November 2006

Draft Text of the Professor Vera Anstey Memorial Lecture to be delivered at the 89th Annual Conference of the Indian Economic Association, Kurukshetra University, December 27-29, 2006.

India's Rising Role in Asia

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This paper strongly suggests that India has been far more intricately integrated with the rest of Asia than has commonly been perceived or acknowledged. This is particularly the case if overall value chain division is defined to include research and development, physical production, distribution, customer servicing and feedback. Over-concentration on gross merchandise trade flows in the conventional literature appears to have distorted the analysis of economic integration. This integration has been primarily market and private sector driven. The role of Indian professionals, skilled and unskilled workers in contributing to Asia's economic growth and dynamism also appears to have been underemphasized. It is essential that the Indian establishment, including the media, contribute constructively and purposely to improving perceptions about India in the rest of Asia, and to promote India's strategic interests.

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[This paper draws heavily on Asher, M.G. and Rahul Sen, *The Role of India in Asian Economic Integration*, 2006, processed. Thanks are due to Amarendu Nandy and Sangeetha Thimaiah for excellent research assistance for this paper. The usual caveat applies.]

I
Introduction

I would like to begin by thanking the organizers for the privilege of delivering the 2006 Vera Anstey (1889-1976) Memorial Lecture today.

Her professional life was devoted to studying India's economy, spanning both the pre and post independence periods. As India progresses further on the path of calibrated globalization, many of the themes she emphasized, such as the need for empirical-evidence based policies;[1] improving productivity and efficiency in both industry and agriculture; and appropriate balance between the state and the market are still relevant today.

In pursuing her work, what is striking is the objective and constructive manner and optimism with which she viewed economic challenges facing India. Her remarks in the preface to the book *The Economic Development of India* (1939), that she rejects motivated accounts from official and other academics, and wants to provide an objective evaluation and analysis are also very relevant today, particularly for this gathering.

I wonder however whether she would have anticipated that 30 years after her death, an Indian owned firm Tata Steel, would have successfully bid for Britain's largest steelmaker Corus, and propelling it to the sixth largest steel producer in the world.

Professor Anstey's focus on India's internal challenges is also consistent with the Prime Minister's off-repeated remark that there are no binding external constraints on India's growth, but only the internal ones. These include changing the mind-set from ruling to governing [Jalan,2005]; enhanced professionalism in all sectors, such as the delivery of basic government services and schemes, education and health, and project management; tax policy and administration; addressing socio-economic gaps between different districts[2]; and recognition of increasing interdependence between India and the world, and its implications for domestic policies and for social, economic and political norms and behavior.

The quality of public debates in India is often low because to again quote the Prime Minister's speech:

> We adopt political postures that are based in the past, indeed in the distant past and are out of line with our current interests as an increasingly globalised and globally integrated economy. India, I sincerely believe, is destined to be globally engaged.

In addition to the political class, the academic community and the media have also not contributed sufficiently in enhancing quality of public policy debates in the country. Instead, they have focused on sensationalism and trivialization of important national issues such as improving quality of and access to education; or in improving the quality of governance; or how to enhance India's international competitiveness, or pursue India's core economic and strategic interests in the globalized environment.

The annual conference of the Indian Economic Association is an important occasion to introspect about the role of social scientists in general and economists in particular, in helping to realize President Kalam's vision of making India a developed society by the year 2020 [Kalam and Rajan, 1998].[3]

The rest of the paper is organized as follows. The section 2 provides the context for India's rapid integration with the rest of Asia. An overview of macroeconomic and external sectors of selected Asian countries is provided in Section 3. Section 4 discusses trends in India's merchandise and services trade in recent years. India has not only been unilaterally liberalizing its external sector, but has also been a participant in the emerging worldwide phenomenon of engaging like and strategically important trading partners through PTAs (Preferential Trading Agreements) and economic partnership agreements. India's experience with PTAs and their current status is briefly summarized in Section 5. India has steadily been liberalizing its inward and outward investment flows, involving both FDI and portfolio investments in India's financial and capital markets. India's foreign investment policies are discussed in Section 6. Implications of India's deepening integration with the rest of Asia for poverty alleviation and development are briefly stated in Section 7. The final section provides the concluding observations.

II
The context

India formally adopted a new economic paradigm involving integration with the world economy in a market consistent manner, and rebalancing of the state-market mix in favor of the latter in 1991. This was in response to the realization that relatively inward – looking growth model adopted since independence in 1947 had become inappropriate to deal with the end of Cold war and with globalization[4] and associated technical changes. The proximate cause of the adoption was however the severe macro-economic crisis, particularly concerning the balance of payments [Das, 2006].

