RIS Discussion Paper*, No. 91, March 2005.

⁷ Masahiro Kawai. "East Asian Economic Regionalism: Progress and Challenges," *Journal of Asian Economics*, Vol.16(1). January 2005: 29-55

⁸ Ibid.

in Europe and the Western Hemisphere. The growing dissatisfaction with the slow progress on trade liberalization at the global level has also contributed to the same. East Asian governments are of the view that unless they develop their own regional frameworks they will lose out in global competition and multilateral negotiations. They feel the need to strengthen their bargaining power against the EU and the United States.⁹

While the Asian countries were slow to respond to the trend of regionalism, their initiatives to propagate it increased tremendously after the 1997-98 financial crisis. However, their initiatives have gone beyond forming regional trade agreements and have included measures to increase cooperation in political, security, environmental, energy, cultural, educational, social, and institutional sectors.¹⁰ Thus, what has emerged, is a framework for a virtual East Asian community. This framework is the basis of the East Asia Summit which is considered the first step towards building an East Asian Community. The first East Asia Summit was held in Kuala Lumpur on 14 December 2005 and included, in addition to all ten ASEAN countries, Japan, China, South Korea, India, Australia, and New Zealand.¹¹ The summit marked the formal inclusion of non-Southeast Asian countries like India, Australia, and New Zealand into the regional architecture of Southeast Asia. The East Asia Summit has consequently come to be known as ASEAN+6. The Chairman's statement at the summit adequately highlighted the emphasis on building an East Asian Community. He described the East Asia Summit as a "forum for dialogue on broad strategic, political, and economic issues of common interest

and concern with the aim of promoting peace, stability, and economic prosperity in East Asia." Further, his statement laid stress on ASEAN's commitment to the 'Doha Development Agenda' of the WTO and its preference for an ambitious and balanced outcome in the Doha round. The summit, however, faced various issues in its implementation, largely pertaining to membership, institutionalization and agenda.

ASEAN presently stands at a juncture where it is looking to integrate nations in the region not just in matters of trade, but also in the larger sense, of the coming together of countries as a consolidated centre of power. It has realized that integration at the bilateral level will hinder the exploitation of the potential of regional economic integration. There is therefore, a growing recognition of the importance of integration at a pan-Asian level. There is a realization that any future growth has to be fuelled from within the region, as demonstrated by the formation of regional trading blocs in the rest of the world.¹² There are significant complementarities that exist between countries in the region in terms of diverse comparative advantages and varied strategic and diplomatic advantages. As Kumar puts it, "Regional cooperation could help in exploiting the existing capacities in the region fully."¹³

II

INDIA'S ATTENTION ON REGIONALISM

India's new growth story is the direct result of the conscious change in its economic policy after its macroeconomic crisis in 1991. There was a realization of the need to change the inward-looking growth model that had been followed by India since the time of its independence, due to its inappropriateness in the post-Cold War era and an age of globalization. India, thus, initiated reforms to restructure,

⁹ Ibid.

¹⁰ SD Muni. 2006. "East Asia Summit and India," *Institute of South Asian Studies Working Paper*, No. 13.

¹¹ Nagesh Kumar, "Towards a Broader Asian Community: Agenda for the East Asia Summit," *Research and Information Systems for the Non-Aligned and Other Developing Countries RIS Discussion Paper*, No. 100, November 2005

¹² Ibid.

¹³ Ibid.

deregulate, and liberalize its economy.¹⁴ Since the reforms, India has assumed an outward economic orientation and has worked to improve its economic relations with other countries.

In keeping with its reformed approach and the rise in bilateral and regional trading agreements around the world, India too, embarked on establishing trade and investment linkages with a number of countries in Asia. The motivations for these deals have been economic as well strategic in nature. "India envisages PTAs as important foreign policy tools to forge new strategic alliances with the rest of Asia, and to contribute to regional security efforts."¹⁵

It has established trade agreements within SAARC, ASEAN and with individual countries in East Asia. It has developed partnerships with Latin American and Middle Eastern countries with its agreements with the Mercosur grouping, Egypt and Chile.¹⁶ Its measures towards trade integration are not restricted to merchandise trade alone, but also include commercial services and financial integration which will contribute to the strengthening of India's market-based economic integration, in addition to improving its competitiveness and economic robustness.¹⁷ With the deadlock at the Doha round, Indian policy makers have clearly indicated that bilateralism will be a key instrument of India's commercial trade strategy in the future.¹⁸

China's dominance in Southeast Asia became a great cause of concern for India.

