

SOUTH ASIA

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Editorial Information

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Eventful Times for South Asia

The three months that just elapsed have been very eventful for South Asia. The Chinese President, Hu Jintao, visited India in the third week of November 2006. The visit, which was the first by a Chinese head of state to India in a decade, is slated to further cement the budding relationship between the two Asian giants. India also moved closer to what is described as a 'strategic' alliance with the United States, as a joint conference of the United States Congress, the House of Representatives and the Senate ratified the India-U.S. nuclear deal. The merits of the deal remain widely debated. Peace talks between India and Pakistan are moving forward, generating much hope for a lasting solution. However, in Sri Lanka, the peace process between the government and the Liberation Tigers of Tamil Eelam has been derailed in the wake of the resumption of violence. The world saluted the efforts of Muhammad Yunus to achieve development through micro-credit initiatives among poor women in Bangladesh. The former economics professor was the winner of the 2006 Nobel Peace Prize. Bangladesh, however, has been going through tumultuous times as the Awami League-led opposition parties' demand to rectify what is widely perceived to be electoral rigging in favour of the erstwhile ruling Bangladesh National Party combine triggered weeks of widespread violence. In Nepal, the government and the Maoist leadership signed the Comprehensive Peace Agreement, promising brighter days ahead for the mountain country.

At the Institute of South Asian Studies, we continue progressing with our long-term studies and topical analyses of geopolitical and economic developments in South Asia. In November 2006, the Institute organised the Second International Conference on South Asia. Leading scholars working on the political economy of South Asian countries presented cutting edge papers and engaged in lively debate and discussion with the Singapore audience. We are pleased to announce that in January this year, the Institute shifted to its new office on the Bukit Timah Campus of the National University of Singapore.

This issue of the newsletter carries two articles on the theme of regional cooperation in South Asia: one dealing with Pakistan's bilateral trade agreements and a second on India's experience with regional trade agreements. A third article explores the possibility of cooperation between India and China in the area of research and development while a fourth discusses human capital formation, the Diaspora and Indian development. Other themes that are covered in this issue include the failure of the peace process in Sri Lanka, uncertain prospects of Bangladesh's 2007 elections and the peace agreement in Nepal.

We hope you enjoy the newsletter.

Professor J. Mohan Rao
Director

Regional Trade Agreements and India

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Regional trade agreements attempt to reduce trade barriers between nations that come together under such agreements and, as such, could be considered discriminatory or 'World Trade Organization (WTO) plus'. Of late, with the slowing down of the multilateral trade process, regionalism has acquired an important position in the trade policy of countries. Trade agreements vary from preferential trade agreements (PTAs) and free trade agreements (FTAs) to customs unions, common markets and economic unions. Regional trade agreements (RTAs) have witnessed a higher rate of emergence since the 1990s. As of January 2005, 312 RTAs had been notified to the WTO/General Agreement on Tariffs and Trade (GATT), 170 of which are currently in force. The WTO and the GATT provide a legal cover for these agreements. In July 2006, the WTO has introduced a new mechanism to examine consistency of RTAs with WTO prescriptions. This could be to the increasing complexities shown by some RTAs that include issues like investment, competition, environment and labour which are not yet settled in the WTO.

Data on RTA typologies reveal that FTAs represent 84 percent of such agreements as compared to eight percent in the case of custom unions and the rest being partial scope agreements. The most effective RTAs could contain:

- a) Low External Most Favored Nation (MFN) tariffs;
- b) Some sectoral and product exemptions;
- c) Measures to facilitate trade;
- d) Measures to promote new cross border competition, particularly in services;
- e) Rules governing investment and intellectual property that are appropriate to the development context; and
- f) Schedules of implementation that are put in effect on time.

There are ongoing debates about the effects of FTAs vis-à-vis multilateralism, especially in the aftermath of the failure of the Doha Round.

India's trade policy underwent a comprehensive change when it opted for unilateral liberalisation to open its domestic market and



gradually reduce barriers to trade from 1991. A package of measures that included reduction of tariffs, removal of quantitative restrictions to import, opening up of financial markets and facilitating foreign direct investment has helped the Indian economy to integrate better with the world economy in the last 15 years. An interesting study by the World Bank titled "Trade, Doha and Development: A Window into the Issues" indicates that, of the 21 percent point cut in average weighted tariffs of all developing nations between 1983 and 2003, unilateral reforms accounted for almost two-thirds. Tariff reductions associated with the Uruguay Round accounted for 25 percent and the proliferation of regional agreements to 10 percent.

A World Bank estimate reveals that, since the 1980s, about two-third of trade liberalisation of developing nations has come about unilaterally. In another study by the World Bank on South Asia, it was concluded that India's gains in the unilateral liberalisation process are much larger than in the multilateral liberalisation process.

Trade policy in India has also led to several regional trade initiatives. The factors that led to the establishment of regional trade agreements are two-fold. One could be attributed to the global trend of RTAs which made India join other countries and secure access to many emerging markets. This could be called more of a 'defensive reason'. Secondly, the failure of the institutional arrangements at the multilateral stage (WTO) to gain momentum forced India (like many other developing nations) to pursue RTAs. There is also the advantage that ensues

to the new regional partners in that trade regulations in India have been historically restrictive and relaxations tend to benefit the regional partners substantially.

Among the South Asian countries, India has been the pioneer of RTA activities. It has since signed the South Asian Free Trade Area (SAFTA) with its South Asian Association for Regional Cooperation counterparts, and is part of the framework agreement in Bangladesh, India, Myanmar, Sri Lanka and Thailand Economic Cooperation (BIMSTEC). At the same time, it signed the Comprehensive Economic Cooperation Agreement (CECA) with Singapore and is in the process of FTA negotiations with the Association of Southeast Asian Nations (ASEAN).



In such bilateral preferential relationships through RTAs, there would be clauses for progressive reduction of duties, tariffs and non-tariff barriers. Tariff liberalisation schedules may be asymmetric, allowing one country to gradually open up markets by negotiating for exclusions or a longer implementation period for their sensitive products. The India-Sri Lanka agreement provided for the gradual reduction of mutual tariffs, with a greater degree of acceleration from the Indian side. In the case of the CECA, since there was little scope for reductions on the Singapore side, the duty concessions have been largely from the Indian side.

The estimation of trade impact of preferential trade integration in the South Asian region reveals that, for larger countries like India and Pakistan, the source of gains are the agreements with their larger trading partners like the European Community and the United States. However, regional integration leads to greater gains in the value of trade for smaller economies like Bangladesh and Nepal.