The crisis has however been turned into an opportunity for restructuring, deregulating and liberalizing the economy. At around the same time India initiated a 'Look East' Policy (LEP) to revitalize the age-old civilizational and economic links with the rest of Asia, particularly with ASEAN[5], China, Japan and South Korea. It has also embarked on improving its relations with the major non-Asian powers such as the U.S. and the EU.[6] India has also strengthened its relations with Russia, and has been taking steps to deepen its engagement with the Middle East, Africa, and Latin America. In 2006, India was invited to be a member of ASEM (Asia-Europe Meeting).[7]

The period since India adopted the new economic paradigm and the LEP has witnessed substantial transformation of its global relations, including with the rest of Asia. This has primarily been due to the recognition of India's increasing capacities to address its developmental challenges, and the potential of its soon to be USD 1000 billion economy to provide substantial commercial opportunities. India has grown at an annual rate of nearly 6 % per annum since 1980. Contrary to perceptions, India has been able to sustain high levels of growth without significantly increasing income inequality[8]. India has no parallel in managing relatively peaceful and democratic transfer of political and economic power among different social classes. It thus appears that India's growth experience has been inclusive, though there is no room for complacency.

Compared to East Asia, India's growth strategy has relied relatively more on domestic markets, consumption rather than investments, decentralized entrepreneurial rather than state-led development[9], and on financial and capital market intermediation in allocation of savings[10] [Das, 2006; Huang, 2006, Morgan Stanley, 2006].

However, as India begins to pursue policies leading to higher savings and investments,[11] and as the role of external sector increases,[12] differences in India's growth characteristics on the one hand and those of East Asia may narrow.[13] India is also attempting to develop a robust diversified manufacturing base[14] [Bradsher, 2006]; and modernize its agricultural and plantation sectors. The emphasis is thus on creating a more balanced and resilient economy, and increasing India's share in the world economy. India's growth strategy and trajectory thus provide an avenue for global risk diversification for businesses and investors from around the world. India ranked 43rd on the Global Competitiveness Index (GCI) moving up two places from last year. India scored well in indicators relating to innovation and sophistication of firm operations as well as in adoption of technologies from abroad. However weaknesses remain in the large budget deficit, (about 9 per cent of GDP), inadequate infrastructure investments, low level of efficiency in delivery of governance services, and a need for wider access to and improvements in quality of health and educational services. [GCI, 2006-2007].

It is in the above context that this paper examines India's rising role in Asia, and argues that India's integration with the rest of Asia is qualitatively and quantitatively far deeper than has been acknowledged in academic and policy research, and by policymakers and the media. Moreover, this market-based integration will continue to become deeper and wider.

III
An Overview of Macroeconomic and External Sector Developments

On the basis of data on macroeconomic indicators for selected Asian countries for 2004 provided in Table 1, the following observations may be made.

1. SAARC,[15] ASEAN, North East Asia, and Others (i.e. Australia) accounted for 2.4 per cent, 2.1 per cent, 19.0 per cent, and 1.7 per cent of World's GDP at market prices in 2004. In PPP terms, the corresponding ratios were 7.3 per cent, 4.0 per cent, 21.3 per cent, and 1.8 per cent respectively. India's GDP at market rates and in PPP terms was 89 per cent and 150 per cent of ASEAN's GDP respectively. If India continues to grow at a faster rate than ASEAN, differences in market GDP between the two will narrow further.
2. Within SAARC, India accounted for around four-fifths of GDP at market prices, in PPP terms, and in total population. In contrast, ASEAN's largest and most populous economy (Indonesia) accounted for one-third of ASEAN's GDP at market prices and in PPP terms, and about half of the population. These facts have impacted on the dynamics of regional cooperation in the two sub-regions. Even though India's share in SAARC is large, in relation to ASEAN as a group, and North East Asian economies, India's GDP at market prices and per capita income are small. It therefore must continue to scale opportunities for constructive cooperation in all regions of the world. If SAARC as a group genuinely desires to enhance its position in Asia, it is essential that all members cultivate mindset and take actual policy measures which enhance growth prospects, reduce transaction costs, and expand linkages. Investments in physical networks encompassing water and energy offer greater payoffs in the short to medium term than trade. Every opportunity, however small, to do so is important, and time is of essence in sustaining international competitiveness. Even if such a mind-set change and appropriate policy changes materialize in other SAARC countries, India needs to engage the rest of the world to sustain its growth.
3. Reflecting SAARC's large population, its per capita income is 38 per cent of ASEAN's, and only 13 per cent of North East Asia's. Higher per capita income is associated with greater discretionary income and savings, as well as technological capabilities. Such large per capita income differentials provide a firm basis for

deeper economic cooperation. Low per capita in India (and other SAARC countries) with large populations potentially provide a large market for ASEAN and North East Asia[16], while for India (and other SAARC countries) larger per capita incomes in rest of Asia potentially provides opportunities to expand their external sectors, and to attract investments and technologies, diversifying their global risks.

