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469A Bukit Timah Road
#07-01, Tower Block, Singapore 259770
Tel: 6516 6179 / 6516 4239
Fax: 6776 7505 / 6314 5447
Email: isassec@nus.edu.sg
Website: www.isas.nus.edu.sg



Indian Prime Minister's Visit to East and Southeast Asia: Economics Drives Strategy

Suvi Dogra¹

Abstract

The successful conclusion of the Indian Prime Minister Manmohan Singh's recent three-nation tour of East and Southeast Asia has sent out strong signals regarding India's deepening economic linkages with the region. This paper analyses India's attempts at consolidating its position in the region by employing free trade agreements as effective tools for achieving its economic and strategic ambitions.

While he may have given the United Nations (UN) general assembly a miss this year, the Indian Prime Minister Manmohan Singh has his priorities spelt out as far as engaging Asia is concerned.² By embarking on a three-nation (Japan, Malaysia and Vietnam) tour of Asia last week, Dr Singh has not only marked a new era in India's 'Look East Policy' (LEP), but has also sent out strong signals to the world of its commitment towards deeper economic and strategic integration with the region. The agenda for the seven-day tour was primarily dictated by economics, with trade commitments and negotiations at the helm of discussions in the three countries. As India's Foreign Secretary Nirupama Rao put it: 'The Indian economy is getting increasingly integrated with those of its East Asian partners. PM's three nation tour is organically defined by this process.'³

¹ Suvi Dogra is Research Associate at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore. She can be reached at isassuvi@nus.edu.sg. The views reflected in the paper are those of the author and not of the institute.

² 'Look East policy: PM to visit Vietnam, Japan, Malaysia', *The Indian Express* (7 September 2010), www.indianexpress.com/news/the-no-vision-pm/678506/. Accessed on 1 November 2010.

³ 'PM leaves for three-nation Asia tour,' *The Times of India* (24 October 2010), <http://timesofindia.indiatimes.com/india/PM-leaves-for-three-nation-Asia-tour/articleshow/6802726.cms?> Accessed on 1 November 2010.

Free Trade Agreements (FTA) have emerged as crucial tools for India's LEP, given the recent success India has had in negotiating and concluding economic deals with its East and Southeast Asian counterparts. It is evident that the range and degree of cooperation among states, in terms of economic integration both regionally and globally, is fast changing the Asian landscape.

A late entrant in the FTA game, India's rush towards FTAs for long has been viewed with much skepticism as it seemed to be missing a sense of a defined economic strategy. India was looking east in what was bordering around the 'Nike Strategy' (Just Do It!).⁴ However, given the nature of agreements that India has frozen this time – Comprehensive Economic Partnership Agreement (CEPA) with Japan and Comprehensive Economic Cooperation Agreement (CECA) with Malaysia - it is evident that India's economic pacts with the region are increasingly becoming more exhaustive in terms of coverage of sectors and scope for trade. India is displaying a keenness to make its agreements go beyond trade in goods to exchange of services, investment and labour. This is not only making the agreements economically wider but also allowing India's domestic markets to integrate more meaningfully with those in the region.

Looking east for growth

In the wake of the limited progress of the Doha round of the World Trade Organisation (WTO), India has resorted to expanding its trade basket by accelerating its regional free trade negotiations. India's need to look beyond its traditional partners such as United States (US) and United Kingdom has also prompted it to seek more exclusive ties with Asian economies.⁵

Dr Singh landed in Japan amidst an environment marked by elevated tensions between Japan and China. The hallmark of the visit was the bilateral economic agreement with Japan. After four years of sustained negotiations, the conclusion of the India-Japan CEPA is slated to boost bilateral trade, which has not been growing as fast as India's trade with its other major Asian partners such as China and Singapore. The CEPA has emerged as a truly comprehensive agreement spanning trade in goods, services, investments, movement of natural persons and intellectual property rights.⁶ The agreement will witness complete removal or significant dilution of tariff barriers for around 9,000 goods traded between the

⁴ Sally Razeen, 'Trade Policy in Asia: Where Next With a crippled WTO and Weak FTAs?' ECIPE Policy Briefs, No. 01/2007, www.ecipe.org/publications/ecipe-policy-briefs/trade-policy-in-asia/PDF. Accessed on 29 October 2010.

⁵ 'UK-India bilateral trade declining', *The Indian Express* (22 June 2010), www.indianexpress.com/news/ukindia-bilateral-trade-declining/637020/. Accessed on 29 October 2010.

⁶ Press Information Bureau, Government of India 'Joint Declaration between the Leaders of the Republic of India and Japan on the conclusion of the Comprehensive Economic Partnership Agreement between the Republic of India and Japan' (25 October 2010), www.pib.nic.in/newsite/PrintRelease.aspx?relid=66596. Accessed on 26 October 2010.

two countries.⁷ Less than 10 per cent of the goods will figure on the negative list. The CEPA is targeting bilateral trade worth USD20 billion by 2012.⁸ The CEPA will allow two of India's sunrise sectors – Information Technology (IT) and pharmaceuticals (mainly generic drugs) – greater access to the Japanese market.