The Asian Development Bank launched the South Asia Sub-regional Economic Cooperation Program in 2001. It promotes economic cooperation in six priority sectors, namely, transport; trade, investment, and private sector cooperation; tourism; energy and power; environment; and information communication technology. There are also efforts to link western South Asia with Central Asia under the Sub regional Economic Cooperation in South and Central Asia (SECSCA) program started in 2003. The SECSCA program provides transport and trade facilitation along the road corridors connecting the Central Asian republics to the Arabian Sea and the Pacific Gulf via Afghanistan. There are now efforts to link East Asia with South Asia through the East-West corridor project involving India, Thailand and Myanmar.

An agreement with Thailand provides for a free trade area in goods by 2010 and negotiations are on to add more items to the list of 82 that have already been identified for tariff reduction in a phased manner.

India's commitments to the WTO agreement reveal that the economy is still heavily protected but more diversified, flexible

and competitive than it was 12 or 13 years ago. In order to accelerate foreign investment, the Foreign Investment Promotion Board was setup for faster clearances of foreign direct investment proposals.

India has also introduced its second generation of reforms which has led to further opening up of the economy to global competition. However, on the basis of its tariff rates, India still retains the world's highest levels and is considered a comparatively closer economy with slow but progressive domestic reforms. There is also considerable stickiness over issues of rules of origin and comprehensive coverage in terms of measures, sectors and products. The further proceedings of the Singapore CECA as well as the Thailand agreement are stuck on these two issues.

In its approach towards ASEAN and the rest of Asia, the strategic initiatives taken by India have been driven by strong economic as well as political considerations. With ASEAN concluding FTAs with other major Asian powers such as China, India would find that it would have a declining role and influence in the region unless it secures duty free access to the ASEAN markets.

There has been a flurry of trade agreements. In addition to the India-ASEAN FTA, India-Singapore CECA, the agreement with Thailand and sub-regional initiatives such as BIMSTEC, there are currently joint feasibility studies with China, Japan, Korea and Malaysia. There is a strong recognition that future trade linkages with Asia are vital for growth of trade and investment. There is also a need to balance the interests and influence of China in this region.

It is interesting to look at the development of trade policy in India through the triangular prism of unilateralism, multilateralism and regionalism. Each of the approaches has its strategic as well as political advantages. Of these, the regional associations are important not only in terms of the additional trade and investment opportunities that they have brought and would continue to bring in, but also to enlarge the gains of the 'Look East' policy. In the present scenario of uncertainty over the future of the Doha Round, the regional agreements become all the more important. ■

Trust, Time and Loyalty - Collaterals of a 'Modern Gandhi'

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In Oslo, at the presentation ceremony on 10 December last year, expressing the admiration of the 2006 Nobel Peace Prize Committee for the winners Muhammad Yunus of Bangladesh and his brain-child, the Grameen Bank, Ole Danbolt Mjøs, the Chairman of the Committee referred to a nickname by which Yunus is often called affectionately - 'modern Gandhi'. Working on a study, "India in the Global Labour Market", to be completed by April this year under the aegis of the Institute of South Asian Studies, I have been on the lookout for events that would connect India to its geo-economic neighbourhood in Asia, and this reference to Gandhi for a present-day Bangladeshi national struck me as one final link that I could put in place to connect the others I had thus far.



Earlier, a series of seemingly counter-intuitive and mutually unrelated media reports in Singapore were my other links for contextualising global trends of paradigm shift from which India as an emerging economic giant could derive a lesson or two of significance - that certain intangible human values can be used as collaterals for supporting investment in human capital formation which, in turn, can be tangibly measured in terms of higher average productivity of labour, paradoxically abysmally low in India when compared with countries in the rest of the world. These reports were on the Peace Prize going to a 'profit making' banker (*Straits Times*, 14 October 2006); about a study by Harvard Professor Michael Kremer upholding the benefits of Singapore's maid policy and thus questioning the conventional wisdom that unskilled immigrant workers are parasites on host economies (he emphasises the point that unskilled domestic workers free up the time of the female members of the employer households for greater participation in the labour market; *Straits Times*, 12 October 2006); and the launch of the much talked-about *The Encyclopedia of the Indian Diaspora* by the President of Singapore, S. R. Nathan, on 9 October 2006, warming up the hitherto cold relationship between a motherland and its 'children' abroad (*Straits Times*, 10 October 2006).

It is important to be convinced that there is a theoretical logic here that, on the one hand, lashes out at the 'culture of greed' in business

(*Straits Times*, 1 January 2007), and, on the other, justifies the operationalisation of Gandhian social capital like trust, commitment, loyalty and so on in societal relationships between the micro-level individuals and the macro-level institutions - a la this year's Nobel Laureate Edmund Phelps in Economics too (*Straits Times*, 13 October 2006). The logic can justify unsecured public investments for building up a broad-based and productive labour force - by developing the human capital potent of a large population, which subsequently results in externalities of an enlarged market demand for commodities and services.

Of three such human values that can be listed, the first is the Grameen Bank principle of trust that a promise made by individuals in a group of poor people would be kept - there is high probability that most of them would keep the promise of returning a loan - that given for investment in vocational education. Second, when a loan is given for consumption and the repayment cannot be made (or expected) in higher-value monetary returns, the pledge could be a commitment of their children's time towards elementary education. A third human value that could be pledged against the subsidy that one enjoys in public higher education, is the loyalty of an individual to pay back, as a developed human capital, in nation-building, even when one had left the country. In short, low-

interest bearing unsecured micro-credit - to poor parents for 'consumption' so as to free their children from labour and engage them in elementary level education (primary and middle schooling); to adults for 'investment' in secondary level vocational education of the self; and 'public subsidies' in higher education to those individuals who carry the high risk of emigrating and thereby becoming part of the brain drain - could all be based on probabilistically high 'guarantee' of social capital that compensating recoveries would eventually take place.