4. The share of industry in GDP is relatively low in SAARC, but is especially high in China, Indonesia, Malaysia, and Thailand. While high share of services is expected in high income countries, their share in SAARC (which has low per capita income) is exceptionally high. India in particular needs to pursue policies to achieve a better balance between industry and services.
5. The agricultural share of GDP in SAARC is around 20 per cent of GDP. In contrast, in China, this share is 15 per cent, while in Indonesia, it is 17 per cent. As the share of employment in agriculture is much higher, a shift in population from agriculture to other sectors is needed to raise per capita incomes generally as well as in agriculture.

III.1 Asia's Growth Prospects

Asia is projected to grow at 4.9 per cent during the 2006-20 period as compared to 3.5 per cent for the world as a whole (Table 2). In Asia, China, India, Pakistan, and Vietnam are projected to grow at the most rapid pace (Table 2). It should be noted that overall, the growth rates projected by the EIU are much lower than generally perceived. As an example, China is projected to grow at 6 per cent annually during the 2006-20 period as compared to 9 to 10 per cent growth rate routinely reported. India's GDP per head is expected to grow at an annual rate of 4-6 per cent during the 2006-20 period. (Table 2) This is exceeded by China (5.4 per cent) (Table 2).

EIU's projections for contribution to global growth[17] for the 2006-20 period suggest that the largest contribution will be by China (26.7 per cent), followed by the United States (15.9 per cent), and India (12.2 per cent) (EIU, 2006, p.7). These countries are also projected to occupy the first three positions in GDP in PPP terms in 2020. The share of China in world's GDP is projected at 19.4 per cent, of the U.S 19.0 per cent, and of India 8.8 per cent (EIU, 2006, p.9). It should however be stressed that in spite of the above, both China and India in 2020 will continue to have relatively low per capita incomes.

III.2Demographic Trends

There are three demographic trends which are evident globally. First, fertility rates are dropping nearly everywhere. Second, life expectancy is rising in many, though not all parts of the world. Third, developed countries are well advanced with respect to the above two trends as reflected in their declining share in world population. The non-developed countries are further behind, though variation among them is large (Asher and Nandy, 2006). The combined impact of these trends has led to rapid ageing of the world's population.

Ageing of the population matters for several reasons. First, as many non-OECD Asian countries will have large number of aged before their per capita incomes becomes high, leading to major challenges in financing retirement and health care. Second, "smaller populations reduce the amount of innovation partly because it leads to fewer younger persons, both absolutely and compared to the number of older persons" (Becker, 2006). Many countries with below replacement fertility rates have initiated programs to increase it. Becker (2006) is however skeptical that even the most elaborate incentives to raise the fertility rate can have much impact. He cites the experience of France where its elaborate system has raised the Total Fertility Rate (TFR)[18] from 1.7 to 1.8, an increase of only 0.1 (Becker, 2006).

Among the Asian countries, India is in a demographic gift phase, as reflected in rising working age population to total population ratio (Figure 1). This ratio has already begun to decline for China, Korea, and Japan. India's ratio is projected to begin to decline around 2030, and the decline will be gradual. Even in 2050, India will still have the highest share of working age to total population.

There are therefore significant demographic complementarities between India on the one hand and affluent, rapidly ageing Asian countries on the other (Asher and Nandy, 2006). These could be used to extend economic space of the affluent countries through offshoring[19] and other means in a mutually beneficial manner without long-term physical movement of persons.[20]

India's demographic gift phase also implies that it will need to create significant number of jobs or livelihood opportunities. Thus, between the period 2006-10 there will be 314 million additional new jobs which will need to be generated in the world, with India accounting for about a quarter of the total, China 14 per cent and Southeast Asia 11 per cent (Figure 2). India must therefore find a balance between creation of new jobs and livelihoods on the one hand and preserving existing jobs on the other, which favors the former. It must also improve the quality and employability of the output from its educational institutions; and reduce the ill health and malnutrition related impediments to benefiting from education and to productivity.

