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Research and Information System for the  
Non-Aligned and Other Developing Countries

Core IV-B, Fourth Floor  
India Habitat Centre  
Lodhi Road  
New Delhi-110 003, India.  
Ph. 91-11-24682177-80  
Fax: 91-11-24682173-74-75  
Email: [dgooffice@ris.org.in](mailto:dgooffice@ris.org.in)  
Website: <http://www.ris.org.in>

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## **ASEAN-India Economic Relations: Current Status and Future Prospects**

Rahul Sen, Mukul G. Asher  
and  
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RIS-DP # 73/2004



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Core IV-B, Fourth Floor, India Habitat Centre  
Lodhi Road, New Delhi – 110 003 (India)  
Tel: +91-11-2468 2177/2180; Fax: +91-11-2468 2173/74  
Email: [dgoffice@ris.org.in](mailto:dgoffice@ris.org.in)

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# ASEAN-India Economic Relations: Current Status and Future Prospects

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Rahul Sen\*, Mukul G. Asher\*\* and  
Ramkishen S. Rajan\*\*\*

**Abstract:** This paper analyzes recent trends in merchandise trade, services, investments, and manpower flows between India and ASEAN, and assesses future prospects for economic cooperation. Since India's Look-East policy initiated in the early 1990s, there has been steady progress in economic cooperation and supporting institutional structures between India and ASEAN. There has also been a welcome diversification of India's trade with ASEAN both in terms of the share of individual members in total trade, and goods and services being traded. The analysis in the paper is consistent with the view that India's economic structure is largely complementary to ASEAN economies, and therefore there are significant opportunities for mutual gain. In Indian policy and business circles, ASEAN continues to be regarded as an economically important region. The paper however argues that a mindset change is needed among ASEAN policy makers and businesses before potential for mutual gains can be fully tapped. The paper concludes with specific suggestions for expanding cooperation between India and ASEAN countries.

## Introduction

In the post-Cold War period, and particularly since the latter part of the 1990s, India's relations with all the major powers, especially the US, have shown considerable improvement. There is now greater mutual understanding of inter-

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\* Fellow, Institute of Southeast Asian Studies (ISEAS), Singapore.

E-mail: rahul@iseas.edu.sg (corresponding author).

\*\* Professor, Public Policy Programme, National University of Singapore (NUS), Singapore.

E-mail: mppasher@nus.edu.sg.

\*\*\* Visiting Freeman Scholar, Claremont McKenna College, California.

E-mail: ramkishen.rajana@adelaide.edu.au.

linkages between economic, security and strategic interests of India on the one hand and major powers on the other. There are also hopeful signs that economic imperatives are gradually becoming much more important in driving relations on the Indian sub-continent, including between India and Pakistan (Solomon, 2004).<sup>1</sup> As India demonstrates its economic and technological capacities to compete in the 21<sup>st</sup> century, it is becoming an important player in shaping the future political and security environment in Asia. Resilience and stability of India's political and other institutions, and harmony between its decentralized economic and political arrangements also have the potential to contribute to India's competitive strength.

Following the initiation of economic reforms in India in 1991, India's annual growth rate has averaged 5.9 per cent during the 1992-93 to 2002-03 period. Notwithstanding some concerns about the large fiscal deficit (especially in the states), India represents a compelling macroeconomic story, with potential to sustain high economic growth rates. Some analysts are perhaps over-optimistic in projecting the emergence of India as the third largest economy in 2003 dollars by the year 2050, only behind China and the US (Morgan Stanley, 2003; Wilson and Purushothaman, 2003). India needs to grow at a nominal rate of only 7.4 per cent (real rate of 3.4 percent assuming inflation rate of 4 percent per annum) to become a trillion dollar economy by the end of this decade. (*Financial Times*, 2004). As India's nominal GDP growth in recent years has been in the range of 9 per cent to 12 per cent, this should not pose a formidable challenge.

India's domestic-led development is considered to be sustainable, spawning several globally competitive firms (Khanna and Huang, 2003). A consequence of India's liberalization and rapid growth is the growing involvement of Indian companies abroad (Goswami, 2003; Merchant, 2004; Ramakrishnan, 2004)<sup>2</sup>. This has expanded India's capacity to pursue its "Look East" Policy initiated in the early 1990s with vigour (Sridharan, 1996). The scope and density of relations between India and the ten-member ASEAN (Association of Southeast Asian Nations) has been steadily rising. India became a sectoral dialogue partner of ASEAN in 1992. The sectors were trade, investment, tourism and science and technology. Mutual interest in wider engagement led ASEAN to invite India to become a full dialogue partner of ASEAN during the Fifth ASEAN Summit in Bangkok in December 1995 (ASEAN Secretariat, 1995) and a member of the ASEAN Regional Forum (ARF) in July 1996.

An important milestone was achieved with the hosting of the first ASEAN-India summit in Phnom Penh, Cambodia in November 2002. This came about through a confluence of factors. One, there were strong signals from Indian leaders of the desire to fortify relations with ASEAN via a series of bilateral visits by Indian leaders to many ASEAN members. Two, ASEAN leaders have recognized the need to actively engage India so as to develop a more balanced relationship with all of the major Asian economies, particularly as China is also pursuing an FDI-led, labour intensive manufacturing exports strategy (Goodman, 2004).

Three, there is a growing body of literature suggesting that India's economic structure is largely complementary (service-oriented) to ASEAN economies (light manufacturing) with significant areas of mutual gain (Asher et al., 2003; Gaur, 2003; Kumar, 2002; Bhattacharya and Ariff, 2002).

A framework agreement for the creation of a free trade area (FTA) with Thailand was signed in October 2003. Under this agreement, 84 items can be imported from Thailand from April 2004 at 50 per cent of the normal rate of duty prevailing in India.<sup>3</sup> India has been engaged in negotiations to form a Comprehensive Economic Cooperation Agreement (CECA) with Singapore. Sub-regional cooperation between India and some of the ASEAN members such as Vietnam, Thailand, Myanmar, and Laos has also accelerated (Gaur, 2003; Suryanarayana, 2003). These include the Mekong-Ganga Cooperation (MGC) and the BIMST-EC (Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation).<sup>4</sup> India is also an active participant in Thailand's initiative, Asian Cooperation Dialogue (ACD), which has representation from all parts of Asia. India has contributed US\$ 1 billion to another initiative by Thailand on the Asian Bond Fund (ABF) (Rajan, 2004). India views the above groupings as consistent with strengthening its ties with ASEAN as a whole.

India is considering FTAs with other entities as well. For instance, India and China are exploring the feasibility of an India-China bilateral FTA<sup>5</sup>. India has also signed a framework agreement for a FTA with the Mercosur grouping, involving the Latin American countries (Sengupta, 2003).

The recent bilateral and sub-regional efforts to strengthen economic relations are being complemented through an effort by India to intensify its economic relations with ASEAN as an overall regional grouping. Thus, a Framework

Agreement on establishing a Free Trade Area (FTA) between ASEAN and India was signed by the Indian Prime Minister during the Second ASEAN-India Summit in Bali in October 2003. The ASEAN-India FTA is expected to encompass a strategic and political partnership, thus going well beyond a traditional FTA agreement (Bhattacharya and Ariff, 2002). It is however important not to underestimate the challenges that lie ahead in achieving ASEAN-India FTA. Much will depend on how ASEAN as a grouping evolves in the future, and its capacity to effectively sustain and enforce any ASEAN-wide agreements.

While the foregoing discussion suggests that the density of economic and political interactions between ASEAN and India have been increasing, the Indian side has been somewhat disappointed at the lack of progress in the evolution of the mindset among ASEAN elites in some countries towards deepening engagement with India<sup>6</sup>. This is particularly evident at the mid-levels of officials and managers who conduct day-to-day commercial and official relations with India. There is also a curious lack of expertise about or interest in India in ASEAN universities, think tanks, and the media. Thus, while the next natural upgrading of relations would be to turn the *de facto* ASEAN plus Three grouping (ASEAN plus China and Japan) to ASEAN plus Four to include India, there remain ideological, informational and other biases that seem to be hindering this from happening in the near term. In relation to this, attempts by some countries in the ASEAN plus Three group to confine India to South Asia are inconsistent with the broader interests of these countries as well as of ASEAN as an organization (Asher, et. al., 2003). — Indeed, the term “South Asia” itself is a Cold War construct, and therefore the term “Southern Asia” that includes the Indian subcontinent as well, may be more appropriate.