India enacted the Child Labor (Prohibition and Regulation) Act, 2006, on 10 October 2006 which makes child-labour under the age of 14 a punishable offence. While this is a bold attempt to rescue a grossly underestimated minimum of 12.6 million child workers (that is, five percent of the country's child population of 243 million in age group 5-14 by 2001 population census) from the demand side of the employers, it does not address what compulsions the parents had on the supply side, and ask, why do parents send their under-aged children to work in the first place? For about 25 percent of the Indian population, which is about 250 million people, living below the poverty line, nothing matters more than additional earning hand(s) when they already have children to feed and save from destitution (*Channel News Asia*, 12 October 2006; and *Straits Times*, 1 January 2007). Under the circumstances, it is likely that a substantial number of children working in the visible informal labour market of tea-shops, stalls or brick-kilns would become invisible 'self-employed' workers in the 'back offices' of their own homes from where labour could also be outsourced. For example, a tea-stall owner would deploy his own son and not employ someone else's. The choice of having to pay another person would get distorted into acquiring free labour of one's own child. The crux of the issue is that the children would still not get a free claim on their own time for education. This would lead to further deskilling of the children in the bargain, in the sense that even the preferred learning-by-doing that takes place in a 'free' (that is, not bonded) informal child-labour market will get distorted. What is required on the supply side of the child-labour market, therefore, is long-term collateral-free micro-credit to parents for subsistence consumption, in exchange of an undertaking to put their children into schools for education (Khadria, in *Economic and Political Weekly*, 27 July 1996). The implicit collateral here, in the worst-case scenario of large leakages and/or non-repayment of the loan, could be an understanding that due recovery would be in the form of future expected higher contribution of the next, better educated, generation of population to the country's gross domestic product.



The Indian government, in consultation with the Reserve Bank of India and the Indian Bankers' Association, introduced a Comprehensive Educational Loan Scheme for higher education a few years back. Under the scheme, all commercial banks in India now give educational loans of up to Rs750,000 for education within India and of up to Rs1.5 million for study abroad against adult guarantee that one would repay them when one enters the labour market and earns enough in future. However, collateral is required for loan amounts exceeding Rs400,000. Since the beneficiaries are mostly those belonging to the middle class of the population, large masses that could be expected to train in vocational education courses are left out of this. In the 2001 Census count of 402 million main and marginal workers (that is, excluding 'non-workers') in India (in a population of 1,028 million people), 163 million were illiterate and 59 million had less than 10th standard of schooling (Census of India, 2001). It is these two constituencies whom literacy, vocational education and skills could provide accessibility to decent jobs within India and also make them eligible to enter the servicing sector labour markets abroad in Asia, for example, in the Gulf or Southeast Asia. The value of such skills has thus become increasingly important. There is, therefore, a need to fund the relevant vocational trainings by micro-credit based on the collateral of trust, just as the Grameen Bank experiment in Bangladesh has done for women setting up small businesses (Yunus, in *Economic and Political Weekly*, 4 September 2004).

At the Fourth Pravasi Bharatiya Divas in January 2006, India launched the Overseas Citizenship of India (OCI), a truncated dual citizenship for approximately 10 million persons of

Indian origin (PIOs) in a 20-million strong Indian diaspora who had acquired the citizenship of their countries of residence, excluding Bangladesh and Pakistan. To grant OCI to those who were citizens of India or eligible for it as on 26 January 1950, India amended the Citizenship Act, 1955 in 2005 (*Annual Report 2005-06*, Ministry of Overseas Indian Affairs, India). With India emerging as the most sought-after country of origin for supply of knowledge workers to the world in the twenty-first century, there has been a resurfacing of the brain drain problem in India (*Straits Times*, 8 October 2006; and Khadria, in *Economic and Political Weekly*, 11 August 1990). In some global policy quarters, this has lately led to the revival of the talk of 'taxing' the brain drain for publicly subsidised education (*The Times of India*, New Delhi, 21 October 2002). Apart from the roadblocks of transnational jurisdiction and operationalisation that had come in the way of launching the initial Bhagwati-Partington blueprint for such a tax in the 1970s (Majumdar, *Indian Economic Review*, October 1977), it may as well lead to some unwarranted tradeoffs with remittances or capital flows in an era when double-

tax avoidance is being vigorously asked for by the diaspora. The trade-off may or may not significantly short-change the 'economic loyalty' of the diaspora to the mother country.

It would, therefore, be crucial here to judge what would foster it, and what could jeopardise it at a time when India is looking at emigration as a process leading to formation of the 'Indian Diaspora', or 'Indiaspora'. The latter is a more 'patriotic' sounding term coined by the High-level Committee on Indian Diaspora that had recommended the dual-citizenship to the Indian government in 2001 - as a route for turning the 'painful' losses of educational subsidies into long-term 'gainful' investment and not just short-term quid pro quo.

Are these social collaterals only to be explored in autarchy or they could also be discussed under bilateral international relations? One way or the other, implicit or explicit, it seems India has come a 'full circle' to take up the challenge of deconstructing the interface between

the Indian migrant communities abroad and its international relations with their host countries (Kudaisya, *The Encyclopedia of the Indian Diaspora*, 2006). What is required is a proper articulation of that interface. There is scope for Indian policy makers to innovate how the members of the Indian diaspora, as pressure groups in emerging host societies like Singapore (Reeves, *The Encyclopedia of the Indian Diaspora*, 2006), and now increasingly with a new identity in India too as their the country of dual citizenship (Khadria, *The Encyclopedia of the Indian Diaspora*, 2006) could affect this bilaterally with Singapore under the Comprehensive Economic Cooperation Agreement, effective from August 2005 (Sen and Nandy, *Financial Express*, Mumbai, 31 August 2005), and multilaterally with other nations globally. The collaterals of social capital would perhaps come in handy here to effectively harness the untapped human capital in India and thereby create a self-sustaining market where global players, including Indian professionals and business entrepreneurs abroad, would come in, stay and reinvest rather than make hay while the sun shines and fly away. ■

Research Projects

The Institute of South Asian Studies has commissioned the following studies:

- "Marketization and Democracy in South Asia" by Professor D. M. Nachane, Indira Gandhi Institute of Development Research, India. The project is scheduled to be completed in March 2007.
- "Growth and Employment in India: The Regional Dimension" by Dr K. V. Ramaswamy, Associate Professor, Indira Gandhi Institute of Development Research, India. The project is scheduled to be completed in April 2007.
- "Maoism, Governance and Red Corridor: Redefining Development and Progress" by Professor Bidyut Chakrabarty, Head, Department of Political Science, University of Delhi, India. The project is scheduled to be completed in May 2007.
- "Fiscal Policy in India" by Professor Errol D'Souza, Professor, Economics Area, Indian Institute of Management, India. The project is scheduled to be completed in May 2007.
- "Rethinking Economic Development in Asia: Some Historical Perspectives" by Professor Prasannan Parthasarathi, Department of History, Boston College. The project is scheduled to be completed in June 2007.
- "The Political Economy of Military Rule in Pakistan: The Musharraf Regime (1999 -)" by Professor S. Akbar Zaidi, Independent Researcher, Pakistan. The project is scheduled to be completed in June 2007.
- "India's Foreign Policy Priorities over the Coming Decade" by Mr Rajiv Sikri, Former Secretary, Ministry of External Affairs, India. This project is scheduled to be completed in July 2007.
- "The Skilled South Asian Diaspora and its Role in South Asian Economies" by Professor Rupa Chanda, Professor, Economics and Social Sciences Area, Indian Institute of Management, Bangalore, India. This project is scheduled to be completed in October 2007.
- "Energy Security in Asia - Analysis of Socio-Economic, Political, Environmental and Technological Factors" by Dr B. Sudhakara Reddy, Professor, Indira Gandhi Institute of Development Research, India. The project is scheduled to be completed in November 2007.
- "India's Strategic Interests in Southeast Asia and Singapore" by Mr See Chak Mun, Senior Advisor, Ministry of Foreign Affairs, Singapore. This project is scheduled to be completed in February 2008.
- "Sino-Indian Relations: From Security Dilemma to Cooperative Security" by Dr Raja Mohan, Editor (Strategic Affairs), The Indian Express, India. The project is scheduled to be completed in March 2008.