The Association of South East Asian Nations (ASEAN) has been at the centre of India's LEP. Leveraging on its synergies with ASEAN, India is now strengthening its ties with the member nations by expanding bilateral partnerships. The CECA with Malaysia and the ongoing talks with Indonesia are relevant examples. ASEAN is fast proving to be India's gateway into the commercial architecture of the Asia-Pacific. The formalisation of economic engagement with ASEAN and other countries in the region has begun yielding strategic dividends for India as well. This is best reflected in India's securing a seat recently as the Asian regional representative at the 15-member UN Security Council after a gap of 18 years.⁹

Malaysia was an important part of the Indian PM's three-nation visit. The CECA with Malaysia is the second bilateral agreement of its kind with an ASEAN member. The first was signed with Singapore in 2005. India also has an FTA with Thailand. After two years and 32 rounds of negotiations, the India-Malaysia CECA is set to be implemented by July 2011 as a single undertaking (including trade in goods, services and investments).¹⁰ The CECA hopes to achieve bilateral trade of USD15 billion by 2015.¹¹ Under the CECA, Malaysia has agreed to allow more than 50 per cent foreign direct investment (FDI) by Indian companies in construction joint ventures. India can also look forward to improved market access in two-wheelers, basmati rice, eggs, textiles and apparel. Palm oil trade has traditionally been a bone of contention between the two countries. The CEPA will allow tariffs on refined palm oil exports from Malaysia to India to decline to 45 per cent (from the current base rate of 90 per cent) by end of 2018, a year earlier than similar reductions proposed in the India-ASEAN FTA. Malaysia will also enjoy improved market access in India in cocoa and textiles and

⁷ 'A big deal, finally: India-Japan Trade Pact,' *The Economic Times* (29 October 2010). <http://economictimes.indiatimes.com/opinion/editorial/A-big-deal-finally-India-Japan-Trade-Pact/articleshow/6832961.cms>. Accessed on 30 October 2010.

⁸ Iyer, Vaidyanathan P, 'India, Japan conclude Cepa talks', *The Indian Express* (26 October 2010), www.indianexpress.com/news/india-japan-conclude-cepa-talks/702475/. Accessed on 26 October 2010.

⁹ 'India secures UN Security Council seat in style', *Daily News & Analysis* (12 October 2010), www.dnaindia.com/india/report_india-secures-un-security-council-seat-in-style_1451697. Accessed on 29 October 2010.

¹⁰ Ministry of Foreign Affairs, Malaysia, 'Joint Statement on the Framework for the Malaysia-India Strategic Partnership' (27 October 2010), www.kln.gov.my/web/guest/pr2010/-/asset_publisher/X9Nx/content/joint-statement-on-the-framework-for-the-malaysia-india-strategic-partnership-english-version-only?redirect=%2Fweb%2Fguest%2Fpr2010. Accessed on 28 October 2010.

¹¹ 'India, Malaysia agree to implement Ceca by July '11,' *The Indian Express* (28 October 2010). www.indianexpress.com/news/India--Malaysia-agree-to-implement-Ceca-by-July--11/703564. Accessed on 1 November 2010.

clothing, which have been excluded from the India-ASEAN FTA. The CECA also contains stricter anti-dumping provisions compared with the India-ASEAN FTA.¹²

The last leg of Dr Singh's visit to Hanoi added substantive value to the LEP. Not only did he attend the 8th India-ASEAN Summit and the East Asia Summit (EAS), he also held significant bilateral meetings with his counterparts from China, Vietnam, Singapore and Australia and the US Secretary of State. At both the summits, Dr Singh called for greater integration between India and East and Southeast Asian countries, and pushed for early completion of India-ASEAN negotiations in services and investment. In a significant gesture aiming to increase people-to-people contact between India and ASEAN members, India announced visa-on-arrival facility to nationals from Cambodia, Vietnam, Philippines and Laos from January 2011. Other measures like setting up a Centre for Tracking and Data Reception and an Imaging facility for the ASEAN countries, adding further impetus to its ties with ASEAN, were also announced.¹³

Reaping Strategic Benefits

Comprehensive trade pacts can be useful facilitators for India's economic growth as well as its gradual emergence as a vibrant regional centre for trade and commerce. The past two years have witnessed a spurt in India's engagement with Asian economies through formal bilateral and regional agreements. The economic engagement is also acquiring greater geo-strategic dimensions and enabling political and diplomatic overtures. It is thus not surprising that while South Korean President Lee Myung-bak was the chief guest at India's 2010 Republic Day celebrations, the 2011 ceremony will see Indonesian President Susilo Bambang Yudhoyono as the chief guest.¹⁴

The Indian PM's emphasis on deeper economic engagement with Asia, ahead of the US President Barack Obama's visit and the G-20 Summit at Seoul, will have a bearing on India's objective of enhancing global strategic leverage through deeper ties with the Asian region. India's steady growth as a prominent regional presence and the concomitant global influence it has begun acquiring is evident from the fact that heads of the five permanent members of the UN Security Council – David Cameron, Barack Obama, Dmitry Medvedev, Nicolas Sarkozy and Wen Jiabao – would have visited India by the end of the year. There is little doubt that economic engagements through trade pacts are increasingly becoming useful tools for acquiring strategic benefits as far as India is concerned. More efforts in this direction are expected in the foreseeable future.

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¹² Ministry of International Trade and Industry, Government of Malaysia, www.miti.gov.my/cms/content.jsp?id=com.tms.cms.article.Article_ebd9d91f-c0a81573-4b7b4b7b-ec08386d.

¹³ Press Information Bureau, India (30 October 2010), <http://pib.nic.in/newsite/PrintRelease.aspx?relid=66678>.

¹⁴ Dixit Sandeep, 'Yudhoyono to be chief guest at R-Day parade' *The Hindu* (16 October 2010). www.thehindu.com/news/national/article830500.ece. Accessed on 1 November 2010.