It is in the above context that this paper examines the future of ASEAN-India economic relations. The rest of the paper is organized as follows. Section 2 offers a broad overview of economic relations between India and ASEAN including a discussion of the ASEAN-India FTA. Sections 3 to 5 discuss various aspects of international trade flows between ASEAN and India. In particular, Section 3 focuses on merchandise trade, Section 4 deal with services trade, while Section 5 discusses tourism flows between ASEAN and India. Sections 6 and 7 discuss factor flows between ASEAN and India. Specifically, Section 6 deals with investment flows while Section 7 offers a short discussion of manpower flows. The penultimate section explores the future prospects of ASEAN’s economic relations with India, with a focus on the potential gains at both the

individual country level, as well as for the grouping as a whole. The final section offers a few concluding remarks.

### **ASEAN-India Economic Relations: An Overview**

This section briefly reviews the existing economic relations between India and ASEAN in merchandise trade, trade in services, investments, tourism, and manpower flows. It may be useful to begin the analysis with observations based on key macroeconomic indicators of India and six ASEAN members (henceforth ASEAN-6), viz. Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam (Table 1).<sup>7</sup>

One, ASEAN’s population is about half that of India’s population of over one billion persons. The most populous country in ASEAN viz. Indonesia, has about a fifth of India’s population. However, ASEAN’s per capita income in current prices at US\$ 1,230 is nearly two and a half times that of India. The gap may narrow somewhat over time but is not likely to reverse in the foreseeable future.

Two, ASEAN’s Gross National Income (GNI) in current dollars in 2001 which stood at US\$ 565 billion, was, according to the World Bank method, about a fifth higher than that of India. However, measured in purchasing power parity (PPP) terms, ASEAN’s GNI of US\$ 1,832 billion was about 70 per cent that of India’s. The gap in GNI between ASEAN and India in current dollars has been narrowing since the second half of the 1990s. This is because during the 1996-00 period, while ASEAN as a group exhibited average annual growth rate of 1.4 per cent, the corresponding growth rate for India was 5.7 per cent. ASEAN as a group has grown more rapidly since 2000, but its average growth rate has remained lower than that of India’s.

Three, ASEAN continues to be far more integrated with the world economy than India. This is indicated by its much higher merchandise trade to GDP ratio (Table 1), and greater dependence on external sources of capital, technology, external borrowings and manpower. Nonetheless, India is gradually but undoubtedly integrating more intensively with the world economy. While it is not likely to be as integrated with the world economy in conventional terms as ASEAN, it is becoming the hub for outsourcing of software and business processes (Farrell, 2004). An increasing number of Fortune 500 companies and European multinational corporations (MNCs) are setting up Research and Development (R&D) centres in India

Table 1: Selected Indicators of India and ASEAN Member Countries

Country	Population Million (2001)	GNI (2001)		GNI Per Capita (2001)		External Debt (2000)		Trade/GDP (1996-2000) (%)
		Current value	US \$ Billion	Current value <sup>a</sup>	US \$ Billion	US \$ Billion	% of GNI	
India	1033.4	474.3	2530	460	2450	99	21.8	26.8
Indonesia	213.6	144.7	628	680	2940	141.8	96	67.2
Malaysia	23.8	86.5	198	3640	8340	41.7	52	205.0
Philippines	77	80.8	336	1050	4360	50.1	64	103.6
Singapore	4.1	99.4	100	24740	24910	-	-	318.7
Thailand	61.2	120.9	401	1970	6550	79.6	64	102.1
Vietnam	79.6	32.6	169	410	2130	12.7	36	97.60
ASEAN <sup>b</sup>	459.3	564.9	1832	1230.7	3991.3	325.9	57.7	149.1

Country	Foreign Exchange Reserves	ODA (2000)	FDI (2000)	Merchandise Exports (2001)		Merchandise Imports (2001)		GDP Growth	GDP Growth
				US \$ Billion	(as % of GNI)	US \$ Billion	US \$ Billion		
India	37.9	1	2.31 <sup>c</sup>	43.9	0.5	50.5	5.7	5.2	
Indonesia	22.5	8	-4.5	56.7	-3	31.2	-1.0	7.8	
Malaysia	29.5	2	1.6	88.5	1.9	74.4	3.4	9.5	
Philippines	13.1	8	2	33.6	2.7	31.4	3.0	2.2	
Singapore	80.1	0	6.4	121.7	6.9	116	6.4	9.1	
Thailand	32	11	3.4	64.2	2.8	60.2	-0.9	8.6	

Table 1 continued

Table 1 continued

Country	Foreign Exchange Reserves	ODA (2000)	FDI (2000)	Merchandise Exports (2001)		Merchandise Imports (2001)		GDP Growth	GDP Growth
				US \$ Billion	(as % of GNI)	US \$ Billion	US \$ Billion		
Vietnam	3.4	22	1.3	15.1	4.1	16	6.4	8.2	
ASEAN <sup>b</sup>	211.4	n.a.	10.2	379.9	1.4	329.1	1.4	7.4	

**Notes :**

- nil or negligible

n.a. : not available

<sup>a</sup> World Bank estimates based on World Bank Atlas method

<sup>b</sup> Excludes Brunei, Cambodia, Laos and Myanmar as complete data are not available.

<sup>c</sup> The official Foreign Direct Investment (FDI) figures do not report reinvested earnings and intra-company loans and thus remain underestimated when compared with IMF's standard measurement guidelines (Srivastava, 2003, Table 3)

GNI refers to Gross National Income

ODA refers to Official Development Assistance

**Source:** Calculated from World Bank, *World Development Report*, 2003 and IMF, *International Financial Statistics Yearbook*, 2001.

While data on such service transactions are not readily available, it is becoming clear that the impact of work done in India on global technological and other developments is not insignificant, and is expected to rise over time (*Business Week*, 2003). We will have more to say about this in Section 4.

With the signing of the framework agreement on FTA between India and ASEAN, there is now a clear institutional framework for operationalizing economic cooperation between them. Once established, this agreement is expected to link India more closely with the Southeast Asian economies. The aim is to increase bilateral merchandise trade between ASEAN and India to US\$ 15 billion by 2005 and to US\$ 30 billion by 2007. It should be noted that these appear to be rather ambitious targets but nevertheless useful ones to aim towards.

The FTA provides for an early harvest programme that specifies the areas for collaboration and a common list of items for preferential tariff concessions. According to this Framework Agreement, the deadline for negotiations for an ASEAN-India FTA in goods would be between January 2004 and June 2005, and for services and investments between 2005 and 2007. A trade negotiating committee (TNC) has been established that will begin framing of the rules of origin (ROOs), the modalities for tariff reduction and the FTA in January 2004. Both have agreed to initiate tariff reductions under the FTA by January 1, 2006. It is envisaged that formal tariffs on non-agricultural goods will essentially be eliminated for all ASEAN countries except for the Philippines by 2011, with the CLMV countries (i.e. Cambodia, Laos, Myanmar and Vietnam) reciprocally eliminating tariffs for India with effect from 2016. India has also agreed to extend unilateral tariff concessions to the CLMV countries on 111 items to extend special and differential treatment to the newer ASEAN members, based on their levels of development. India and Philippines have agreed to eliminate tariffs on a reciprocal basis by 2016.

In the view of the authors, it is not appropriate to group Vietnam with Cambodia, Laos and Myanmar for provision of special concessions by India. This is because Vietnam has a much greater capacity to be competitive, and its economic growth and structural transformation are bringing it much closer to the more developed ASEAN countries. Vietnam is also quite competitive in the plantations sector, rice exports, and will become an important location for software development and outsourcing. India should thus regard Vietnam in the same manner as other more developed ASEAN countries.

The Framework agreement also aims to broaden and intensify joint efforts at economic cooperation between ASEAN and India in the Mekong Basin by promoting the Mekong-Ganga Cooperation (MGC) programme that spans many of the newer ASEAN member countries. The enhancing and building up of transport links that span India, Myanmar, Thailand, Cambodia and Vietnam is one of the major goals of this programme. One of the major visions of this programme is to establish a Delhi-Hanoi road and railway link in the near future.

### **Merchandise Trade Relations**

The data for aggregate merchandise trade for 1991 to 2002 period are summarized in Tables 2 and 3. The source for the data is the Centre for Monitoring the Indian Economy (CMIE), an independent private economic research organization in India. The CMIE data is reported on the basis of fiscal rather than a calendar year, thus it may not necessarily be directly comparable with the data from ASEAN country sources. In addition, since the CMIE reports trade data on the basis of the country of origin for recording India's imports, and the country of destination for its exports, it does not account for entrepot trade which could be another possible reason for its discrepancy with data published by ASEAN countries. This is of particular relevance to Singapore for whom re-exports constitute a large part of exports to India (Sen, 2002).

The following observations may be made concerning the trends in merchandise trade between India and ASEAN during the past decade.