Role of Bilateral Trade Agreements in Pakistan's Economic Strategy

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The process and efforts at South Asian regional integration have not been entirely smooth sailing. The South Asian countries have often been embroiled in geo-political tensions which have led to a certain level of distrust and this is clearly reflected in the hurdles that they face in their efforts at regional integration.

One of the greatest misfortunes that has plagued the region for much of the last six decades has been the less than friendly relations between India and Pakistan, which has had an adverse impact on efforts to develop a South Asian bloc. When the idea of a regional body was mooted by the Bangladesh Prime Minister in the 1980s, both India and Pakistan vehemently opposed it. While India feared that this was a scheme of the smaller nations to gang up against it, Pakistan thought that it would further consolidate India's hegemonic power.

Whilst there has been progress on regional integration in South Asia, the pace has been somewhat slow and sluggish. This has quite expectedly prompted the South Asian countries to form their own trade and investments alliances at the bilateral and regional levels.

Pakistan is no exception to this phenomenon. Despite natural calamities and surging international oil prices, the Pakistani economy has been performing well. This is the result of the government's far-reaching macroeconomic and structural reforms initiated in 2001. Over the last five years, the country has witnessed an annual economic expansion of about seven percent. The Pakistani government has been focussing on trade and economic diplomacy so as to get better market access abroad. In this regards, it has plans to sign free trade agreements (FTAs) with a number of countries.

Within the South Asian region, Pakistan signed a bilateral agreement with Sri Lanka in July 2002 which came into effect in June 2005. As in the case of the India-Sri Lanka FTA, this agreement also accommodates the asymmetry between the two nations. Hence, special and differential treatment in favour of Sri Lanka has been built into the FTA. Pakistan offered 206 items duty free immediately after the FTA came into operation compared to 102 items by Sri Lanka. At the same time, Sri Lanka has been given a five-year period to phase out tariffs compared to the three

years given to Pakistan. Also, 697 items are included in the Sri Lankan negative list as compared to 540 items in Pakistan's negative list.

Pakistan is also interested in building ties with Nepal and there are talks of a FTA between the two countries. Both the countries are keen on exploring mutual areas of cooperation such as textiles, pharmaceuticals and tea.

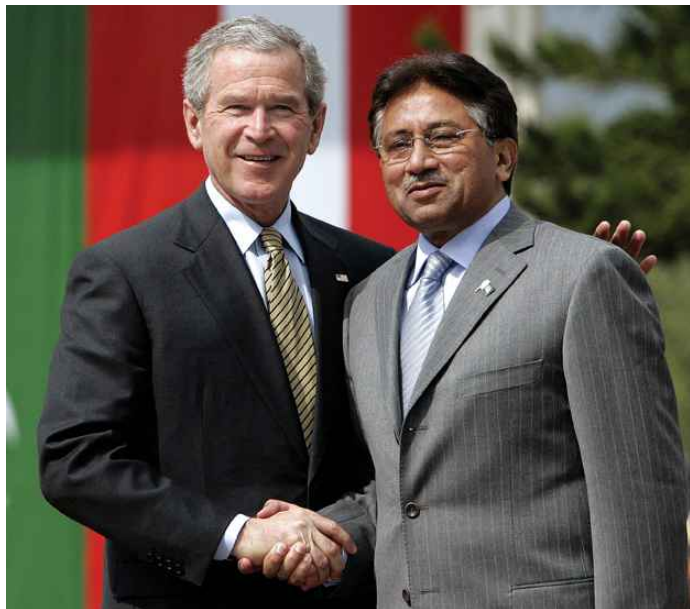
Pakistan is also actively pursuing bilateral trade agreements with members of the Association of Southeast Asian Nations (ASEAN). Negotiations are underway with Singapore, Thailand and Malaysia. Under its 'East Asia Vision' initiated in 2003, Pakistan is seemingly trying to "catch-up" with India in reaching eastwards. Pakistan's contribution towards the war against terrorism has earned it goodwill among countries of the Far East and Southeast Asia.



Pakistan is in the last stages of negotiations with Malaysia on an FTA. Malaysia has been supportive of Pakistan's desire to be a permanent part of ASEAN. Pakistan has already been invited to attend proceedings of ASEAN Plus-3, which is a conglomerate of Japan, China and South Korea, besides the ASEAN countries.

Malaysia is a potential market for Pakistani rice, fruits and vegetables. Pakistan currently exports these to Malaysia but the higher tariffs keep their volume low. Malaysia will also seek the reduction of duty on palm oil from Pakistan. The two countries already have an Early Harvest Programme (EHP) in place. This agreement was

signed in October 2005 in Kuala Lumpur and became operational in January 2006. It shall expire upon entry into force of the FTA or 31 March 2007. The EHP is based on the 2004 import statistics and the most favoured nation (MFN) applied tariff rates of 1 January 2005 of both countries.



Pakistan's economic relations with Singapore are also on the ascendency. In March 2005, Temasek holdings bought a 25 percent stake in Pakistan's NIB Bank for US\$46 million. Negotiations for a FTA are currently in progress, with the third round of negotiations completed in May 2006.

Pakistan is also in the process of finalising an FTA with Thailand. Thailand's then-Prime Minister, Thaksin Shinawatra, assured his Pakistani counterpart that Thailand would extend support to Pakistan in its bid to become a full dialogue member of ASEAN. Thailand also signed a protocol for the implementation of a four-year (2005-2009) Cultural Exchange Programme, which covers culture, sports, youth affairs, archaeology, tourism, education and media development. Pakistan also has a Memorandum of Understanding with Vietnam which covers issues such as science and technology, avoidance of double taxation and cooperation between central banks.