China has provided military support to all of India's neighbours and significant assistance to Pakistan for its nuclear program. This has been a serious destabilizing factor for India. Further, China's rising presence in Southeast Asia has posed serious security concerns for India. A country in control of the Indo-China region would threaten India's security, as many Southeast Asian states have adjoining borders with India.¹⁹ As a consequence, India has attempted to improve its interaction with Southeast Asia by rebuilding its long lost ties with ASEAN.

This was largely due to the drastic increase in bilateral merchandise trade between India and China, which rose from US\$1.7 billion in 1997-98 (US\$0.7 billion in exports and US\$1 billion in imports) to about US\$7 billion in 2003-04 (US\$3.0 billion in exports and US\$4.0 billion in imports). The bilateral trade between India and Japan however, has shown a decline.

Apart from merchandise trade, there has also been growing trade in commercial services. The services sector has been rapidly expanding in India with its growth in IT and Business Process Outsourcing services along with its rise in other East Asian economies. There has consequently been enhanced integration in their trade, especially due to improvement in technologies and increasing globalization.²⁰ The combination of a large supply of top-notch, low-cost labor, high-quality software processes, and the scale to handle all types of work, has allowed the Indian software industry to excel in the world market.²¹

¹⁴ Mukul G Asher, "India's Rising Role in Asia," *Research and Information Systems for the Non-Aligned and Other Developing Countries RIS Discussion Paper* No. 121, March 2007

¹⁵ Ibid. p.21

¹⁶ Ibid.

¹⁷ Masahiro Kawai and Ganeshan Wignaraja. Op.Cit.

¹⁸ Rahul Sen, "New Regionalism in Asia: A Comparative Analysis of Emerging Regional and Bilateral Trading Agreements Involving ASEAN, China and India," *Journal of World Trade*, Vol. 40, No. 4, August 2006, pp. 553-596

¹⁹ Sajani M Vashi, *India's Policy Towards Southeast Asia: 1992-2002*, (Dissertation Dept. of Political Science, Faculty of Arts & Social Sciences, National University of Singapore, 2003)

²⁰ Mukul G Asher and Rahul Sen. Op.Cit.

²¹ Jaspreet Singh, "Country Analysis: India," *American University Website*, 5 December 2003, <http://www.american.edu/initeb/js5518a/Country-analysis-india.html>, accessed on 16 November 2007

Table 1: India's Exports to East Asia, 2001-02 to 2006-07

Values in US\$ million

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
CHINA P RP	951.95	1,975.48	2,955.08	5,615.88	6,759.10	8,287.48
JAPAN	1,510.44	1,864.03	1,709.29	2,127.91	2,481.26	2,860.47
KOREA RP	471.37	644.85	764.86	1,041.68	1,827.21	2,512.76
ASEAN	3,457.02	4,618.54	5,821.71	8,425.89	10,411.30	12,603.86

Source: Directorate General of Foreign Trade, India

Table 2: India's Imports from East Asia, 2001-02 to 2006-07

Values in US\$ million

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
CHINA P RP	2,036.39	2,792.04	4,053.21	7,097.98	10,868.05	17,447.01
JAPAN	2,146.44	1,836.33	2,667.68	3,235.13	4,061.10	4,592.01
KOREA RP	1,141.37	1,522.01	2,829.17	3,508.77	4,563.85	4,802.26
ASEAN	4,387.22	5,150.17	7,433.11	9,114.66	10,883.68	18,089.64