One, India's merchandise exports to ASEAN have more than tripled from about US\$ 1.0 billion in 1991-92 (5.7 per cent of its world exports) to US\$ 3.4 billion in 2001-02 (7.7 per cent of its world exports). The overall trend has been upwards, except during the East Asian crisis period of 1997-99. However, merchandise export values between ASEAN and India have already surpassed the pre-crisis peak. The rising trend of merchandise exports from India to ASEAN has been accompanied by a shift in the share of individual countries in India's total exports to ASEAN during this period. With the exception of Singapore, the share of all other ASEAN member countries in India's exports rose during the 1991-02 period, with a five-fold increase in the share of India's exports to Vietnam. However, Singapore has continued to remain the largest market in ASEAN for India's merchandise exports, followed by Malaysia, Thailand, Indonesia, and the Philippines.

**Table 2: Trends in India's Merchandise Exports to ASEAN, 1991-92 to 2001-02**

India's Exports to	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02
World (mn. US \$)	17998.3	18538.8	22213.0	26337.5	31841.9	33498.0	35048.7	33211.0	36760.0	44147.0	43708.0
ASEAN-6 (mn. US \$)	1022.3	1242.9	1675.1	1899.6	2702.8	2851.6	2419.6	1589.2	2190.3	2813.7	3383.6
Share in Total Exports (%)	5.7	6.7	7.5	7.2	8.5	8.5	6.9	4.8	6.0	6.4	7.7
Indonesia (mn. US \$)	149.5	138.5	234.7	277.8	663.4	592.3	437.8	185.2	325.1	394.9	539.3
Share in ASEAN (%)	14.6	11.1	14.0	14.6	24.5	20.8	18.1	11.7	14.8	14.0	15.9
Share in Total Exports (%)	0.8	0.7	1.1	1.1	2.1	1.8	1.3	0.6	0.9	0.9	1.2
Malaysia (mn. US \$)	203.9	189.9	247.0	286.6	393.8	531.6	490.5	321.6	447.2	601.1	773.6
Share in ASEAN (%)	19.9	15.3	14.7	15.1	14.6	18.6	20.3	20.2	20.4	21.4	22.9
Share in Total Exports (%)	1.1	1.0	1.1	1.1	1.2	1.6	1.4	1.0	1.2	1.4	1.8
Philippines (mn. US \$)	64.7	54.7	58.2	99.5	144.5	183.8	239.0	118.7	143.7	201.6	248.0
Share in ASEAN (%)	6.3	4.4	3.5	5.2	5.3	6.4	9.9	7.5	6.6	7.2	7.3
Share in Total Exports (%)	0.4	0.3	0.3	0.4	0.5	0.6	0.7	0.4	0.4	0.5	0.6
Singapore (mn. US \$)	391.0	588.9	751.2	770.5	903.0	978.3	780.7	517.3	669.8	862.4	970.1
Share in ASEAN (%)	38.2	47.4	44.8	40.6	33.4	34.3	32.3	32.6	30.6	30.7	28.7
Share in Total Exports (%)	2.2	3.2	3.4	2.9	2.8	2.9	2.2	1.6	1.8	2.0	2.2
Thailand (mn. US \$)	200.1	253.7	356.1	406.7	473.6	447.5	344.9	320.9	449.9	528.7	634.7
Share in ASEAN (%)	19.6	20.4	21.3	21.4	17.5	15.7	14.3	20.2	20.5	18.8	18.8
Share in Total Exports (%)	1.1	1.4	1.6	1.5	1.5	1.3	1.0	1.0	1.2	1.2	1.5
Vietnam (mn. US \$)	13.0	17.4	28.0	58.6	124.6	118.2	126.8	125.4	154.6	225.0	217.9
Share in ASEAN (%)	1.3	1.4	1.7	3.1	4.6	4.1	5.2	7.9	7.1	8.0	6.4
Share in Total Exports (%)	0.1	0.1	0.1	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.5

*Source:* Calculated from CMIE, Foreign Trade & Balance of Payments, Centre for Monitoring Indian Economy, October 2000

**Table 3: Trends in India's Merchandise Imports from ASEAN, 1991-92 to 2001-02**

India's Imports from	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02
World	19554.9	21883.5	23304.9	28662.2	36729.8	39165.5	41534.6	42379.2	49798.6	50056.3	51261.3
ASEAN-6	1274.6	1226.7	1101.7	1940.0	2688.0	2921.1	3382.3	4142.6	4918.9	3876.14 <sup>a</sup>	3991.57 <sup>b</sup>
Share in ASEAN (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Share in Total Imports (%)	6.5	5.6	4.7	6.8	7.3	7.5	8.1	9.8	9.9	7.7	7.8
Indonesia (mn. US \$)	67.4	60.0	119.5	322.3	461.8	599.2	732.5	828.9	960.0	904.4	1039.2
Share in ASEAN (%)	5.3	4.9	10.8	16.6	17.2	20.5	21.7	20.0	19.5	23.3	26.0
Share in Total Imports (%)	0.3	0.3	0.5	1.1	1.3	1.5	1.8	2.0	1.9	1.8	2.0
Malaysia (mn. US \$)	392.0	405.8	249.2	490.2	904.1	1042.2	1180.3	1610.4	2026.5	1151.6	1137.3
Share in ASEAN (%)	30.8	33.1	22.6	25.3	33.6	35.7	34.9	38.9	41.2	29.7	28.5
Share in Total Exports (%)	2.0	1.9	1.1	1.7	2.5	2.7	2.8	3.8	4.1	2.3	2.2
Philippines (mn. US \$)	31.5	9.8	5.9	11.8	21.5	16.5	27.8	37.3	56.3	63.0	91.6
Share in ASEAN (%)	2.5	0.8	0.5	0.6	0.8	0.6	0.8	0.9	1.1	1.6	2.3
Share in Total Imports (%)	0.2	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.2
Singapore (mn. US \$)	696.3	632.1	626.1	900.0	1115.2	1064.2	1199.3	1383.9	1536.3	1435.7	1298.9
Share in ASEAN (%)	54.6	51.5	56.8	46.4	41.5	36.4	35.5	33.4	31.2	37.0	32.5
Share in Total Imports (%)	3.6	2.9	2.7	3.1	3.0	2.7	2.9	3.3	3.1	2.9	2.5
Thailand (mn. US \$)	48.9	58.3	57.2	171.7	170.0	197.4	233.6	273.1	328.2	315.0	424.5
Share in ASEAN (%)	3.8	4.8	5.2	8.8	6.3	6.8	6.9	6.6	6.7	8.1	10.6
Share in Total Exports (%)	0.2	0.3	0.2	0.6	0.5	0.5	0.6	0.6	0.7	0.6	0.8
Vietnam (mn. US \$)	38.5	60.6	43.8	44.1	15.5	1.7	8.7	9.1	11.7	6.5	-
Share in ASEAN (%)	3.0	4.9	4.0	2.3	0.6	0.1	0.3	0.2	0.2	0.2	0.2
Share in Total Imports (%)	0.2	0.3	0.2	0.2	0.04	0.00	0.02	0.02	0.02	0.02	0.01

(million US \$)

*Notes:*

a The data for Vietnam is only available from April to September for the year, 2000-01.

b refers to only ASEAN -5 countries for the year, 2001-02 (excluding Vietnam)

*Source:* Calculated from CMIE, Foreign Trade & Balance of Payments, Centre for Monitoring Indian Economy, October 2000



Two, India's merchandise imports from ASEAN have also tripled, from US\$ 1.3 billion in 1992 to about US\$ 4.0 billion in 2001-02. ASEAN accounted for 8 per cent of India's imports from the world in 2001-02. Thus, ASEAN countries are more important for India as import sources than as exports markets. This suggests that India has been able to contribute positively to ASEAN's export-led recovery from the crisis (Asher, et. al., 2003).

As with exports, the rising level of merchandise imports by India from ASEAN has also been accompanied by a shift in the share of individual ASEAN countries during this period. With the exceptions of Singapore and Vietnam, the share of all other ASEAN member countries in India's imports registered an increase over the 1991-02 period, led by a seven-fold increase in the share of India's imports from Indonesia. This has led to a relative increase in Indonesia's importance as an import source for India, with that of Singapore declining over the period.

Even the absolute volume of merchandise imports from Singapore to India has been declining since the year 1999-00. Given this trend, the decision of Singapore Business Federation (SBF) or its constituents — to which all chambers of commerce and industry in Singapore compulsorily belong — to not open an office in India is rather perplexing. Similar associations in Thailand and Malaysia should also consider setting up such offices in India.