Riding on this economic wave, Pakistan just signed a bilateral agreement with China which covers a myriad of issues and could triple the bilateral trade between the two countries to US\$15 billion within five years. Both countries will also cooperate in constructing a nuclear reactor in Pakistan. Strategically also this agreement is of prime importance and reinforces the close ties shared by both the countries for more than five decades.

Pakistan is also keen on signing an FTA with the European Union. The recent listing of the Muslim Commercial Bank at the London Stock Exchange and the forthcoming listing of the Oil and Gas Development Company are clear evidences of the interest in Pakistan's industrial and financial sectors.

Pakistan is also holding talks with the United States on an FTA. Pakistan has been the United States' strongest ally in its fight against terrorism and both countries want to extend these ties to economic cooperation as well.

As far as its relations with its immediate neighbour India are concerned, Pakistan has refused to grant the MFN status to India under the South Asian Free Trade Agreement (SAFTA). This means that Pakistan will trade on a positive list approach which is unacceptable to India. This move also goes against the spirit of an FTA and prevents both countries from accruing the benefits of free trade. A study by the Indian Council for Research on International Economics Relations points out that trade between India and Pakistan can increase to a phenomenal US\$6.6 billion if barriers are removed and the neighbouring country implements the SAFTA. The 'positive list' approach adopted by Pakistan on Indian imports is a key factor constraining growth in trade. The approach in its present form inhibits trade, lacks transparency and leads to high transaction costs.

Notwithstanding the challenges in its backyard, clearly one can see a pattern by Pakistan to promote its influence and to play a larger role in the region and beyond. It is evident that both India and Pakistan are wooing the same nations. Pakistan has succeeded in establishing links with the major Southeast Asian countries and China on the one hand, and the European Union and the United States on the other. With both the multilateral trading system and South Asian regional integration being put on the back burner, bilateral agreements have taken precedence and Pakistan's government is playing its cards well and working hard on finding and keeping its place under the sun. ■



India-China Cooperation in Research and Development: The Case of Pharmaceuticals and Biotechnology

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During his visit to India in November 2006, the Chinese President, Hu Jintao, spoke about finding complementarities in economic growth between India and China. Complementarities do exist for India and China in many areas, an important one being research and development (R&D).

For India and China, economic advantages arising out of low labour costs will turn out to be short-lived - they are likely to last only until a competitor country snatches them away by offering still lower wages. The real source of competence in the world economy lies in innovation. India and China offer exciting potential in this because of their strong base in science and technology, built by public investment over the earlier decades. The two countries have a large stock of highly skilled professionals. According to the statistics for 2000-01, 22 million students were enrolled for tertiary education in India and China combined.

There also exists a vast market for innovative products in India, China and other developing countries. There is, for example, demand for new drugs for poor patients, for biotechnological innovations that ensure food security in the third world and for novel telecommunication devices for rural areas. Therefore, it is important that India and China join hands in R&D and take the lead in developing products of innovation that would benefit the third world.

Multinational companies (MNCs) have begun outsourcing R&D to China and India in a big way. In a survey of the world's largest R&D spending MNCs conducted by the United Nations Conference on Trade and Development in 2004-05, China and India were identified as, respectively, the first and the third most attractive locations for future investments in R&D. The United States was the second most attractive location. While this is indeed encouraging, there is also some cause for concern. The nature of R&D undertaken by MNCs is oriented to the innovation needs of rich consumers. In pharmaceuticals, for example, research by MNCs is overwhelmingly



directed towards lifestyle-related and convenience medicines, and not to the cure of 'tropical diseases' prevalent among patients in developing countries. There is a fear that, as firms in India and China increasingly carry out contract research for western MNCs, the goal of innovation for the poor in their countries will be undermined.

Consider the case of India's pharmaceutical industry. This industry has had an excellent record as suppliers of generic drugs at affordable prices within the country and outside. The Indian pharmaceutical company, CIPLA, supplies antiretrovirals for poor HIV patients in many countries. In India, this industry grew under strong state support. The Indian Patent Act of 1970 disallowed product patenting for pharmaceuticals and food products and, thereby, aided the learning of process technologies by Indian drug manufacturers. However, with India joining the World Trade Organization (WTO) in 1995, the country had to comply with the provisions of the Agreement on Trade Related Aspects of Intellectual Property Rights. Between 1999 and 2005, India brought in a series of legislations that eventually introduced product patenting in India.

The gradual shift to a product patenting regime has brought forth important changes to the nature of innovation emerging from

India's pharmaceutical firms. Encouraged by the stronger intellectual property rights regime in India, MNCs are outsourcing clinical trials and stages of pharmaceutical and biotechnology innovations to Indian firms. Leading Indian pharmaceutical companies such as Ranbaxy and Dr. Reddy's have increased their allocation for R&D expenditures. They are also orienting their sales increasingly to the markets of North America and Europe which offer higher financial returns.

Of course, these trends signal a greater maturity among Indian pharmaceutical firms. But they also raise important questions. With regards to their financial and research capabilities, even the leading Indian drug firms are much smaller than multinational drug makers. For instance, R&D spending by the multinational drug company, Pfizer, was US\$4.8 billion in 2002. This was larger than the entire national R&D expenditure of India which was US\$3.7 billion in 2001 and of Singapore which was US\$1.9 billion in 2002.

Indian drug firms do not possess the resources to go through the lengthy and financially risky process of new drug innovation. Therefore, Indian firms carry out research, develop new molecules and license them out to MNCs which take these molecules through the stages of clinical trials and regulatory approval. It is not yet clear whether Indian firms will grow to become leading multinationals themselves or remain as junior partners in the global pharmaceutical industry's innovation chain. Another crucial question is related to the availability of affordable medicines. Given the tightened patent rules on the one hand and the new possibilities for contract research on the other, will Indian drug makers be capable of, or rather find it profitable to manufacture generic drugs for poor patients?

Trends indicate that China's pharmaceutical industry too is facing similar challenges. China implemented product patent rules as part of its WTO accession in 2001. MNCs are outsourcing clinical trials and pharmaceutical R&D to China as well as to India. However, pharmaceutical research conducted by MNCs in China and India are largely oriented to the cure of global diseases such as cancer and cardiovascular diseases. It has, so far, given very little priority to 'neglected diseases' such as malaria, dengue and diphtheria that primarily affect poor patients in developing countries.