Source: Directorate General of Foreign Trade, India

According to the WTO ranking of commercial trade in 2003, India ranked 21st in global exports and imports of commercial services, accounting for 1.4 per cent of global service exports and 1.2 per cent of global service imports.²² Its success in the services sector has allowed it to push for reforms through the GATS and extend proposals at the WTO regarding the same, thereby, increasing hope for the liberalization of commercial services.²³

III ASEAN'S INTERESTS IN INDIA

With substantial growth in the last decade, India has emerged as one of the largest economies not just in Asia, but the entire world. With the third largest GDP and a

growth rate of 7-8 per cent, India is poised to emerge as a large economic power in the years to come. With a rising middle class and an economy on an upward trajectory, India has large economic potential and provides ample opportunities for economies in the region to link up with its economic resurgence. ASEAN has certainly taken note of this fact and is aware that it is in its best interest to include India in a regional framework and thereby, capitalize on its emerging strength. One of the objectives of the Framework Agreement on Comprehensive Economic Cooperation signed between ASEAN and India is to "facilitate the more effective economic integration of the new ASEAN member states and the bridging of development gap among the parties."²⁴ There is growing awareness that regional disparities need to be addressed and

²² Mukul G Asher and Rahul Sen. Op.Cit.

²³ Benny Kuruvilla, "Services Industry Drives India GATS Negotiations," *Focus on the Global South Website*, 30 June 2006, <http://www.focusweb.org/services-industry-drives-india-gats-negotiations.html>, accessed on 16 November 2007

²⁴ "Framework Agreement on Comprehensive Economic Cooperation between the Republic of India and the Association of Southeast Asian Nations" *ASEAN Official Website*, <http://www.aseansec.org/15278.htm>, accessed on 16 November 2007

cooperation increased, to broaden the range of countries that derive benefits from growth in the region.

ASEAN and India also share common interests with regard to regional peace and security. Since the 11 September 2001 attacks on the United States, terrorism has become a new threat to global and regional security. Both ASEAN and India are faced with grave vulnerabilities with regard to terrorism and it is in their common interest to work together to build peace and security in the region. Further, the collapse of the Soviet Union and the rise in China's power in the last decade and a half have drastically altered the balance of power in Asia. "One of the considerations ASEAN took into account while according bigger status to India was definitely the issue of China's rising power profile and especially its naval incursions into the South China Sea as also China's expanding acceptance worldwide."²⁵ With the withdrawal of US troops from strategic locations in the region following the collapse of the Soviet Union, the Southeast Asian countries deemed it appropriate to guard against Chinese influence by setting up vital sea-lanes of communications such as the Taiwan, Malacca, Sunda and Lombok Straits. Accordingly, ASEAN countries justifiably perceive India, with the largest Naval forces in the Indian Ocean and nuclear capabilities, a strategic partner to balance China's growing power in the region.²⁶

Conversely, there have also been apprehensions within ASEAN regarding India's Navy and nuclear capabilities as India itself possesses the ability to yield substantial influence and power in the region. "But India's willingness to accede to the Treaty of Amity and Cooperation in

Southeast Asia and its endorsement of the Southeast Asia Nuclear Weapons Free Zone (SEANWFZ) has gone a long way in assuring the region of India's intent. The ASEAN looks at India's security needs more as a factor emanating from the compulsions of the geopolitical position that India holds, rather than being a derivative of any hegemonic designs on India's part."²⁷

With increasing foreign exchange reserves and a prudently managed financial system, India is attracting attention for its strong macroeconomic fundamentals. Studies by Goldman Sachs suggest that "India has the potential to show the fastest growth over the next thirty and fifty years."²⁸ With the growing economic integration of the Indian economy, its growth effects are bound to spill over to other countries as well. With booming demand for infrastructure and investments, India can counterbalance the loss of the US market due to its attempts to curb its growing trade deficit. With a rising middle class, domestic demand in India is bound to increase by leaps and bounds in the next decade.²⁹

Since the collapse of the Soviet Union, India has pursued a Look East Policy and worked towards integrating with East Asia. Complimenting the rising trade integration with broader integration measures will only consolidate the existing links and compound the potential benefits for all countries involved. In the last decade, India has successfully developed its software and services sector. Along with East Asian specialization in manufactures, India's strength in services could result in a formidable strategic combination. With the realization of such potential, India is increasingly getting linked with existing East Asian production networks. This however, is in a latent stage and there is large potential for beneficial synergies