Three, India-ASEAN merchandise trade was worth more than US\$ 7.4 billion in 2001-02. Since India's imports from ASEAN have outpaced those of its exports, the balance of trade has been largely in favour of ASEAN during the 1991-02 period. In 2001-02, India ran the highest bilateral deficit with Indonesia (US\$ 0.5 billion), followed by Malaysia (US\$ 0.4 billion), and Singapore (US\$ 0.3 billion), while registering bilateral trade surpluses with Thailand and the Philippines. India is expected to continue to experience adverse balance of merchandise trade with ASEAN as a whole. If one considers trade in services, such as tourism (see Section 5), logistics and transportation services, India's trade deficit with ASEAN will be far larger. This has not and should not be a source of concern as long as ASEAN's imports are competitive, and its trade practices are consistent with the WTO guidelines and practices. It is hoped that individual ASEAN countries that may run bilateral merchandise trade deficits with India now or in the future will also adopt a similar view.

Indian policy makers, however, are well aware that the existing volume of trade with ASEAN is relatively low and needs to be increased. It is therefore

pursuing a policy of speedy alignment of its tariff levels with the ASEAN countries. In January 2004, India announced wide-ranging reduction in tariffs, with peak tariff falling to 20 per cent. In addition, customs procedures have also been simplified to further reduce cross-border transaction costs (*Business Standard*, 2004). Both these will have a positive impact in facilitating trade.

The impending trade agreements with individual ASEAN countries like Thailand and Singapore are also expected to help in this process, as will the eventual ASEAN-India FTA<sup>8</sup>. In 2000, India's average tariff rate was about 29 per cent compared to an average of 10-12 per cent for ASEAN. However, India has already committed itself to progressively make tariff levels comparable with those in ASEAN by 2007 (Kumar, 2002). Indeed, the January 2004 Export-Import policy has reduced the maximum tariff on non-farm goods to 20 per cent. If India's import revenue to total imports is taken as an indicator of the effective rate then the tariff levels are already in single digit.

The foregoing analysis is highly aggregative. However, recent studies on product composition indicate that pharmaceuticals, metal scraps, leather goods, textiles, machinery and electronic components and gems and jewellery are among the product areas with clear potential for future merchandise trade expansion between ASEAN and India (Sarma and Mehta, 2002; Sen, 2002).

## **Services Trade Relations**

### ***Trade in Commercial Services***

While merchandise and services trade expanded at almost the same rate between 1980 and 1989 (9 per cent), the average annual growth of services trade over the 1990-00 period has been more than twice that rate. India's share in Asia's exports of commercial services (as defined by the WTO) increased from 3.5 per cent to 7.3 per cent between 1990 and 2002. India's share in world trade of commercial services in 2002 was higher than Malaysia, Indonesia and the Philippines, and almost about that of Singapore (WTO, 2003, Table I.7). In 2002, India ranked 19<sup>th</sup> in terms of its global export share of commercial services, which was below Singapore (17<sup>th</sup>), but above Malaysia (27<sup>th</sup>), Thailand (26<sup>th</sup>), Indonesia (40<sup>th</sup>) and Philippines (above 40<sup>th</sup>). In the same year, India ranked 19<sup>th</sup> compared to Singapore (21<sup>st</sup>), Malaysia (26<sup>th</sup>), Thailand (24<sup>th</sup>) and Indonesia (27<sup>th</sup>) in terms of its share in global imports of commercial services.

### ***Outsourcing: ICT and Business Process Operations (BPOs)***

The Information and Communication Technology (ICT) and related services have constituted the major driving force behind services trade in India. The

development of this sector has been primarily market-driven; government regulation has been minimal. The growth of this sector has been propelled by the nurturing of a pool of skilled ICT manpower, combined with an increasing international demand for such competitive and skilled manpower. A recent study by Tschang (2003) observes that Indian software firms now possess strong capabilities in process maturity and management skills<sup>9</sup>, which positively impact on their international competitiveness. Indian software companies are attempting to move up the value-chain, and establishing presence in key countries around the world.

However, in spite of rapid growth, India's share in the global software market is still small. While the software industry in India is diversifying into new areas with stronger growth potential like Applications Service Providers (ASP), e-commerce and related applications, the hardware industry is only beginning to receive the requisite attention of the policymakers and the industry (Rajan and Sen, 2002). This is an area where India needs to develop capabilities in order to be a truly global player in the electronics and information technology (IT) sectors. Cooperation with ASEAN economies that have developed such capabilities, particularly Singapore and Malaysia, could create synergies for mutual benefits in this area.

While the ICT services sector was viewed as being non-tradable just a few years ago, it accounted for about 70 per cent of service exports, equivalent to 16 per cent of India's total merchandise exports in the year 2000 (Table 4). In 1990, the share of ICT exports (to total services exports) in India was higher only than that of Indonesia among the middle-income ASEAN countries; but by 2000, India had the second highest share in ICT service exports after the Philippines. The Philippines has emerged as a competitor to the Indian IT

**Table 4: Sectoral Composition of India's Services exports (% of total Service Exports, BoP)**

	1980	1990	2000
Communications, computer, etc. [ICT]	31.5	42.9	71.1
Insurance and financial services	1.2	2.7	1.4
Transport services	15.6	20.8	10.6
Travel services	54.2	33.8	17.9

**Source:** The World Bank, *World Development Indicators 2003*.

sector, though this is not a zero sum game. For instance, Indian IT companies have invested in the Philippines to benefit from its competitiveness.

The above indicates that ICT services trade is indeed a potential area of cooperation between India and ASEAN. However, this would simultaneously require an expansion of bilateral investments and more secure and easier movement of natural persons between India and ASEAN. Malaysia's multi-media super corridor could receive a boost if mutually beneficial arrangements are negotiated with India's IT sector. This will require a degree of adjustment on both sides, and a mind-set change by Malaysia.

India has become the leading destination for outsourcing of ICT services, call centre support and other back-end business process operations (BPOs) like data entry and handling, payroll management, accounting and book-keeping, processing of tax returns and insurance claims, ticketing, coding and organizing of documents for major litigation cases, transcription (medical and legal). Many US, British and other MNCs as well as smaller enterprises routinely outsource a number of their services activities. They have come to appreciate that if they do not outsource to reduce costs, while their competitors continue to do so aggressively, they stand to lose global and local market shares to their foreign rivals<sup>10</sup>. The resultant stagnant corporate profit growth will limit the creation of new capital and re-investment in domestic technology.

India has gained a competitive edge as an outsourcing hub for a number of reasons, including the widespread use of English, internationally competitive wages, large pool of science and engineering graduates, and the presence of strong indigenous service sector enterprises. Outsourcing to India in particular has not only involved low-to-mid skill areas like call centres and routine data-crunching tasks, but also more sophisticated and skills-based services including software development, research and development (R&D), financial portfolio analysis, patent writing and product design and development.

ASEAN (and East Asian) corporations have been rather slow and timid in utilizing India's strengths in outsourcing, design, and research and development to enhance their global competitiveness as aggressively as their Western counterparts. ASEAN (and East Asian) companies have thus chosen to forgo the potential competitive advantage by not locating some part of the value-chain in India. This is a source of synergy which needs to be tapped, but is contingent on a change in the mindset of the ASEAN media and the elites. Recent directives

by Singapore's high-level policymakers for its national airline to make greater use of outsourcing of its functions represent a step in the right direction.

### Tourism Flows

Another area of services trade that holds potential for expansion is tourism. Indonesia, Malaysia, Philippines, and Singapore have already developed considerable expertise and competitive advantage in tourism, with Vietnam also developing into an important tourist destination in recent years. However, India has realized the potential in this area rather belatedly, and is taking steps to implement an integrated tourism industry<sup>11</sup>. India aims to not only attract substantially larger number of international visitors than the current 2.75 million tourists in 2003, but also provide a conducive atmosphere and money-for-value services to increase their stay and expenditure per day.<sup>12</sup>

A comparison of India and ASEAN economies with respect to world tourist arrivals and foreign exchange earnings from tourism (tourism receipts) indicates that in 2001, the number of tourist arrivals within ASEAN-5 were highest for Malaysia (12.8 million), followed by Thailand (10.1 million), Singapore (6.7 million) and Indonesia (5.2 million). In comparison, India attracted only 2.5 million visitors that year. In terms of tourism receipts in ASEAN-5 in the same year, Thailand was the highest earner with earnings worth US\$ 6.7 billion, followed by Singapore (US\$ 6.0 billion), Indonesia (US\$ 5.4 billion) and Malaysia (US\$ 5.0 billion). India earned tourism receipts of only US\$ 3.0 billion during 2001 (Table 5).

Trends in visitor arrivals from India to ASEAN-5 indicate that the total number of visitors has increased from 421,000 in 1992 to 763,000 (1.8 per cent

**Table 5: ASEAN and India in World Tourism, 2001**

	World Tourist Arrivals (Million)	World Tourism Receipts (US \$ billion)
Thailand	10.1	6.7
Singapore	6.7	6.0
Indonesia	5.2	5.4
Malaysia	12.8	4.9
India	2.5	3.0

*Source:* Tourist Statistics 2001 & Highlights of Tourist Arrivals in India 2002, Ministry of Tourism & Culture, Govt. of India.