It is in the above context that the potential for India-China cooperation in R&D need to be explored. The latest frontiers of pharmaceutical research are based increasingly on innovations in biosciences. In China, the government has been investing heavily in agriculture and health biotechnology. Beijing Genomics Institute, which was established as a state-sponsored research centre in 1999, took part in the Human Genome Project. China was the only developing country to participate in this project. Fudan University's Human Genome Laboratory in Shanghai is involved in the mapping and sequencing the human X chromosome. In pharmaceuticals, Chinese expertise is in the manufacture of bulk drugs or active pharmaceutical ingredients, whereas Indian skills are in finished dosage forms or formulations production. Given such complementarities, it is possible for India and China to join hands and become world leaders in the emerging field of biopharmaceuticals.



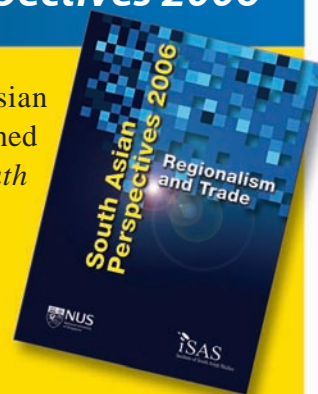
Singapore can play an important role as a facilitator of India-China cooperation in knowledge-intensive industries, especially in pharmaceuticals and biotechnology. Government spending and policy attention on the biotechnology industry is very high in Singapore. The Biopolis in Singapore is emerging as a leading global centre in biomedical sciences research. A Singapore company ES Cell International is claimed to be the first to start commercial production of human embryonic stem cell lines for use in clinical trials. Biomedical centres in Singapore, China and India can collaborate with each other to form metaclusters. Singapore can act as a hub where scientific talents from India and China interact. India, China and Singapore can cooperate in R&D and aim to meet the demand for innovative products originating from the large markets in Asia and the rest of the developing world. ■

ISAS publishes *South Asian Perspectives 2006*

The Institute of South Asian Studies (ISAS) has published its inaugural issue of *South Asian Perspectives*.

Focusing on the seven countries in South Asia, *South Asian Perspectives 2006* looks at the region from the perspectives of developing regionalism and trade. It examines their impact, in particular, on the internal and external policies of the individual countries.

If you would like to have a copy of the publication, please contact Ms Irma at (65) 6516 4239 (DID) or email at isasijie@nus.edu.sg to arrange to collect your copy from ISAS. ■



Second International Conference on South Asia



The Institute of South Asian Studies (ISAS) organised its Second International Conference on South Asia on 8 November 2006. More than 150 members of the Singapore business community, government agencies, diplomatic corp, research institutes and think-tanks, expatriate community and the academia attended the conference.

Mr George Yeo, Singapore's Minister for Foreign Affairs, delivered the keynote address for the conference on "South Asia in the Global Community: Towards Greater Collaboration and Cooperation".

The conference also witnessed two plenary sessions discussing socio-economic and political issues, strategic developments in South Asia, India-China linkages and South Asia-Southeast Asia relationships. The speakers included Professor D. M. Nachane from the Indira Gandhi Institute of Development Research; Mr Sudhir Devare, a Visiting Senior Research Fellow at the Institute of Southeast Asian Studies; Professor Zhang Jun from Fudan University in Shanghai; Professor Bibek Debroy, Secretary-General of the Punjab, Haryana & Delhi Chamber of

Commerce and Industry in India; Professor Hasan Askari Rizvi, a political and defence consultant from Pakistan; and Professor Jayadeva Uyangoda from the University of Colombo in Sri Lanka.

The papers for the conference can be found on ISAS' website at www.isas.nus.edu.sg. The third conference is scheduled for October 2007. ■

In Appreciation



After almost two years as Visiting Senior Research Fellow and Head of Research at the Institute of South Asian Studies (ISAS), Dr Narayan will end his appointment at the Institute in March 2007. He has several other important commitments in India and would like to devote his time to his obligations there.

Dr Narayan has been associated with ISAS since its inception and has played a pivotal role in the Institute's growth and development. ISAS' first book was Dr Narayan's insightful study on governance and development in Indian states. *Growth Opportunities in Indian States: Issues of Governance and Economic Development* was published in October 2005, barely six months after Dr Narayan came on board as Senior Research Fellow. He has also played an instrumental role in the publication of two other ISAS' publications – *South Asian Perspectives 2006* and *Tamil Nadu: Economic Growth, Governance and Business Opportunities*.

Dr Narayan has helped in charting ISAS' research agenda and directions. He has also been an excellent team member and a senior colleague to whom ISAS young researchers have often turned to for advice, guidance and mentorship. Dr Narayan's knowledge of the workings of the Indian and South Asian political and economic systems have been important in the preparation of policy briefs and background papers for ISAS' stakeholders.

ISAS would like to thank Dr Narayan for his invaluable contributions to ISAS. We wish him the very best in his future endeavours.

Snippets on South Asia

Dr Maathai K Mathiyazhagan
Research Fellow, ISAS

Sri Lanka: Failure of the Peace Process

A ceasefire agreement (CFA) signed in February 2002 between the Sri Lankan government and the Liberation Tigers of Tamil Elam (LTTE) ended a long conflict in which as many as 70,000 casualties were reported since 1983. However, full implementation of the CFA has not taken place because talks between these two parties have stalled since April 2003 when the LTTE unilaterally walked away from the negotiation table. Attempts to reach a political solution quickly ran into problems after the talks in February and October 2006 failed to redefine discussions of a political settlement.

Although the CFA was instrumental in stopping full-scale military clashes for a brief period, significant problems in the design of the process ultimately contributed to the renewal of conflict. The failure of the peace process has resulted in frequent brutalities on both sides, resulting in land battles, air strikes, ambushes and attacks. More than 3,000 troops, civilians and LTTE members were killed in 2006 alone.

Presently, neither side seems interested in putting an end to the fighting. In fact, both sides are rearming, with the government reported to have double its defence spending to Rs139.6 billion for 2007, as opposed to Rs69.5 billion in 2006.

The main reasons for the peace process fiasco are misassumptions and distrust between the two parties. The LTTE is under the impression that the government is marginalising it. The government's actions such as demanding an international ban on the LTTE and efforts to strangle the transnational networks that fund the LTTE are the basis for the failure of the peace process.

A major failure of the peace process could be attributed to the inability of the government to gain a national consensus on core issues of political autonomy or

resolution package for the north-eastern region. At the same time, the government's forceful action in vacating civilian premises in the high security zone in the north of Jaffna, in particular, is said to have aided the escalation of the conflict. Recent air attacks by government forces in eastern Sri Lanka to capture the LTTE's stronghold reflect intensified fighting between the two sides. There is no indication that both parties are prepared to make any concessions on either humanitarian issues or on a political settlement.