²⁵ Swatan Singh, "China Factor in India's Ties with Southeast Asia," in Frédéric Grare and Amitabh Mattoo (ed.), *India and ASEAN: the politics of India's look east policy*, (New Delhi: Manohar, 2001), p. 199

²⁶ Jaffrelot Christophe, "India's Look East Policy: An Asianist Strategy in Perspective," *India Review*, Vol. 2(2), April 2003

²⁷ Shankari Sundararaman, "India and ASEAN," *The Hindu*, 19 November 2002, <http://www.mea.gov.in/opinion/2002/11/19o02.htm>, accessed on 17 November 2007

²⁸ Nagesh Kumar. Op.Cit.

²⁹ Ibid.

between them. Further, excellent trade and transport links with Southeast Asian economies can act as a link to provide access to markets in East Asia.³⁰

While East Asia is on the verge of entering a phase of demographic burden with a lower share of working age population and a higher median age of workers; India is entering a demographic boon phase with a higher share of working age population and can prove to be a human resource base for East Asia.³¹

The increasing relevance of India in the East Asian framework has contributed to its rising interaction with ASEAN. Though there has been turbulence in their relations in the past, it is evident that the importance of integrating in today's interconnected globalizing world has been recognized by countries in East Asia. With ASEAN as the established hub and the framework of regionalism in place in the region, it has been realized that it is prudent to include India and allow it to participate for increased benefits and growth.

INDIA'S FOCUS ON ASEAN

India-ASEAN relations stepped up a notch towards the end of 1990s and the beginning of 2000. In 1998, the then Indian Prime Minister, Mr. Atal Bihari Vajpayee intended to accelerate India's Look East Policy.³² "The concept of 'extended neighbourhood' was popularized by Indian leaders such as I.K. Gujral and Jaswant Singh."³³ In a lecture at the Institute of Strategic Studies in Singapore in 2000, Jawant Singh explained, "India's parameters of security concerns clearly extend beyond confines of the convenient, albeit, questionable geographical definition of South Asia.

South Asia was always a dubious framework for situating the Indian security paradigm. Given its size, geographical location, trade links and the EEZ, India's security environment and therefore potential concerns range from the Persian Gulf to the Straits of Malacca in the West, South and East, Central Asia in the Northwest, China in the Northeast and South Asia."³⁴ Thus, India is looking to develop associations with countries beyond its immediate neighbourhood, perceiving countries in East and Northeast Asia as its far eastern neighbours and the ASEAN countries as its near eastern neighbours.³⁵ One of the first concrete steps taken by India was the setting up of the Mekong-Ganga Cooperation Project in 2000 which includes India and the five ASEAN countries (including the four newer ASEAN members – Vietnam, Lao, Cambodia, Myanmar and Thailand). India was aware that economic cooperation with ASEAN would depend on how fast the new ASEAN countries could catch up with the rest of ASEAN and intended to provide them with economic and technical assistance.³⁶

The institutionalization of ASEAN-India relations came with the First ASEAN-India Summit in Phnom Penh on 5 November 2002 and was perceived as the success of India's Look East Policy. It was considered an acknowledgement of India's emergence as a key player in the Asia Pacific Region.³⁷ This breakthrough came after a long and arduous effort on the part of the Indian diplomacy to convince ASEAN countries to hold a separate ASEAN-India summit. This sentiment was echoed in an article in a leading Indian newspaper which stated that "The first Association of Southeast Asian Nations-India Summit held in Phnom Penh, Cambodia, sets the stage for India to move purposefully ahead in developing a broad strategic partnership

³⁰ Ibid.

³¹ Ibid.

³² Zhao Hong. Op.Cit.

³³ Malla VSV Prasad. 2006. "Political and Security Cooperation between India and ASEAN," in Kumar, Sen and Mukul Asher (eds.), *India-ASEAN Economic Relations: Meeting the Challenges of Globalization*. Singapore: Institute of Southeast Asian Countries.