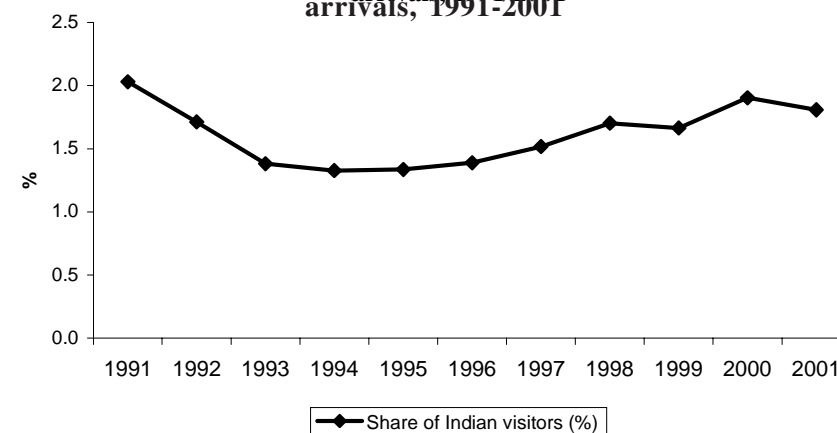
**Table 6: Composition of Indian visitors to ASEAN, 2001**

From	Total No. of visitors (in Thousands)	Share by country (%)
Brunei Darussalam	6.9	0.9
Cambodia	2.3	0.3
Indonesia	35.0	4.6
Lao PDR	2.7	0.4
Malaysia	143.5	18.8
Myanmar	5.6	0.7
Philippines	15.4	2.0
Singapore	339.8	44.5
Thailand	206.1	27.0
Vietnam	5.8	0.8
<b>TOTAL</b>	<b>763.0</b>	

*Source:* Computed from ASEAN Tourism Statistics, <http://www.aseansec.org/14720.htm>

of total visitors) in 2001 (Table 6). However, the share of Indian visitors among the total visitors to ASEAN has not exceeded 2 per cent over the entire decade (Figure 1). In general, Singapore attracted nearly half of all Indian visitors to ASEAN-5, followed by Thailand, Malaysia and Indonesia (Table 6).<sup>13</sup> According to the ASEAN Secretariat data, India ranked among the tenth largest visitor-generating market for ASEAN (excluding intra-ASEAN visitors).

**Figure 1: Share of Indian visitors in ASEAN's total visitors arrivals, 1991-2001**



*Source :* Computed from ASEAN Secretariat, 2003

In contrast, the flow of ASEAN visitors to India is quite small. In 2001, visitors from ASEAN countries to India numbered only about 140,000, less than one-fifth of that of Indian tourists visiting ASEAN. Country-wise, visitors from Malaysia constituted the highest share of ASEAN visitors to India (41 per cent), followed by Singapore (31 per cent), and Thailand (13 per cent). The share of business travelers from key ASEAN countries, such as Singapore, has been growing. In 2003, about 35 per cent of visitors from Singapore to India traveled on business visa (Aggarwal, 2004). This indicates that the balance of trade in tourism services is likely to significantly favour ASEAN countries. India needs to be more proactive in attracting visitors from ASEAN.

Given the vast geographical and cultural diversity of India, the lack of a proper integrated approach has led many international tourists to choose alternative destinations. In spite of vast cultural and natural diversity, international tourism in India remains highly concentrated in a select few states and circuits. In this context, Sen (2002) notes that “investments by Singapore firms in India’s tourism sector has the potential for mutual benefits, since it provides Singapore investors (and the investment could be relatively passive investment in the form of a minority share but with a degree of technical and know-how transfer or of an portfolio investor with a view to sharing in relevant company’s growth) with attractive investment opportunities, while India can benefit through transfer of skills, inward flow of capital, and increased comfort level for Singapore (and regional) visitors”.

As an example of the ongoing economic cooperation efforts in this sector, it is important to note that the Government of India Tourism Office in Singapore and the Singapore Tourism Board (STB) have been cooperating in promoting tourism between the two countries. The two organizations cooperated to encourage tourists from Singapore to visit India as a part of its “Explore India Millennium Year” campaign launched in 1999. As part of its promotion plans for targeting Singaporean tourists, the Indian Tourism office is marketing India not only as a conventional holiday and business destination, but also for ecological, health, and adventure tourism. Plans are underway to target Muslim pilgrims in Singapore to halt in India on their way to the annual pilgrimage of Haj and Umrao. The tourism authorities are also focusing on Buddhist groups by developing appropriate packages for them. Malaysia has also set up a tourism office in India, in recognition of the fact that in spite of its attractiveness and competitiveness, it received only 144,000 Indian visitors in 2001 as compared to 340,000 for Singapore and 206,000 for Thailand. There is now a degree of

cooperation between Malaysia and Singapore in trying to attract Indian tourists to visit both the countries.

In operational terms, several important developments in the tourism sector concerning ASEAN and India have taken place recently. During the Bali Summit, India offered unilateral liberalization of air travel for ASEAN carriers. ASEAN air carriers have been permitted to fly to 21 tourist destinations in India directly. In addition, ASEAN air carriers can now fly to 4 metros in India without any limit during the busy tourist months. This is expected to be of significant benefit to the national carriers from Malaysia, Thailand and Singapore. The budget carriers of Malaysia and Thailand, and hopefully Singapore are also planning to fly to India. Indian domestic carriers have been given permission to fly to destinations on the Indian subcontinent, and the geographical reach may be extended in due course. This offer has subsequently led to greater connectivity between India and ASEAN, though there is considerable scope to increase it further. Increased competition is likely to reduce airfares between India and ASEAN, currently among the highest on a per-mile basis.

The above factors can be expected to boost tourism flows and help enhance business interactions. The granting of visa-on-arrival facilities for Indian visitors to Thailand, and more recently by Malaysia are further measures that could enhance such interactions. For the less developed ASEAN countries, Indian visitors could constitute a new source of tourists. They may also consider visa on arrival, though unlike Thailand and Malaysia, their pricing of visas will need to reflect their lower competitiveness.<sup>14</sup>

All in all, the tourism industry in India has the scale to become a competitive industry, provided appropriate investments, infrastructure, human resources, and service-oriented mindset are developed. This is a major challenge facing India’s tourism sector.

### **Investment Relations**

Investment relations between ASEAN and India have until now remained rather limited. This is due to the fact that only Singapore, and to some extent, Malaysia has significant investments in India, and due to the limited capacity of Indian companies to invest abroad until recently.

Table 7 summarizes trends in approved FDI inflows from ASEAN-6 economies (Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam)

**Table 7: Trend of India's Approved FDI Inflows by Countries**

(Amount in US \$ Million)

	1996	1997	1998	1999	2000	2001
Indonesia	10.58	2.89	7.13	0.00	0.02	0.01
Malaysia	11.95	579.63	437.01	26.97	3.53	22.42
Philippines	80.07	1.35	0.00	0.00	0.15	0.41
Singapore	90.25	237.37	185.98	191.80	71.93	80.50
Thailand	21.60	7.15	0.08	1.63	0.08	0.26
Vietnam	0.01	0.00	0.00	0.20	0.00	0.00
ASEAN-6	214.46	828.39	630.20	220.60	75.71	103.60
Total FDI in India	10510.85	15302.86	7800.89	6753.94	8613.83	6249.00
Share of ASEAN-6 (%)	2.04	5.41	8.08	3.27	0.88	1.66

*Note:* \* refers to figure for 2000, updated up to 31st December, 2002.

*Source:* Secretariat for Industrial Assistance, *SIA Newsletter*, January 2003.

to India over the period 1996-01.<sup>15</sup> During this period, large companies from ASEAN countries made occasional investments in India. The share of ASEAN-6 in India's total approved FDI inflows increased nearly four-fold from 2 per cent to about 8 per cent between 1996 and 1998. However, after the economic crisis in ASEAN in 1997-98, there was a decline in the flow of FDI from ASEAN-6 economies into India, as many of their investments in India experienced ownership and other changes.

Among the ASEAN-6 countries, Malaysia and Singapore have been the major investors in India. Malaysia has made substantial investments in expanding capacities in selected infrastructural areas such as logistics, highways, and ICTs in India, particularly before the 1997 crisis. It has also been cooperating to assist India in providing infrastructure expertise and investments in the energy sector, particularly for oil and gas exploration and in downstream processing activities (Asher, et. al., 2003).