By 2030, majority of India's population will be urban. In 2006, for the first time, non-agricultural income in rural areas exceeded agricultural income. Both these developments have important implications for the kind of jobs or livelihoods that would need to be created. They also underlie the importance of PURA (Providing Urban amenities to Rural Areas), an initiative of President Kalam [Kalam, with Rajan, 1998; Indiresan, 2006].

III.3 External Sector Indicators

On the basis of the data on external sector indicators for selected Asian countries in Table 3, the following observations may be made:

1. The outward orientation of ASEAN countries as reflected in the trade to GDP ratio of 162.0 is far higher than for SAARC (37.5) or Northeast Asia (44.6). ASEAN's ratio is nearly three times the world average of 63.1. India's ratio at 36.7 is the second lowest among the sample countries, the lowest being Japan at 27.0.
2. India's low ratio is due largely to low level of merchandise trade. In services, India ranked fifth among the sample countries in 2004. India thus needs to develop capacities to increase its merchandise trade substantially. Even the gap between India on one hand and China, Japan and Korea on the other is unlikely to narrow substantially.

3. India's total remittance inflows were USD 21.7 billion (3.1 per cent of GDP) in 2004 [The World Bank, 2006]. The size of the remittance flows indicates the contribution Indian workers are making in the region's economic activities. India has come to rely on these flows to help finance its substantial trade deficit. This represents a significant vulnerability for managing India's trade and current account deficits. India should therefore take steps to reduce reliance on remittances and portfolio capital flows in managing its external sector.
4. Net FDI inflows in SAARC were only 28 per cent of the flows in ASEAN, and 10 per cent of the flows in North East Asia.[21]

IV
Trends in Merchandise Trade and Service Transactions

IV.1 Merchandise Trade

While India's merchandise trade has grown rapidly in the past two decades, it has been accompanied by a change in direction towards Asia. It may be observed from Figure 3 that while share of India's trade with developing Asia (mainly including China, Korea, SAARC and ASEAN-4 countries) doubled from 12 per cent to 24 per cent over the 1987-2004 period, that of the EU, one of major trading partners of India, declined from 30 per cent to 20 per cent over the same period. A comparatively lesser decline is observed in India's trade with North America over the same period. It is noted that the share of developed Asia in India's trade (including Australia and Japan),[22] witnessed a steady decline over this period.

Figure 4 provides detailed trends concerning India's merchandise trade by selected regions. India's merchandise trade with developing Asia has been growing rapidly. Since 2001-02, trade with developing Asia has been larger than with the EU. India's total trade with developing Asia estimated at USD 45 billion in 2004-05. India's average growth of merchandise trade with developing Asia has been the highest compared to that of India's trade with other major regions viz. EU, North America and Developed Asia. It is important to note that while India's average with developed Asia declined significantly during the period of Japanese economic recession, it has increased in recent years, growing at an average rate of 29 per cent during the 2003-05 period.[23]

Which are the countries in Asia that have driven this significant expansion of India's merchandise trade in recent years? Figures 5 and 6 present the trends in India's merchandise exports and imports to selected countries in Asia. It is observed that while India's merchandise exports to ASEAN-4 witnessed a significant break from the past trend, expanding from USD 1.3 billion in 1998-99 to USD 6.9 billion by 2004-05. Its exports to China recorded an even further rapid increase from USD 1.0 billion to USD 4.6 billion over just a four year time period from 2001-02 to 2004-05. This represents a break from trends during the 1987-2000, when its total exports were less than USD 1 billion.

The gains from trade liberalization in south Asia envisaged in SAFTA would be greater and deeper if Pakistan were to not continue to deny MFN status to India (India has already granted MFN status to Pakistan), and restrict concessions to India (but not to others) under SAFTA to just 773 products (Mukherji, 2004). Even with these restrictions the official bilateral merchandise trade increased from USD 251 million in 2002 to USD 602 million in 2004(Taneja, 2006). As a last resort, India is considering suspending all trade concessions under SAFTA pact till Pakistan abides by market access commitments in the agreement. This will mean that in South Asia, India will focus on cooperating with those SAARC members who are interested in mutually beneficial cooperation. If Bangladesh exhibits greater urgency in facilitating trade and investments[24] from SAARC countries the intra-SAARC trade could receive a much deserved boost [The Economist, 2006].