Both sides should redirect their resources towards helping the embittered and impoverished population in the north-eastern region. Peace has to be built on a foundation of democracy, human rights, development and disarmament, with human security and legitimate aspirations of all citizens assured if it is to be durable. It requires a broad vision from all the groups and political parties in the country. In fact, the decision of the two main Sri Lankan parties - the ruling Sri Lanka Freedom Party and opposition United National Party - to establish an alliance through signing of a Memorandum of Understanding is a positive approach in ending the conflict.

However, President Rajapakse needs to bring all the parties together and build a national consensus for everlasting peace in the country. Until the government makes a meaningful resolution proposal for the north-eastern region, the LTTE can argue that it is not committed to a political solution.

A recent survey entitled "People's Opinion on Peace" by the Marga Institute in Sri Lanka found that 79 percent of respondents support negotiations for a political solution. However, there are hardliners on both sides who adopt an aggressive posture in the peace process. Until a solution is found in altering political attitudes on both sides, the conflict is likely to worsen.

Bangladesh: Challenges to Elections 2007

Parliamentary elections are scheduled to take place in Bangladesh on 22 January 2007 to elect 300 members to the 9th Jatiya Sangsad (National Parliament) for a five-year term. The five-year tenure of the Bangladesh National Party (BNP)-led four-party alliance ended on 27 October 2006 and was marked by two days of intensive violence caused by party activists from the four-party alliance and the main opposition party, the Awami League (AL). On 29 October 2006, Bangladesh's President, Dr Iajuddin Ahmed, was sworn in as Chief Advisor of the caretaker government and 10 Advisers were sworn in on 31 October 2006. Holding the election within 90 days after the caretaker government took over is compulsory under the country's constitution; otherwise a constitutional crisis would result in the country.

In the past elections, a strong anti-incumbency sentiment resulted in a change of government, with the AL and BNP alternating in power. Bangladesh is a parliamentary democracy with reasonably free and fair elections. However, most, if not, all of the elections since 1971 have been shrouded in controversies. The major parties in the country are often at violent loggerheads with one another, due to a lack of tolerance in the political system. In the 1990s, the violence was perpetuated by Marxist and Maoist groups. However, the real threat to the government is posed by Islamist extremists. The announcement of the general elections in 2007 witnessed a month-long political crisis amidst nationwide strikes and deadly demonstrations organised by the political alliance led by former Prime Minister Sheikh Hasina. These strikes are said to have resulted in losses of five billion taka (US\$73 million) a day just in the garment industry alone, which is the main export of Bangladesh.

Sheikh Hasina alleged that the interim government is organising the polls to favour the alliance's opponents. She also wants the ballot to be delayed until electoral reforms are in place and President Iajuddin steps down. Out of 10, four members of

the Advisors to the caretaker government have resigned. The resignations have been argued by the AL and its new 19-party alliance as a sign of protest against the dictatorial and pro-BNP-Jamaat role of President Iajuddin in the election process. In another twist to the elections, Jatiya Party's chairman H.M. Ershad (who is part of the AL alliance) was disqualified from the ballot on 27 December 2006. A Dhaka court also asked Mr Ershad to surrender himself by January 2007 in connection with a Japanese boat purchase case for which he had already served two years of imprisonment and released in 1997.

The AL-led grand electoral alliance announced its decision to boycott and resist the parliamentary elections set for 22 January 2006, alleging that all electoral preparations by the government so far have been in favour of the BNP-Jamaat-led four-party alliance coming into power. Following the poll boycott decision, nearly 2,370 candidates withdrew their nominations papers. The BNP's chairperson, Begum Khaleda Zia, and some other party leaders were elected unopposed as their rivals withdrew their nomination papers. Meanwhile, the acting Chief Election Commissioner, Justice Mahfuzur Rahman, declared that the elections would be held based on the announced schedule despite the boycott decision by the AL-led alliance. The decision by several opposition parties to boycott the poll suggests that the election result would be meaningless. The political outlook is, therefore, highly uncertain in the country. A free and peaceful election is necessary, though not a sufficient condition, to stabilise Bangladesh as both the AL and BNP-led alliances have radical supporters. The Jamaat-e-Islam and the Islamic Okyo Jote are the two major partners of the BNP-alliance widely known for their extreme Islamic radicalism. Even the Zaker party (a faction of Islamic Okyo Jote) is a part of the AL-led alliance. Despite the widespread disillusion among the political parties, if the elections are not held and there is no clear mandate at all for governance, the possibilities in the absence of an alternative, legitimate leadership are grim and uncertain.

Nepal: Peace Agreement in Place

Nepalese Prime Minister Girija Prasad Koirala and Maoist rebel leader Prachanda signed a comprehensive peace agreement (CPA) on 21 November 2006 to put an end to the decade-old insurgency. Civil war has continued in Nepal for the past decade, opposing the country's 200-year-old monarchy. The hostilities have claimed over 15,000 lives and almost 200,000 Nepalese have been internally displaced. King Gyanendra dismissed the previous civilian government in February 2005 out of impatience with its anti-Maoist strategy. But the King was forced to restore civilian authority in April 2006 after several mass protests. The King has lost most of his powers and financial incentives, and may also lose his position as head of state once the new constitution is established.

One of the main features of the CPA is to chart a course towards elections for a constituent assembly following the formation of an interim legislature and government which included the Maoists. The constituent assembly has to be elected through a mixed first-past-the post and proportional system which will also decide the future role of the monarchy. Another feature of the CPA is arms management. The Maoists have committed to locking up their weapons in cantonment under the United Nations' supervision and the Nepalese Army would be largely confined to the barracks.

The CPA clears the way for the Maoists to serve in the country's parliament and in the new interim government. The CPA will

certainly enhance the position of the Maoists as they would be able to openly discuss their ideology and participate in popular democratic activities. However, there are still several obstacles on the road to constitutional reform. According to the CPA, the Maoists' arms and ammunition are to be locked up in secured stores within their identified cantonments. The Nepalese Army would deposit a similar number of weapons under supervision but would be allowed to use the weapons to carry out essential tasks. Both sides would hold the keys to their respective cantonments but the United Nations would closely monitor these stores from a distance through video cameras and siren-activating sealing devices as well as carry out site inspections. The Maoist guards would be allowed to retain a few weapons for cantonment security. It can be expected that the Maoists' retention of arms could compromise free and fair elections irrespective of the United Nations' close monitoring. There is a widespread uncertainty over the Maoists' willingness to cooperate within a democratic system in the event of mistrust on both sides.