Concomitantly, Singapore-based MNCs, and Singapore's government-linked-companies (GLCs) such as Singapore Telecom, Port of Singapore Authority and Singapore Technologies have also made investments in India. Singapore's private sector companies have made small-scale investments in health care, real estate, and tourism. Favourable experience and profitability of Singapore's technology park in Bangalore has created a positive environment for investments by Singapore in India.

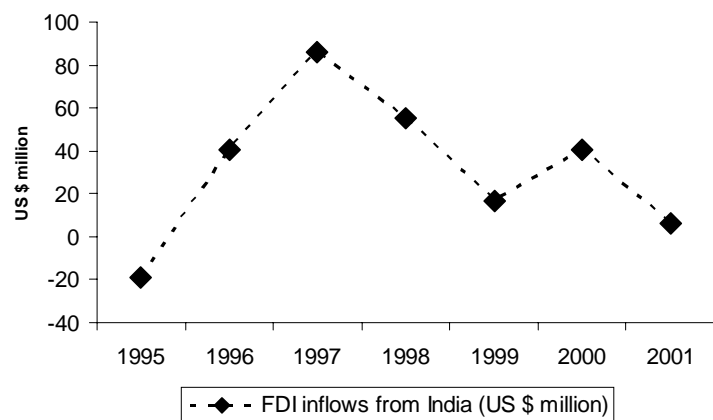
Singapore, through its government holding company, Government of Singapore Investment Corporation (SGIC), is also one of the largest Foreign Institutional Investors in India. The majority of the MNCs in Singapore have used Mauritius to route investments to India because of its favourable double taxation treaty with India. Thus, the official figures of inflows of FDI from Singapore to India is understated as they exclude those investment routed via Mauritius. The extent of the understatement is however, difficult to assess.

The findings of a recent survey based on 75 interviews with firms from Malaysia and Singapore who have invested in India suggest that ASEAN investors developed relatively more positive attitude towards investing in India in the mid 1990s (Yogarajah, 2001). The survey indicated a high-level of satisfaction among those firms that decided to invest in India, and many of them were considering expansion or diversification of investment in India. This emphasizes the point that those who are able to change the mind-set and overcome their negative bias towards India had positive experience, and more importantly, profitability of their Indian operations.<sup>16</sup>

Although there have been some limited Indian investments in ASEAN countries, some dating as early as the 1960s, their presence continues to remain marginal in aggregate terms. The earlier investments were governed largely by India's restrictive policies rather than by pull factors from ASEAN. Predictably, except for some cases, such investments were largely unsuccessful. Figure 2 shows the trends in FDI inflows from India to ASEAN over the period 1995-01. There is a distinct upward trend in the inflows up until the onset of the crisis in ASEAN economies in 1997-98, after which there has been a generally declining trend in inflows. However, Table 8 highlights that in spite of this upward trend, the share of India in ASEAN's total FDI inflows has been marginal, at an average of only about 0.2 per cent during this entire period. The share did increase to about 0.5 per cent in the year 2000, but global recession following the September 2001 terrorist attacks led to a significant downturn in FDI inflows in to ASEAN in general. Singapore has generally attracted the bulk of Indian FDI flowing into ASEAN.

One of the reasons for such paltry levels of Indian investments in ASEAN countries in the past is the fact that the Indian Diaspora in ASEAN countries has not been able to play a significant role in expanding investment relations with India (Asher et. al., 2003).<sup>17</sup> Further, the Indian companies had limited capacity and interest to invest abroad until recently, including in ASEAN. With increased

**Figure 2: ASEAN's FDI inflows from India: 1995-2001**



Source : Computed from ASEAN FDI Statistics Database, 2003

liberalization in India, and the improved regulations on outward foreign investments by the Indian companies, particularly in the ICT, pharmaceutical, automobiles, and engineering sectors, inflows of Indian investments in ASEAN are expected to increase.

The motivation for the current and future Indian investments abroad is economic efficiency and profitability criteria (pull factors), rather than to escape restrictive business environment at home (push factors), as used to be the case before economic reforms were introduced in India (Asher, et. al., 2003). This is indicated by the fact that over the past three years or so, over 150 firms from India have located in Singapore, contributing to its economy and to employment generation.<sup>18</sup> Indian companies are also poised to invest in Thailand (auto components sector), in Indonesia and Vietnam (motor vehicles and energy sector), and in the Philippines (ICT sector). These opportunities arise from substantial complementarities that exist between India and ASEAN in factor endowments, economic structure, skills and capabilities. It is noted that the majority of FDI inflows into India is directed towards the services sector (Sen and Srivastava, 2003). Thus, it is not a direct competitor of ASEAN with respect to seeking of FDI in labour-intensive manufacturing industries. The experience and competencies of Malaysia and Singapore in infrastructure development complements India's needs for physical infrastructure, particularly in the area of roads, industrial parks, and housing estates<sup>19</sup>.

**Table 8: FDI in ASEAN from India during 1995-2001**

	1995	1996	1997	1998	1999	2000	2001	1995-2001
FDI inflows from India (US \$ million)	-19.3	40.24	86.18	55.19	16.58	40.27	6.12	225.28
Total FDI inflows (US \$ million)	23,540.09	25,848.10	29,780.44	21,899.25	22,313.33	8,625.29	10,352.17	142,358.67
Share of India in Total Extra-ASEAN FDI inflows (%)	0.10	0.18	0.33	0.28	0.08	0.51	0.06	0.18
Share of India in ASEAN's Total FDI inflows (%)	0.08	0.16	0.29	0.25	0.07	0.47	0.06	0.16

Source: Computed from ASEAN FDI Statistics Database, 2003

According to press reports, in January 2004, the Singapore government announced its intention to set up in India an office of its Economic Development Board (EDB), which is the primary agency for securing inward investments into Singapore. Singapore government's holding company, Temasek Holdings, has also announced plans to set up an office in India's financial capital, Mumbai, to invest in companies in India with good growth potential. These steps should be welcomed, but much more can and should be done.

The Singapore Business Federation (SBF), which is the government-guided amalgamation of different chambers of commerce and industry, should also consider opening up an office in India. Individual chambers associated with the SBF such as the Chinese, Malay and Indian chambers of commerce might consider opening their own offices in India. Unless these steps are taken, engagement between the private sector small and medium enterprises of the two sides will remain limited. In similar vein, investment promotion agencies and government holding companies of Malaysia (such as Khazzana Holdings) and of Thailand ought also to consider investing in many well governed and profitable Indian companies by setting up a physical presence in India. For its part, India now has the capacity, resources, and competitiveness to contribute to ASEAN's inward FDI inflows<sup>20</sup>. However, ASEAN countries will need to be pro-active in attracting Indian companies.

### **Manpower Flows**

Although there are no available data detailing the extent of manpower flows between India and ASEAN, this is an area wherein India's excess supply matches demand shortage in some ASEAN members (Singapore, Malaysia, and Thailand), particularly among mid and high skill levels. India now possesses one of the largest pools of internationally competitive and scientific manpower that are accustomed to operating in multi-cultural environment, which could help address such shortages.

Skilled labour from India has been helping to offset the shortages in the US, the UK and some other Western European countries for the past two decades. According to recent estimates by the International Organization for Migration, about 1.3 million Indians lived in North America in 2001, compared to about 0.25 million in Europe and about 0.12 million in Australia and New Zealand in 2000. Among ASEAN countries, in 2001, about 28 thousand (0.028 million) Indian nationals were residing in Singapore, while about 6 thousand were residing in Malaysia (Celestine, 2004)<sup>21</sup>.

The presence of MNCs in both ASEAN and India has already increased the need for movement of such skilled manpower across their borders to optimize resource utilization. Indian professional and technical manpower are making positive contributions to sustaining competitiveness of many ASEAN countries. *The Economist* (November 1, 1997, p.92) has gone so far as to argue that the growth of MNCs "seems likely to spur the next big development in the history of migration". Professionals from some ASEAN countries like Singapore and Malaysia are also playing a similar role in the Indian economy. Bilateral agreements between individual ASEAN countries and India involving areas such as mutual recognition of professional and technical qualifications, and flexibility in the temporary movement of natural persons could help in further enlarging the scope of mutually beneficial cooperation.

### **Future Prospects for Economic Cooperation between ASEAN and India**

The analysis in the previous sections indicates that there is significant potential for expanding mutually beneficial economic relations between ASEAN and India. This will require a systemic exploration of emerging economic opportunities between ASEAN and India – both by ASEAN as an organization, as well as by individual ASEAN countries.