³⁴ Ibid. P. 270

³⁵ Ibid.

³⁶ Zhao Hong, Op.Cit.

³⁷ Man Mohini Kaul. 20 November 2002. "Time for a Great Leap Eastwards," *The Indian Express*. <http://www.mea.gov.in/opinion/2002/11/20o03.htm> (accessed on 17 November 2007)

with the countries of Southeast Asia. While Indian political leaders constantly talk about how they will end poverty, the leaders in East and Southeast Asia speak about how they will enhance the prosperity of their peoples.”³⁸

There is a clear recognition in Indian political circles of the economic and strategic importance of ASEAN to India’s national interest. At the Annual Singapore Lecture in 2002, the then Indian Prime Minister, Mr. Atal Bihari Vajpayee stated, “[The Southeast Asian] region is one of the focal points of India’s foreign policy, strategic concerns and economic interests.”³⁹ The strategic location of the ASEAN region places it among the most crucial regions in the world. With Myanmar being included in ASEAN, India now shares a land boundary with ASEAN, apart from sharing maritime frontiers with Indonesia and Thailand and its exclusive economic zone (EEZ) with Malaysia.⁴⁰ India considers ASEAN to be the nucleus of the East Asian region and believes in laying emphasis on its interaction with ASEAN. With deep concern regarding China’s influence in the region, India is looking towards ASEAN to carry forward a multilateral security order in the Asia-Pacific.⁴¹ At the same time, as explained by Hong, “from the ASEAN and Japan perspectives, India was seen as a possible counterweight to China in Southeast Asia, India has publicly avoided being drawn into such a role.”⁴² India is, in fact, looking to develop a complementary relationship with China instead of a competitive one. There is a sense that India

must not confront China, but should prepare to face stiff competition from it and possible conflict in the future.⁴³

The increasing importance of maritime trade and energy security for India has made it imperative to ensure the safety of Sea Lanes of Communication (SLOC’s) in Southeast Asia. Maritime piracy has large implications for security in the economic sphere and in the Malacca Straits, is a common threat to India and the ASEAN region. With India being dependent on sea ways for over 97 per cent of its global trade, the safety of sea lanes around the ASEAN region is of vital importance to India. India understands that a prosperous and stable ASEAN that safeguards vital sea lanes between the Indian and Pacific Oceans will serve its best interests.⁴⁴ “Coordination between India and ASEAN in safeguarding their shared marine environment and its resources, promoting the safety and security of navigation in their common ocean areas, and ensuring legitimate, peaceful and sustainable uses of the oceans, can contribute to both maritime development and maritime security in the region.”⁴⁵

Complimenting the extent of strategic cooperation between India and ASEAN, the scope for stronger economic relations between them has also been steadily rising. There is tremendous potential between India and ASEAN in various fields including trade and investment, science and technology, tourism, human resource and infrastructure development. Such cooperation contains the scope for greater economic integration between the two and potentially large economic benefits for the people of all the countries involved.

Cooperation in the monetary and financial sectors facilitates investment, trade integration and contributes to sustained

³⁸ G Parthasarathy. 21 November 2002. “The Gains of Looking East,” *The Pioneer*. <http://www.mea.gov.in/opinion/2002/11/21o03.htm> (accessed on 17 November 2007)

³⁹ AB Vajpayee. 9 April 2002. “India’s Perspectives on ASEAN and the Asia Pacific Region,” *India’s Ministry of External Affairs Website*, <http://www.mea.gov.in/sshome.htm> (accessed on 17 November 2007)

⁴⁰ Malla VSV Prasad. Op.Cit.

⁴¹ Amitabh Mattoo, 2001. “ASEAN in India’s Foreign Policy,” in Frédéric Grare and Amitabh Mattoo (eds.), *India and ASEAN: the politics of India’s look east policy*. New Delhi: Manohar.

⁴² Zhao Hong. Op.Cit. P.12

⁴³ Amitabh Mattoo Op.Cit.