ASEAN-4 has also been one of the most important contributors to India's merchandise imports from Asia, which is estimated to be about USD 8.1 billion in 2004-05, taking India's total merchandise trade with ASEAN-4 at USD 15 billion. Concomitantly, India's bilateral imports from China have also expanded from USD 1.3 billion to USD 6.7 billion between year 2000 and 2004. India-China bilateral trade was USD 11.3 billion in 2004-05, and is projected to be about USD 20 billion by 2007.[25]

It is may be noted that while India's exports to Australia and Japan have not been expanding significantly, they have been playing a significant role as a source of imports. India's total imports from Australia nearly trebled in value from USD 1.3 billion to USD 3.6 billion during the 2002-04 period. India displaced Britain to become Australia's fourth biggest export market. (Hartcher, 2006) India is among the largest purchaser of gold from Australia. Bilateral merchandise trade between India and Japan was about USD 5 billion during 2004-05 and is expected to increase rapidly [IBEF, 2006]. The two envisage doubling of bilateral trade by 2009 to reach USD 10 billion [RIS 2006].

India and Taiwan have also been expanding economic linkages (Asher, 2006). In 2005, India-Taiwan bilateral trade was USD 2.5 billion. A large scale Taiwan – India forum, held in Taipei in April 2006, discussed ways to expand commercial linkages. Substantial potential for mutual benefits augurs well for expanded relations between the two. Companies from Taiwan are reportedly evaluating Chennai and Hyderabad as possible semiconductor manufacturing locations in India.

The above indicates that India's merchandise trade linkages with Asia have been growing and perhaps more rapidly than is perceived. It is also evident that India's merchandise trade patterns with many Asian countries have witnessed a significant break from past trends in the past three to four years.

IV.2 Trade in Commercial Service Transactions

Table 4 provides data for 2004 concerning leading exporters and importers of commercial services in the world. India ranked 8th as a service exporter, and 7th as a global importer, when intra-EU trade is excluded. On the basis of these rankings, only 4 Asian countries, viz. Korea, Hong Kong, China and Japan were ranked ahead of India in commercial services exports in 2004. India ranked as the 4th largest importer of commercial services in Asia during the same year.

There are reasons to suggest that India's ranking will improve further in the coming years. First, travel and transport accounted for about 10 per cent each of total exports of services by India, while four-fifths were other commercial services, including IT services [WTO, 2005]. The IT services industry is expected to amount to USD 38 billion in 2006-07, with exports of about USD 30 billion. NASSCOM-McKinsey study has projected USD 60 billion in IT exports by 2009-10, with total direct and indirect employment of 4.3 million persons.[26] Apart from these, India's potential in healthcare and education services trade is only beginning to be exploited.

Traditionally, international organizations and individual countries have focused on merchandise trade statistics. The services trade transactions however are significant proportion of total world trade. Thus, in 2004, world trade in service transactions was USD billion 4222 (22 per cent of the merchandise trade of USD billion 18648) [WTO, 2005]. On a value-added rather than gross flow basis, the share of service transactions is likely to be even higher as production fragmentation is much more advanced in merchandise than in services.

Figure 7 compares India's ranking in people, infrastructure, and taxes with selected offshoring locations. India's advantage as an offshoring is evident in all three areas, though the margin varies. Philippines and China are however close competitors. There are also indications that talent shortages may limit growth of offshoring, which would adversely impact India, China and other countries. India's limited physical infrastructure and lower investments in health and education strongly suggest that there is no room for complacency by Indian policymakers and Indian industry.

Chanda and Krishnan (2006) indicate that focus on how Indian companies are engaging in increasing cross border collaborations such as joint ventures and training arrangements between Indian and other Asian IT services firm. Motivations of Indian companies vary from desire to be close to their MNC customers (e.g. China, Singapore), to expand human talent pool (e.g. China, Philippines, and Vietnam), and to more effectively tap certain markets (e.g. Japan and Korea). It is also worth noting that manpower for IT industries in many countries is being provided by the Indian diaspora.

US companies are estimated to have saved over USD 25 billion in 2005 through outsourcing [Chanda and Krishnan, 2006]. The organizations in Asian countries, however do not appear to have taken sufficient advantage of the opportunities to realize cost savings from partnering India in offshoring [Asher and Nandy, 2006]. Countries such as Malaysia desiring to create IT industries have also not pursued policies which are sufficiently conducive for deeper engagement and cooperation with the Indian IT industry and manpower.[27]

Top 250 global technology firms are outsourcing part of their work to small specialist firms, some of whom are in India, China and Taiwan. As a result, the Asian region is being welded into the global technology supply chain [*The Economist*, October 7, 2006, pp.73-74]. This in turn benefits firms outside of Asia as well.