It is also imperative for the achievement of peace through progress and prosperity of the country. It requires policy through action, ideas and research aimed at the construction of society based on justice and sustainable human development. Nepal is an agricultural nation of 28 million inhabitants in the mountainous Himalayan region. It is also one of the least developed capitalist countries in the world. The country is also arguably marked by semi-feudal relations in the countryside and a Hindu-based caste system, with millions of people subject to institutionalised discrimination based on class, caste, language, gender, culture, religion and region. Therefore, the restructuring of Nepal on the basis of inclusiveness, democracy and progression is vital by putting an end to the present centralised and unitary state structure.

On a positive note, there are hopes of a peace dividend emerging from the Maoist agreement, and together with a more supportive donor environment, substantial new investments in rural infrastructure, health and education are envisaged.

Inaugural International Symposium on Pakistan

The Institute of South Asian Studies (ISAS) will organise its first international symposium on Pakistan on 24 and 25 May 2007 in Singapore.

Focusing on "International Relations and Security", the symposium will bring together eminent international scholars from different parts of the world with expertise on Pakistan. They include Amin Saikal (Australian National University); Selig Harrison (Center for International Policy, Washington D.C.); Robert G. Wirsing (Asia-Pacific Center for Security Studies, Honolulu); Christine Fair (Center for Conflict Analysis and Prevention, Washington D.C.); Arslan Razmi (University of Massachusetts at Amherst); Kanti Bajpai (The Doon School, Dehradun); Pervaiz Cheema (Islamabad Policy Research Institute, Islamabad); Imran Ali, {Lahore University of Management Sciences (LUMS), Lahore}; Mohammad Waseem (LUMS); Akbar Zaidi (Karachi); Marie Lall (Institute of Education, London); and Rajshree Jetly (ISAS).

This symposium will provide an excellent opportunity for a deeper and more intense understanding of Pakistan's socio-political, economic and security landscapes as well as in its regional and international relations. The event also provides an ideal opportunity for networking between scholars, policy makers and the business community.

Those interested in attending the symposium may contact:

Ms Irma Jaya

Tel: (65) 6516 4239 Fax: (65) 6776 7505

Email: isasijie@nus.edu.sg

Details on registration for the conference will be available on ISAS' website in due time.

ISAS Recent Publications

Books

International Conference on South Asia 2005 – Engaging South Asia: Challenges and Opportunities, 5 November 2006.

The First Institute of South Asian Studies Distinguished Visitor Lecture – Bangladesh: Challenges and Priorities, Her Excellency Begum Khaleda Zia, Prime Minister of the People's Republic of Bangladesh, 20 December 2006.

The Second Institute of South Asian Studies Distinguished Visitor Lecture – Promoting an Environment for Security and Cooperation in Asia, His Excellency Shaukat Aziz, Prime Minister of the Islamic Republic of Pakistan, 29 December 2006.

Regionalism and Trade – South Asian Perspectives 2006, 29 January 2007.

ISAS Background Brief

'The Special Economic Zones in India – An Update', Dr S. Narayan, Head of Research and Visiting Senior Research Fellow, ISAS, 13 November 2006.

ISAS Insights

'The Re-emergence of the Baluch Movement in Pakistan', Dr Rajshree Jetly, Research Fellow, ISAS, 1 October 2006.

'The Visit of Chinese President, Hu Jintao (20 – 23 November 2006)', Dr Rajshree Jetly, Research Fellow, ISAS, 28 November 2006.

'Bhutanese And Tibetan Refugees In Nepal: Implications For Regional Security', Mr Nishchal N. Pandey, Visiting Research Fellow, ISAS, 19 December 2006.

'Nepal's Peace Process: Prospects and Hurdles', Mr Nishchal N. Pandey, Visiting Research Fellow, ISAS, 26 January 2007.

ISAS Working Papers

'East Asia Summit and India', Professor S. D. Muni, Observer Research Foundation, 3 October 2006.

'Destination India for the Pharmaceutical Industry', Dr Alka Chadha, Research Associate, ISAS, 4 October 2006.

'Food and Retail Chains in India', Professor N. Viswanadham, ISAS Associate, 6 October 2006.

'Food and Retail Chains: Case Study of Andhra Pradesh and Punjab', Professor N. Viswanadham, ISAS Associate, 9 October 2006.

'Infrastructure Strategies for Export Oriented Manufacturing and Service Zones in India', Professor N. Viswanadham, ISAS Associate, 16 October 2006.

'Knowledge Economies in India, China and Singapore, Issues and Prospects: Case Studies of Pharmaceuticals and Biotechnology', Dr Jayan Jose Thomas, Research Fellow, ISAS, 26 January 2007.

'Conceptualising the Typologies of Indian Diaspora in International Economic Relations: 'Tinker, Tailor, Soldier, Spy', Or A 'Great Off-White Hope' of the New Century?', Professor Binod Khadria, Consultant, ISAS, 26 January 2007.

ISAS Recent Events

Seminar by Professor Rehman Sobhan, Chairman, Centre for Policy Dialogue, Bangladesh, *"Political Economy of Governance in Bangladesh"*, 4 October 2006.

Second International Conference on South Asia, *"South Asia in the Global Community: Towards Greater Collaboration and Cooperation"*, 8 November 2006.

Roundtable Discussion by Professor Pratap Bhanu Mehta, President and Chief Executive, Centre for Policy Research, India, *"Economic Reforms in India - Process and Prospects"*, 9 November 2006.

Public Lecture by Dr Rakesh Mohan, Deputy Governor, Reserve Bank of India, *"Economic Reforms in India: Where Are We and Where Do We Go?"*, 10 November 2006.

Seminar by Professor Peter Reeves, Head, South Asian Studies Programme, Faculty of Arts and Social Sciences, National University of Singapore, *"Arcelor and More - What's with the Indian Diaspora and India's International Industrial Expansion?"*, 16 November 2006.

Workshop on *"South Asia-East Asia Economic Cooperation and Pan-Asian Integration"*, 29 - 30 November 2006. Jointly organised by the Asian Development Bank, Singapore Centre for Applied and Policy Economics (NUS), Institute of South Asian Studies, Institute of Southeast Asian Studies, and Research and Information System for Developing Countries.



ISAS has moved...



The Institute of South Asian Studies (ISAS) moved to its new premises on the Bukit Timah Campus (BTC) of the National University of Singapore (NUS) on 11 January 2007.

ISAS' new address is follows:

469A Tower Block
Bukit Timah Road, #07-01
Singapore 259770

It is joined at the Tower Block at BTC by the East Asian Institute and Asia Research Institute. In addition to providing for the expansion of the Institute, the move brings together the key Asia-focussed research institutes at NUS under one roof. The co-location provides an excellent opportunity for joint research programmes and activities between the three institutes.