⁴⁴ Malla VSV Prasad. Op.Cit.

⁴⁵ ASEAN-India Network of Think Tanks. 2004. *ASEAN-India Vision 2020: Working Together for a Shared Partnership*. Delhi: Research and Information Systems for the Non-Aligned and Other Developing Countries.

growth in countries. India needs to attract foreign capital and direct investment from abroad and the ASEAN countries are a good resource for them. Initiatives towards integration of capital markets between countries will go a long way in facilitating the same. The limited export-import financing which proves a hindrance to trade between the countries can be overcome by the setting up of an association of export and import banks in the region. The development of an Asian Bond market would also be beneficial to India due to the stability in foreign exchange prices that it would achieve through it. Therefore, there is tremendous potential for benefits from financial and monetary integration between India and ASEAN.

There is large scope for cooperation between India and ASEAN in the area of science and technology. ASEAN has significant hardware and manufacturing capabilities owing to its largely export-oriented economies. India needs to exploit possible synergies between the hardware capabilities of ASEAN countries and its own software and services capabilities in order to strengthen the IT foundation of the region and bridge the digital divide.⁴⁶

Both India and ASEAN have great potential in the tourism industry. It is an area where India is keen to link up with ASEAN in order to promote two-way tourist traffic and to leverage its complementarities to ASEAN tourist circuits in the international tourism markets. Specific destinations in India are being identified in order to address related infrastructure needs involving both ASEAN and Indian investors. India is looking towards ASEAN to gain expertise in the development of tourism infrastructure and other related services.⁴⁷

Since human resource development has a significant bearing on economic development, India hopes to undertake various initiatives including academic

exchange programs, India study centers in ASEAN and vice versa and arrangements between ASEAN and Indian institutes with specific focus on Southeast Asian studies. Such measures are going to help build a specialized and vibrant resource base for all countries involved.⁴⁸

INDIA-ASEAN TRADE

Trade is one of the principal channels of India's economic integration with ASEAN. With large potential for India and ASEAN countries to develop trade relations, it is one of the primary areas of concentration on both sides. This is especially relevant as there is growing consensus that India's economic structure, being services oriented, is largely complementary to the manufacturing-oriented economies in ASEAN.⁴⁹ Trade between ASEAN and India has increased over the past decade, keeping in line with efforts towards economic integration by both sides. Tables 5 and 6 provide a more up-to-date picture. One can observe the sharp rise in cumulative exports from India to ASEAN since 2002. This rise is especially large with respect to Singapore. The rise has also been noticeable between 2005-06 and 2006-07. Overall, with the exception of a few new members in ASEAN, the volume of exports has increased from 2005-06 to 2006-07. A similar trend can be observed in the case of imports. Most notably, India's imports from Malaysia and Singapore have risen more than 5 times between 2002 and 2007.

Imports from Thailand too, have risen favourably, exhibiting a trend of consistent increase with higher growth rates in successive years. However, Indian policy makers should be aware that India-ASEAN trade, though increasing, is not substantial enough compared to global figures and

⁴⁶ Ibid.

⁴⁷ Malla VSV Prasad. Op.Cit.

⁴⁸ Amitabh Mattoo. Op.Cit.

⁴⁹ Rahul Sen, Mukul G Asher and Rakishen S. Rajan, "ASEAN-India Economic Relations: Current Status and Future Prospects," *Research and Information Systems for the Non-Aligned and Other Developing Countries RIS Discussion Paper*, No. 73, May 2004

needs to be increased further to realize the potential between the countries.