It is important to note that while East Asia's integration with the global economy is evident in the analysis of production networks in trade in manufactured goods, such integration of India with the global economy, which is undoubtedly more services, and technology oriented, is not captured by conventional merchandise trade data. As an example, Intel's India centre contributed complete design of the Centrino mobile chip called Napa (The Economic Times, November 2, 2006) which will be subsequently incorporated in the variety of electronic products. Such non-trivial design work should logically be regarded as part of the overall value chain in the process of production fragmentation.[28] The merchandise trade flows are recorded by gross amounts rather than value-added. The design work's importance therefore may not be fully reflected in the conventional trade data.

More than 250 of the Fortune 500 companies in India are undertaking research that may lead to future high technology products. While their actual contribution in trade value terms may be relatively small, India nevertheless constitutes a vital part of the electronics production, research, distribution, and customer servicing chain. India is currently drawing 25 per cent of fresh global investments in R and D Centers [http://www.ibef.org] .

Saxenian (2006) has persuasively argued that dynamic new centers of technology entrepreneurship, extending Silicon Valley system to distant locations in India, China, Israel, and Taiwan are creating cross regional networks and communities which are an integral part of the global integration and competition. The above analysis thus strongly suggests that contrary to what may emerge from conventional merchandise trade focused research, India's integration with the rest of Asia is far greater, deeper, and of high quality. There is therefore a strong case for broadening the scope of production network and fragmentation definitions, found in the current literature; and to mandate WTO to undertake research on developing robust data base on trade in services. The aim should be to make services trade data as accessible to researchers, businesses, and policymakers as merchandise trade data.

Besides IT and ITES services, there are several other areas of commercial services trade where India's potential is yet to be fully realized. One such area is the healthcare services sector. It has a potential to benefit substantially from demographic complementarities between India on the one hand and affluent and rapidly aging Asian countries such as Japan, Korea, Australia, New Zealand and Singapore [Asher and Nandy, 2006].[29] Hong Kong and Taiwan are also affluent and rapidly aging economies and may consider constructive cooperation with India. The potential benefits will arise not just from acute healthcare services, but from making generic drugs available at much lower costs. Pharmaceutical costs are between 15 and 20 per cent of total health budgets of most Health Organizations. There is therefore potential for substantial savings.

India's tourism sector has the potential to generate significant additional income and employment. In 2005, international tourist arrivals were just under 4 million, though the average stay per visitor was over 20 days. India's domestic tourism increased from 67 million in 1991 to 366 million in 2004, and is also growing rapidly. However, in 2004, India had only 1892 approved hotels, with slightly less than 100,000 rooms (as compared to 1.2 million in China, and 4.4 million rooms in the U.S). The demand-supply gap is expected to narrow, and market forces are likely to bring about lower hotel room rates in the next few years[30].

India also hopes to expand its medical tourism industry. In 2005, India provided medical services to 200,000 patients from abroad. India is also executing medical services outsourced by the National Health Service (NHS) of UK. A recent study by India's Confederation of Indian Industry (CII) and McKinsey has projected that India could earn around USD 2 billion through medical tourism by 2012 [http://www.medical-tourism-india.com]. While there is some competition among India and some of the other Asian countries in this area, as in the IT and ITES sector, there are also likely to be complementarities. Moreover, India's rising medical needs will provide substantial opportunities for Asian countries to operate in India. Similarly, the healthcare industry of India also has plans to expand abroad. India's performance in providing affordable health services to its population is however quite modest, and needs to be substantially improved. Health insurance is an area of potential commercial opportunity for domestic and foreign insurance firms.

The Indian educational institutions are beginning to establish a presence in rest of Asia. This is exemplified by the Global Indian International School (GIIS) which has already established two campuses in Singapore, and one each in Malaysia, and Japan. In 2007, GIIS will launch its fifth campus in Auckland, New Zealand. The GIIS is involved in providing primary and secondary education. While it caters primarily to Indian diaspora[31], the GIIS also has attracted students from other nationalities. Similarly, the Delhi Public School (DPS) is expanding its presence in Asia. It is already operating in Indonesia, Nepal, Singapore and Sri Lanka. Other less well known Indian educational institutions are also setting up operations in Asia.

At the tertiary level, Melaka Manipal Medical College[32] represents a low-key, but constructive engagement between India and Malaysia in the field of education. India's engineering and management institutes are gradually establishing their presence in rest of Asia. It is now common for the Indian management institutes to have a component in their postgraduate programs involving study visits to other Asian countries.