Table 9 lists some possible areas of mutual economic cooperation that each ASEAN country may consider exploring with India. These areas span a wide range of areas from food and energy security to infrastructure and human resource development (HRD). India is seeking to diversify its conventional energy sources and significantly increase exploration of oil and gas in its territory. ASEAN countries, viz. Indonesia, Malaysia and Brunei, possess enough expertise in this area, which can provide considerable scope for energy cooperation. The energy sector companies from ASEAN and India could cooperate with each other in oil and gas exploration and in down-stream processing activities. As an example, India's national oil company is already involved in a joint venture to explore oil and natural gas in Vietnam. Thus, the two countries are already cooperating in the energy sector, but there is definitely scope for further strengthening it (Asher, et. al., 2003). Cooperation in the civilian nuclear power sector for energy is also feasible and desirable. Mineral exploration and processing is another area that could be actively explored by India and some countries in ASEAN.

For India as well as most ASEAN countries, food security is an important area of concern. There is scope for cooperation in improving productivity and

**Table 9: ASEAN and India: Areas of Mutual Economic Cooperation**

Countries	Important areas of Mutual Economic cooperation with India
Indonesia	Food and energy security, oil exploration, healthcare, Infrastructural development, ICT cooperation in IT related services and sourcing of manpower
Malaysia	Infrastructural development, ICT cooperation in IT related services and sourcing of manpower, healthcare, oil exploration, education services
Philippines	Healthcare, ICT cooperation in IT related services and sourcing of manpower, education services
Thailand	ICT cooperation in IT related services and sourcing of manpower, gems and jewellery, food processing, heritage tourism
Singapore	ICT cooperation in IT related services and sourcing of manpower, financial services, logistics and infrastructure development, tourism, education services
Myanmar	Food security, technical assistance, development of infrastructural links, agriculture and natural resource monitoring, establish institutional linkages in financial sector
Vietnam	Food security, technical assistance, development of infrastructural links, ICT cooperation in IT related services and sourcing of manpower, healthcare, oil and mineral exploration, education services
Cambodia and Laos	Food security, technical assistance, development of infrastructural links, ICT cooperation in IT related services and sourcing of manpower, healthcare, oil exploration, education services
Brunei	Energy security, oil exploration

*Source:* Compiled from Asher, et. al. (2003).

in reducing wastage through application of knowledge, including biotechnology, to various components of agricultural and agro-processing value chain.

More specifically, India faces persistent shortages of cooking oil, while Malaysia and Indonesia are major palm oil producers, creating opportunities for mutually beneficial cooperation. India is a major importer of forest products, while Indonesia and Myanmar are major exporters of these products. This indicates another potential area of expansion of bilateral trade. Similarly, Thailand's expertise in food-processing industry, particularly in deep-sea fishing

and other marine related activities represents another area wherein cooperation is likely to be fruitful. Singapore's largest supermarket operator, NTUC Fairprice, could consider using India as a procurement base for variety of food related and other products. This may assist in Singapore's goal of food security and in strengthening the supply-chain for non-food essential household goods.

Among the lower income transition ASEAN countries such as Vietnam, there are several other areas — particularly those relating to agricultural research, and biotechnology — where the scientists from India and ASEAN could fruitfully cooperate. They could also seriously consider facilitating trade and investments in agro-chemicals and fertilizers. As an example, less cumbersome registration procedures in these countries for pesticides, and related products, could be considered.

Given the emerging expertise of India in the ICT services sector discussed previously, ASEAN countries are likely to significantly benefit from cooperating in the area of Information and Communication Technology, particularly in the development of human resources and on software programmes in the local languages of the respective ASEAN countries.

India has expressed its willingness to assist less developed ASEAN countries in enhancing their capacity in application of information technology (IT). Governmental organizations and companies in Malaysia, Indonesia and Singapore have an opportunity to gain from outsourcing IT work to Indian companies. They may also consider availing of IT manpower from India. Indeed, the Info-Comm Development Authority of Singapore (IDA) has signed an MoU with India's premier IT training company, National Institute of Information Technology (NIIT) to persuade IT professionals to locate in Singapore from anywhere in the world (Asher et. al., 2003). This could create a dynamic Indian Diaspora with positive externalities for both countries.

A related area of cooperation is that of the entertainment and multimedia sector. Firms from ASEAN and India could consider joint production of films, television programs, and Internet content for both domestic and international audiences, particularly those whose main language is Malay or Bahasa Indonesia. Bollywood movies and some Indian TV channels and serials currently do enjoy some popularity. Restrictive practices in this area among ASEAN countries need to be reviewed.



India could also cooperate with ASEAN in pharmaceutical and healthcare service sectors. Most of the ASEAN countries are heavily dependent on imported drugs and health care equipments. Indian pharmaceutical companies are internationally competitive in certain areas, particularly in generic drugs that are much cheaper than branded drugs. Given the rapidly rising health care costs in many ASEAN countries due to population and individual ageing and, sexually transmitted diseases, opportunities exist in health care activities, and in generic and other drugs, including sourcing for HIV-AIDS drugs. Some Indian companies from the health and pharmaceutical sectors already have presence in some ASEAN countries, but there appears to be considerable scope for further cooperation.

A recent decision by four major players in the global funding and healthcare, namely the Global Fund, World Bank, UNICEF, and Clinton Foundation, that they would help source and distribute generic drugs and diagnostics at the “lowest prices” in developing countries has implications for India-ASEAN cooperation (Datta, 2004). This is because some of India’s domestic pharmaceutical companies may wish to consider negotiating with the above four institutions for procuring the generic drugs and kits as they could realize substantial savings due to low prices negotiated by these institutions with the suppliers which include Indian companies.

Another very important area of economic cooperation among India and ASEAN is in infrastructure development, particularly in railways, aviation and highways. The Malaysian businesses have been particularly successful in securing contracts for roads and highways in India. India is hopeful of security contracts in Malaysia in the railway sector, a sector in which it has a good record in Malaysia. The Port of Singapore Authority (PSA) has been involved with the development and management of the Tuticorin Port in Tamil Nadu and the Pipavav port in Gujarat.

Singapore intends to increasingly rely at the margin on investment income from abroad to sustain consumption for its rapidly ageing population. Recently, Temasek Holdings, a government holding company, and Keppel, a government owned real estate company, announced plans to open offices in India. Government Investment Corporation (GIC) and government venture capital companies ought to follow suit. There is considerable scope for Singapore to provide venture capital for Indian firms not only in IT but also in biotechnology, life sciences, and other areas, and thereby extending its reach as far as Singapore’s entrepreneurship is concerned.

Educational services are another area of potential cooperation between ASEAN and India. Two Indian schools (Bhavan’s Indian International School and Delhi Public School) are already operating in Singapore.<sup>2222</sup> Since these currently cater mainly, but not exclusively, to the children of expatriate Indians from the region, their presence suggests that they expect substantial presence of these groups of Indians to continue. If Singapore liberalizes its current restrictive rules concerning their citizens not being eligible to join international schools, then substantial benefits may accrue, especially to its citizens of Indian origin.

The latter also has presence in Indonesia. The cooperation in this sector could span areas such as medical and life sciences as well as management and information technology. This would also be vital for India to enhance its capacity-building efforts for the newer ASEAN members. The potential network of the Indian alumni of some reputed institutions in ASEAN, viz. Asian Institute of Management (AIM) based in the Philippines, National University of Singapore (NUS) and the Nanyang Technological University (NTU) could also be exploited for this purpose. Many of their members are now in responsible positions in business organizations in India, and could create an important avenue for furthering economic linkages.

Of all the individual countries in ASEAN, Myanmar is the only country that shares a 1600 km long border with India. It is thus strategically an important country in the overall ASEAN-India relationship. Myanmar could develop as a gateway to ASEAN from India’s Northeast, an area India wants to develop for both economic and security reasons<sup>23</sup>. The foundation for closer economic relations between Myanmar and India has been laid through a series of recent bilateral visits (Asher, et. al., 2003). Currently, the main emphasis is in developing road and banking links. In February 2001, Myanmar-India friendship center for Remotes Sensing and Data Processing was inaugurated. The center has the capabilities in weather forecasting, determination of forest cover and other land-use delineations, ground water survey, and other areas.

Besides these, there are some other unconventional areas in which cooperation would be mutually beneficial for India and the newer ASEAN members. As an example, it is known that due to prolonged war in Cambodia and Vietnam, many persons have lost their limbs, and cannot afford an artificial one through prosthetic surgery as it is too costly. A low-cost option is the “Jaipur foot” made in India.<sup>24</sup> The Jaipur foot reportedly costs US\$ 30 and is as

good as or even better on 28 parameters than an artificial foot that costs US\$ 9000 in the US<sup>25</sup>.