Services trade between India and ASEAN grew at more than twice the rate of merchandise trade. India's share in world trade of commercial services in 2002 was higher than Malaysia, Indonesia, and the Philippines and almost about as much as Singapore's trade in commercial services. The Information and Communication Technology (ICT) services and related services were the major driving force behind services trade in India. "The growth of this sector has been propelled by the nurturing of a pool of skilled ICT manpower, combined with an increasing international demand due such competitive and skilled manpower."⁵⁰

According to Gartner Research, "The [Indian] ICT industry is rapidly growing in size and importance to the overall Indian economy. Its impact is rising in terms of being a larger and more significant component of the overall export market, as well as in helping improve the local and global competitiveness of Indian companies across industries."⁵¹ However, India's share in the global software market is still small. Its cooperation with ASEAN countries like Singapore and Malaysia could create synergies for mutual benefit in this area as these countries already have highly developed capabilities in this field.⁵² In 2000, the ICT services sector accounted for close to 70 per cent of India's service exports which was the second highest share in ICT exports after the Philippines. This share would only have increased over the years and suggests the strong bearing it has on India's exports especially to ASEAN.

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⁵⁰ Ibid. P.14

⁵¹ Partha Iyengar. 18 April 2006. "India's ICT Industry: Increasing in Global Visibility and Relevance," *Gartner Research Website*. http://www.gartner.com/DisplayDocument?doc_cd=138416 (accessed on 19 November 2007)

⁵² Rahul Sen, Mukul G Asher and Rakishen S. Rajan. Op.Cit. P.14

INDIA-ASEAN TRADE INTEGRATION: CURRENT STATUS

The offer by India's former Prime Minister, Mr. Atal Bihari Vajpayee for a free trade pact between India and ASEAN at the Phnom Penh ASEAN-India summit marked the beginning of a new phase in ASEAN-India relations. Following this, at the Second India-ASEAN Summit in Bali in October 2003, the establishment of an India-ASEAN Free Trade Agreement was put on the agenda. This was done in the form of a Framework Agreement on Comprehensive Economic Cooperation between India and ASEAN. According to the agreement, its purpose was to "minimise barriers and deepen economic linkages between the Parties; lower costs; increase intra-regional trade and investment; increase economic efficiency; create a larger market with greater opportunities and larger economies of scale for the businesses of the Parties; and enhance the attractiveness of the Parties to capital and talent."⁵³

With the East Asia Summit, India-ASEAN relations have progressed even further. It is noteworthy that India is being considered as an integral part of the East Asian Community. This has been possible due to the consolidated support from ASEAN and ASEAN+3 countries like Singapore, Indonesia, Thailand and Japan. Their support for India has largely been due to the recognition of India's considerable economic and strategic strengths.

Significantly, trade negotiations on the India-ASEAN FTA were finally concluded on 7 August 2008. According to the Framework Agreement on Economic Cooperation signed between the two countries in October 2003, the negotiations were supposed to have been completed by June 2006 with the FTA itself being implemented by 1 January 2007. However, the inability to resolve several contentious issues due to fierce protection of domestic industries attempted by the

⁵³ Framework Agreement. Op.Cit.

two parties, drastically delayed the conclusion of the agreement.⁵⁴ Negotiations had stalled due to India's tariff cut offers on crucial agricultural products which were considered inadequate by ASEAN members. India refused to roll back tariffs on petroleum, palm oil, pepper, tea and coffee in order to protect its sensitive domestic sector. Most significantly, negotiations were on the verge of collapse as Malaysia and Indonesia sought larger access for their palm oil exports, requiring India to lower import duties from its preferred 45 per cent to 30 per cent. India attempted a compromise by trimming its negative list from 1,414 products down to 560 before finally settling at 490 products, contrary to ASEAN, which increased its negative list from the initial 600 to a 1,000 plus products. Nonetheless, ASEAN's insistence on obtaining greater concessions on palm oil exports caused excessive delay in reaching an agreement.⁵⁵

The FTA, once implemented, will improve India's trading position in the region in light of the preferential access extended to China by ASEAN. Preferential tariffs enjoyed by ASEAN members among themselves too have contributed to the deteriorating competitiveness of Indian exports to the region. With the FTA in place, India can look forward to greater market access with better terms of trade and hope to compete successfully with goods from other countries in the region. Owing to China's rising competitiveness in global trade and investment, the FTA will enable India to forge ties with ASEAN to ensure its support as a crucial ally. It is important for India to consolidate its position in East Asia in light of China's growing influence through trade, aid and investment. With countries in the region moving at a fast pace towards an East