India is beginning to welcome foreign educational institutions to set up operations in India. India needs to significantly increase and upgrade its tertiary education facilities, and needs to manage political economy of access to higher education opportunities. India is likely to continue to be a significant source of students for education export sectors of countries such as Australia, Singapore, New Zealand, and Malaysia. Indian policymakers have signaled their intentions to diversify the export basket of services with the appropriate policy and focus, India has the potential to host significant number of foreign students in its educational institutions at all levels. Presence of foreign educational institutions may help in this regard.

India is putting increasing emphasis on greater air and sea connectivity, including direct links with major cities in Asia. India has liberalized and deregulated its aviation and maritime transport services sector, resulting in increased competition that augurs well for facilitating greater economic linkages between India and the rest of Asia.

India is setting up Services Export Promotion Council (SEPC) to increase the share of services in India's total exports. In addition to the above services, exports by the construction industry will also be emphasized (www.ibef.org).

V
India and Preferential Trade Agreements (PTAs)

Unsatisfactory progress in multilateral trade liberalization in recent years has been among the factors which has led to many Asia-Pacific economies towards negotiating regional and bilateral PTAs, with trading partners within and outside Asia, though some of the major FTAs such as EU, and NAFTA (North American Free Trade Agreement) pre-date this [Sen, 2006, Dent, 2006 and Aggarwal and Urata, 2006]. This trend of proliferation of Asian FTAs has also led India to expand bilateral trade and investment linkages through economic partnership and preferential trade agreements (PTAs) with a number of Asian countries as indicated in Table 5.

The key motivations for entering into such deals have been both strategic and economic. India envisages PTAs as important foreign policy tools to forge new strategic alliances with the rest of Asia, and to contribute to regional security efforts.

The PTAs are also expected to strengthen India's market- based economic integration with its neighbours and geographically proximate regions, viz. SAARC[33], ASEAN, and East Asia. India also aims to increase cross-regional trade linkages with Latin American and Middle-Eastern countries, as indicated by the initiatives to form similar agreements with the MERCOSUR grouping, GCC, Egypt and Chile. India, Brazil and South Africa (IBSA) have been discussing a trilateral free trade agreement which will also involve the South African Custom Union (SACU) and MERCOSUR [RIS, 2006]. The IBSA aims to contribute towards developing a sustainable and inclusive model of globalization. India has signalled its willingness to engage in more complex forms of economic cooperation.

With India planning to expand bilateral trade and investment linkages through economic partnership and preferential trade agreements (PTAs) with a number of Asian countries, the pace of India's trade integration with the rest of Asia not just in merchandise trade, but also in commercial services, is likely to expand in the near future.

One of India's most representative and respected business associations, Confederation of Indian Industry (CII) has called for an internal debate on the FTAs (2006). In particular, it has argued that FTA negotiations should be undertaken after detailed analysis and study, which should include an assessment of the economic impact on various industrial sectors. It has also argued that the FTA negotiations should incorporate high degree of implementation integrity. The CII report also rightly emphasizes domestic reforms in taxation, infrastructure, and governance to enable the country in general and industry in particular to obtain maximum benefits and mitigate possible adverse impacts. The above arguments have considerable merit and the Indian government should closely consult the CII and other such organizations before moving forward with new FTAs; and in ensuring maximum benefits for the country from the current agreements.

India's growing web of PTAs with Asian countries indicates its willingness to engage the rest of Asia towards forming an Asian Economic Community that is inclusive in its approach. However, it is clearly observed from Table 5 that most of India's PTAs (with a possible exception of CECA with Singapore) are presently restricted only to tariff reduction in a list of specific goods, with varying Rules of Origin (ROOs) applied across the different PTAs for ascertaining whether the goods are eligible for preferential treatment. While services trade has only been bilaterally negotiated so far for the PTA with Singapore, very few of India's PTAs have an established dispute settlement mechanism being negotiated for cross-border investments. In this sense, India's PTAs in its current state, raise significant concerns on the possibility of trade diversion from cheaper import sources, and also the fact that in spite of negotiating these agreements, most of them remain grossly underutilized due to lack of implementation integrity[34] [Asher and Sen, 2005].

As most of India's PTAs which are in force, are undergoing further negotiations, there is a distinct possibility of their becoming more comprehensive in the future. This will involve inclusion of services and investments are likely to be added. In particular, India is discussing comprehensive bilateral agreements with Japan and Korea. An economic agreement with China is also under discussion. Effective implementation of these PTAs and managing to reduce transaction costs due to possible trade and investment diversion created by diverse ROOs is crucial for them to realize economic efficiencies and welfare improvement. It is striking that from the 16 countries included in Japan's proposal for a Comprehensive Economic Partnership in East Asia (involving ASEAN, China, Japan, Korea, India, Australia and New Zealand), it is only with Australia and New Zealand that India does not have PTA discussions currently. Our perception is that these two countries will find India quite receptive in engaging in such discussions and deepening economic linkages. This will require a mind-set change in the policy, business, and academic think tank communities of these two countries.