Another possible area of cooperation between ASEAN and India is that of space technology and its applications for development purposes. Despite a budget of only \$450 million a year, which is about one-thirtieth of NASA's annual budget, India has sent 13 satellites in orbit, produced some of the world's best remote imaging satellites and has plans to send a satellite to the moon by 2007 or 2008 (Rhode, 2004). It is using satellite technology to reclaim farmland, bring medical care to remote villages, as well as predict natural disasters. ASEAN economies could cooperate with India in gaining expertise in applying satellite technology for their development purposes.

### Concluding Remarks

Having achieved a fair degree of political consensus on the need for economic reforms, India is now vigorously pursuing its vision to become a developed nation by the year 2020 (Kalam, 2004). This requires the country to maintain an annual average growth rate of 8 per cent per annum as envisaged in India's 10<sup>th</sup> Five Year Plan (2002-07)<sup>26</sup>. As India's vision of becoming a developed nation by 2020 continues to be translated into domestic reform initiatives and leads to its further integration with the world economy, the opportunities for ASEAN and other economic partners for mutually beneficial economic cooperation are likely to multiply. ASEAN is aware of the need to further diversify its engines of growth from the traditional growth engines of the US, Japan and more recently, China, to India as well. Diversification of growth engines and greater integration among the members are imperative if the region is to reduce its susceptibility to boom and bust cycles that it has faced since the mid 1990s (Schwarz and Villinger, 2004)

The range of existing complementarities between ASEAN and India are substantial and still are not fully exploited. The groundwork for a significant expansion and intensification of economic ties is now in place with the establishment of the Framework Agreement for establishing a FTA. If India is permitted to be an observer of various technical committees in ASEAN, that would facilitate the negotiations for an ASEAN-India FTA. It is therefore urged that both sides should urgently consider effective steps in this direction.

The two sides are also drawing up a roadmap called "Vision 2020" which is expected to be adopted at the Third ASEAN-India Summit in Laos in 2004 (Gaur, 2003). They have also agreed to undertake common efforts to help fight

international terrorism and transnational crime, particularly the trafficking of drugs, weapons and humans. Steps should be taken to turn the current ASEAN plus Three (China, Japan and Korea) grouping to ASEAN plus Four by including India. This would also be an important step in moving towards the operationalization of the bolder vision of establishing a larger Asian Economic Community (Asher and Srivastava, 2003).

A vital element in fructifying and sustaining the dynamics of this emerging economic relationship would be to develop trust and confidence in each other and operationalize the framework agreement. It is essential that the media and elites on both sides make every effort to address the current information and perception gaps and mind-sets that hinder the pace and scope for economic cooperation between ASEAN and India. The significant complementarities that exist between ASEAN and India can only be realized if and when these ideological and informational blinders are lifted.

### Endnotes

- <sup>1</sup> The 12th SAARC (South Asian Association for Regional Cooperation) Summit held in Islamabad (January 4-6, 2004), represented a breakthrough in regional economic cooperation. The South Asian Free Trade Area (SAFTA) agreement was signed. The trade liberalization will begin from January 1, 2006; with less developed members being given longer time. It is also a landmark agreement among regional groups in its recognition that trade follows development, and it is the latter, which is the objective, and trade is only one of the means (Das, 2004). This has implications for ASEAN's approach towards its less developed members. India already has a common market with Nepal; and a fully functional FTA with Sri Lanka, which is to be expanded to non-trade areas in the near future.
- <sup>2</sup> In 2003, Indian companies concluded 49 overseas transactions worth US\$ 1.78 billion (Merchant, 2004) and the pace and scope of such deals is expected to rise in 2004. The Indian government is actively encouraging Indian companies to expand linkages abroad. It prefers this route to passively accumulating higher reserves.
- <sup>3</sup> The crucial areas of Rule of Origin (ROOs) are however still under negotiations.
- <sup>4</sup> The first summit of the heads of state of BIMST-EC is likely to take place in 2004. Bhutan and Nepal are expected to join this grouping in the near future. During the Ministerial meeting from February 6 to 12, 2004 the BIMST-EC members have evolved a framework agreement for establishing regional trade and investment agreement among themselves (Business Line, February 13, 2004).
- <sup>5</sup> Indian and Chinese officials discussed the possibility of signing a FTA during the first meeting of the Sino-Indian Joint Study Group (JSG) on trade and economic cooperation in Beijing, in March 22-23, 2004 and discussed measures for comprehensive trade and economic cooperation between India and China (The Indian Express, March 25, 2004).
- <sup>6</sup> This is unlike India's relations with major powers, which have improved considerably. Thus the US has de facto recognized India as a responsible nuclear power, by agreeing

to extensive defense and technology cooperation and lifting technology curbs (Solomon, 2004). Japan has also recently shown signs of substantially expanding its economic and political relations with India. It is however essential that two countries follow up with concrete measures their intentions for enhanced relations.

7 Brunei, Cambodia, Laos, and Myanmar are excluded because of the lack of comparable data in not only Table 1 but also in other tables and charts in this paper.

8 We acknowledge but abstract from valid concerns about trade diversion.

9 According to the Software Engineering Institute's (SEI) Capability Maturing Model (CMM), India had about 32 firms reaching level 5, which is the highest level of organizational capability (Gartner Research, 2002).

10 According to a Mc Kinsey study, cited in *Business World* (January 5, 2004), the potential cost of an offshore centre in India is about a third of that in the US, implying a substantial cost savings of about two-thirds of the US costs.

11 Its "Incredible India", tourism advertisements have had a degree of success in recent months. This is indicated by the fact that the Readers' Travel Awards 2003 conducted by Condé Nast Traveller have placed India among the top 10 must-see countries (<http://www.india-tourism.com>).

12 Average length of stay of international tourists is 29 days. Thus, in 2003, India received 80 million nights of visitors per year, a fraction of its potential.

13 The case of Malaysia demonstrates how a change in mind set, backed by appropriate policies, can provide real economic benefits. Until recently, Malaysia received about a fifth of the Indian visitors received by Singapore; but now it receives about two-fifths of the Indian visitors to Singapore (Table 6). Malaysia may consider this experience when setting policies in other sectors concerning India, particularly the IT sector.

14 Indian visitors to Sri Lanka receive visas on arrival at no charge. Sri Lanka has emerged as a strong competitor to ASEAN destinations for attracting Indian visitors. Sri Lanka's Export Development Board has established a permanent trade center in Chennai to exhibit Sri Lankan manufacturing products. It plans to set up more such centers in other cities in India. ASEAN countries may find Sri Lanka's strategies and measures to expand economic linkages with India instructive.

15 India measures FDI in terms of foreign equity only rather than project costs. It also does not include reinvestments, external commercial borrowings, and loans to affiliates as FDI. According to Srivastava (2003), Indian FDI would be much higher (about 1.7 per cent of GDP) if measures according to IMF Conventions. As a comparison, China's FDI is about 2 per cent of its GDP. Recently, India has however decided to align its FDI reporting with international practices.

16 In private conversations, Singapore businesses have expressed even more positive sentiments about their experiences in India. ASEAN media, which is state guided in several countries, needs to play a more constructive role in bringing about alignment of perceptions with experience of investors in India. The Indian media has a positive attitude towards ASEAN countries, and is playing its role in encouraging Indian business to explore opportunities in ASEAN.

17 The citizens of ASEAN countries who are of Indian origin appear to have been constrained by the political and social environment, and to some extent by their own inclinations in recognizing that their enlightened self-interest lies in assisting India to become economically more successful. In several ASEAN countries, Indian ethnic

groups are at the bottom of the socio-economic ladder. India's success could in a variety of ways help them address their own challenges of progress.

18 Singapore's official figures reported in the media put the number of Indian companies in Singapore at currently over 1400.

19 Malaysia's abrupt cancellation of the agreement to award the railroad contract to India under the former Prime Minister was not a possible positive development. Particularly as Malaysian companies have already been awarded major road contracts in India. The current Malaysian Prime Minister has indicated the project may be reviewed.

20 India's Tata group's purchase of Korean firm Daewoo's truck plant in February 2004 for US\$ 100 million indicates that Indian firms have capacity to make relatively large investments in manufacturing.

21 Unfortunately, disaggregated data by skill level is not available, which makes it difficult to ascertain the exact number of skilled manpower flows from India to these countries.

23 In 1999-2000, the two-way trade between India and Myanmar was US\$ 217 million, with Myanmar's exports being US\$ 141 million. Indeed, India is now Myanmar's largest export market.

24 The Jaipur foot is a plain, prosthetic foot, made out of ordinary rubber, and is highly flexible, allowing movements that are difficult and usually unneeded with prostheses in the West (Kolker, 2002).

25 This is based on the press reports of management expert C.K Prahalad's speech at the World Economic Forum in Davos in January 2004.

26 The details of the 10th five year plan (2002-2007) are provided in <http://planningcommission.nic.in>

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