

Country Report **5**

India

Nagesh Kumar

Research and Information System for Developing Countries

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Indian Economic Prospects and Challenges

India with a trillion dollar economy growing at an average rate of nearly 9 per cent per annum for the past five years, a 300 million strong middle class, and optimistic long-term outlook for its ability to sustain high growth rates, is emerging as an important growth driver in Asia and the world. With the economic reforms and the Look East Policy adopted since 1991, Indian economy has deepened her economic integration with the outside world especially with East Asia. Peak tariff rates have come down dramatically from around 150 per cent in early 1990s to just 10 per cent by 2007. The share of trade in goods and services in GDP has gone up as a result to nearly 50 per cent. An important and more dynamic aspect of India's outward integration is its emergence as a hub for outsourcing of IT software, business process outsourcing, R&D and design services which complements well with the emergence of East Asian countries as manufacturing hubs. Another aspect of growing global integration is through FDI –inward and outward. FDI inflows to India increased by nearly 100 per cent during 2006/07 to reach US\$ 19 billion. A growing number of Indian companies are also internationalizing their operations and have invested nearly US\$ 10 billion in the last six years in 4000 projects.

Among the challenges that policy makers are currently trying to address include mobilizing massive investments needed for infrastructure development to the tune of US\$ 450 billion over the next five years. Another challenge is to make the growth more pro-poor and inclusive. Although the proportion of population below poverty line declined from about 44 per cent in 1983 to 22 per cent in 2004/05, there are still 220 million people waiting to be lifted out of poverty. Growing regional inequalities between Southern and Western states and the Northern and Eastern states also need to be addressed.

India's Economic Integration with East Asia

India has taken a keen interest in regional economic integration and is an active

member of SAARC and BIMSTEC, among other initiatives for regional integration in South Asia. The Look East Policy has guided her engagement with ASEAN and East Asian countries. India became ASEAN's dialogue partner in 1992, and started participating in ASEAN Regional Forum since 1996 and an annual Summit-level interaction since 2002 with ASEAN. In 2003, India signed a Framework Agreement for Comprehensive Economic Cooperation. A long-term vision document of ASEAN-India partnership and shared prosperity was adopted in 2004. India's engagement with ASEAN is usefully complemented by sub-regional attempts towards economic cooperation such as BIMSTEC and Mekong-Ganga Cooperation (MGC).

India is an active participant in the growing East Asian web of FTAs. It is currently involved in FTAs/ CEPAs negotiations with ASEAN (besides bilateral arrangements with individual ASEAN countries such as Singapore and Thailand), South Korea and Japan and is studying such arrangement with China, Indonesia and New Zealand. As a result of the conscious effort to deepen her economic integration, East Asia comprising ASEAN and Northeast Asian countries has emerged as India's largest trading partner with two way trade crossing US\$ 80 billion in 2006. Furthermore, with imports of US\$ 54 billion from EAS countries being twice as high as her exports to them, India is giving a much bigger market access to the EAS trade partners than it is receiving. India has also emerged as one of the largest sources of tourists for a number of ASEAN countries such as Singapore, Thailand, and Malaysia. East Asia has also become an important source of FDI as well an increasingly attractive destination for Indian companies' operations. India is increasingly getting integrated with East Asian production chains especially in more critical knowledge-based segments such as R&D and product design with major East Asian enterprises increasingly locating their product development activity in India.

Roadmap for East Asian Economic Integration: Policy Recommendations

India sees her growing engagement with East Asian countries as building blocs of a broader Asian grouping and has articulated a vision of an Asian Economic Community as an 'arc of advantage, peace and shared prosperity in Asia' bringing together different sub-regions of Asia in a phased manner.

East Asia Summit (EAS) bringing together 16 of Asia's largest and fastest growing economies, is an appropriate forum for evolving a scheme of broader regional economic integration in Asia. Research has shown that EAS based economic integration has a greater potential to generate welfare gains for all the partners than ASEAN+3. EAS will be able to benefit from the dynamism, complementarities and other strengths of

India, Australia and New Zealand for mutual benefit. Furthermore, it can be argued that an EAS-based grouping will be more balanced than an ASEAN+3 based one and less susceptible to domination by any particular large country.

The first priority for EAS should be to create a broader framework for comprehensive economic partnership arrangement of East Asia (CEPEA) by coalescing various ongoing FTAs between ASEAN and its dialogue partners to provide a seamless market for goods, services and investments. CEPEA could target to liberalize regional trade and investment regimes in a phased manner by 2020 with provisions for safeguards for sensitive products, special and differential treatment for countries at different levels of development, programmes of economic cooperation and capacity-building to narrow the development gaps and dispute resolution. Care must be taken in designing the programmes of regional economic integration in such a manner that they keep equity, employment generation and necessary social transformation and social safety nets for the vulnerable sections of the society at their heart so that it represents regionalism with an 'Asian Face'. By balancing the interests of efficiency and equity, the Asian arrangement could well emerge as a role model for trade liberalization in multilateral as well as regional contexts in the whole world.

Financial and monetary cooperation presents substantial potential of fruitful cooperation considering the fact that the combined foreign exchange reserves of EAS countries exceed US\$ 3 trillion. EAS could take steps towards creating an Asian financial architecture that would facilitate partial mobilization of these reserves for narrowing the development gaps in Asia while spurring the growth. The other initiatives could include creation of an Asian Currency Unit as a unit of account to facilitate intra-regional trade and production networking.

EAS could also provide a framework for cooperation for energy security, development of transport infrastructure and connectivity, and for harnessing the fruits of new core technologies for addressing the digital divide and nutritional and health related issues as well as global governance, peace and security and sustainable development.

Role of ERIA

The process of regional economic integration within the EAS framework needs to be supported and assisted by a think-tank network coordinated by a regional institution. In that context ERIA has a key role to play in assisting the region in its process of regional economic integration with analytical support. ERIA has done well to launch research programmes on deepening integration, infrastructure development, and other important aspects of regional economic development and integration besides capacity

building. Over time ERIA should seek to evolve into a premier regional policy think-tank assisting the East Asian leaders with policy inputs for guiding regional initiatives.