Asian Community, it is important that India substantiate its position in the grouping to secure its economic and strategic interests in the region. The FTA certainly is a crucial first step in this direction.⁵⁶

While the ASEAN-India relations at present are the best they have been through history, there still remain various aspects which need to be looked into for the continued success of their relations in the future. To obtain maximum benefits and associated advantages from the FTA, it is important for India to ensure that it undertakes concomitant reforms in taxation, infrastructure, and governance. Such measures are important to prevent any adverse outcomes of such an agreement on the Indian industry and to ensure that the opportunities presented by the FTA are utilized to the maximum. It also needs to guard against the so-called 'Noodle Bowl Effect' that is resulting due to East Asian Trade Integration. The plethora of FTAs within East Asia has given rise to a complex set of non-uniform and overlapping rules of origin, a situation that presents the risk of fuelling trade disputes. A sincere attempt towards effective management of the regional integration process should include dismantling non-tariff barriers, an effort which will ensure a progressive framework which will work to facilitate trade at the multilateral level.⁵⁷

India stands to gain tremendously through greater economic integration with ASEAN, provided cooperation goes beyond free trade of goods and commodities. Tremendous opportunities exist in areas of media and entertainment, tourism and technology services. With Indian manpower being technically and professionally competitive, India possesses a distinct leverage over China's largely labour and manufacture-oriented human resource.

⁵⁴ Mohit Anand. 28 August 2008. "India-ASEAN FTA: Implications for India," *Institute of Peace and Conflict Studies*, No. 2664,

http://www.ipcs.org/southeastasia_publications2.jsp?action=showView&kValue=2680&country=1016&status=article&mod=a

⁵⁵ Ibid.

⁵⁶ Ibid.

⁵⁷ Mohit Anand. 22 September 2008. "India's Economic Competitiveness in ASEAN: A Comparison with China," *Institute of Peace and Conflict Studies*, No. 2692.,

http://www.ipcs.org/southeastasia_publications2.jsp?action=showView&kValue=2708&country=1016&status=article&mod=a

However, its prospects of competing in industrial and manufactured goods stand greatly diminished in light of China's towering prowess in the same.⁵⁸

VI CONCLUSIONS

ASEAN-India relations have come a long way since their turbulent Cold War phase. The 1990s have seen a distinct rise in their interaction along with firm measures to integrate and cooperate in the economic as well as political spheres. Their partnership has progressed from a sectoral dialogue partnership to a summit level interaction within a decade i.e. 1992-2002. With the ASEAN-India FTA in the offing, this partnership only stands to be further strengthened. There is a clear sense that ASEAN intends to integrate the East Asian region into one consolidated regional bloc and it is certain of the importance of having India as a part of it.

ASEAN sees India as an emerging power in Asia and is keen to develop relations with it that would be beneficial to countries within ASEAN and to the region as a whole. It realizes that India possesses large strategic capabilities and can be a strong stabilizing force in the region. Economically, India, with its burgeoning middle class, can be a significant market for ASEAN manufactures and consequently, an important source of welfare for the region. There is a lot that ASEAN can gain from India's development in its service sector and it looks to develop wide ranging economic partnerships with her.

India understands that the ASEAN grouping consists of countries which have achieved significant development in the past 20 years. It is in its interest to establish beneficial linkages with the countries to benefit from their past experience and current standing. There is large potential in the synergies between its economy and that of the ASEAN countries and is keen to strengthen its economic ties with them.

ASEAN's strategic location makes its stability crucial for India's energy and economic security, and it looks to develop its influence in the region by forging vital ties with ASEAN.

The ASEAN-India partnership holds ample potential for a successful future. As things stand, it is evident that both India and ASEAN are keen to establish a strong relationship with a long-term emphasis on greater cooperation and integration, apart from the strengthening of economic and strategic ties. While there are definite challenges to be addressed before achieving a consolidated East Asian Community, it is evident that conscious efforts are being made on both the sides in developing synergies for the shared prosperity and mutual benefit of India, ASEAN and the Asian region at large.

⁵⁸ Ibid.