After the recent deadlock in WTO talks, it has already been indicated by Indian policymakers that bilateralism is likely to emerge as one of the key instruments of its commercial trade strategy [Sen, 2006]. It is beginning to undertake WTO-plus commitments on tariff reduction, which adds a new dimension to India's trade policy. India offered to substantially reduce duties on ASEAN's imports of agricultural products for 94 per cent of ASEAN exports to India, by offering to reduce refined palm oil tariff from 90 per cent to 60 per cent; crude palm oil from 80 per cent to 50 per cent; black tea from 10 per cent to 50 per cent and on pepper from 70 per cent to 50 per cent.

ASEAN's unhelpful tone and style of negotiations are however contributing to negative perceptions in India about the FTA negotiations. This is indicated by an editorial in the Business Line (August 31, 2006), a newspaper favorably inclined towards India's LEP, which stated that some of India's Asian neighbors "make financial demand without a commensurate quid pro quo". As indicated in Table 1, India's per capita income is about half that of ASEAN. Even though reduction in India's poverty rate has been about 1 per cent per year in recent years, the number of poor is still at an unacceptable level of 250 million persons. Most of the poor are in the rural sector engaged in agriculture. Tea, Pepper, and Coffee from Vietnam and Palm Oil from Malaysia and Indonesia are perceived in India to be particularly sensitive products for the rural population.[35] India has offered concessions, including staggered time frame for duty reductions, but ASEAN's proposal of only 60 sensitive items on the negative list is clearly unrealistic.

India has been arguing with considerable logic for a dual approach based on value addition, and change in tariff heading in structuring Rules of Origin. ASEAN has argued for only value addition approach which will permit easy re-export of the third country products, undermining the spirit of the agreement. India's bilateral agreements with Singapore, Thailand have incorporated both the requirements. Both are ASEAN members.

India-ASEAN[36] FTA is scheduled to become operational in January 2007. In addition to the above issues, the enforcement aspects need emphasis. Internally, India needs to speed up its trade facilitation efforts. Reforms designed to make India a unified market, and measures to reduce overall transaction costs are needed. In particular, India needs to make it easier to start and to close businesses, and to substantially lower costs of seeking legal remedies for commercial disputes. India ranks 134 out of 175 countries in the case of doing business [The World Bank, 2007]. It must consciously address the current inefficiencies in this area; in particular India needs to implement a more modern bankruptcy law.

While India is engaging in sub regional cooperation with selected low and middle income countries in South Asia and Southeast Asia through the BIMSTEC (Bay of Bengal Initiative for Mutlisectorial and Technical Cooperation), it is observed by Asher and Sen (2006) that such cooperation is contingent upon domestic reforms and constructive engagement among the members of the grouping while there are a range of areas from energy security, tourism and infrastructure cooperation that would generate a win-win situation for all members, a more pragmatic mindset that does not regard economic cooperation as a zero sum game is needed. These countries need to undertake joint efforts to address common problems and challenges, particularly in enhancing connectivity through better infrastructure. Their study points out the fact that what happens between the BIMSTEC meetings is perhaps more crucial than the actual meetings. They further note:

"In order for BIMSTEC to be a credible sub-regional grouping, comfort levels among the BIMSTEC members would need to be enhanced, with greater focus on livelihood generation and protection and on enhancing capacities and improving governance... There have been some serious coordination problems involving BIMSTEC, that should not recur in the future…enlightened self interest of BIMSTEC members requires constructive cooperation for managing globalization and other challenges"[Asher and Sen, 2006].

V
Foreign Investment Flows

With economic reforms in 1991, both inward and outward investment policies in India have been gradually liberalized, increasing the receptiveness of the economy to foreign investment flows[37]. Indian market capitalization has more than trebled in value over more than a decade to stand at USD 643 billion (The Financial Times, 2006) As of September 2006, 956 FIIs have invested USD 46 billion in India's capital markets. Between 2000 and 2005, India received USD 8.4 billion in private equity [Tucker and Leahy, 2006]. A study by Bain and Company has projected that by 2010 India is likely to receive USD 7 billion a year in private equity [Tucker and Leahy, 2006]. India's FDI Inward stock was estimated at USD 51 billion in 2005, and is projected to be USD 109 billion by 2010. While that of FDI outward stock was USD 11 billion in 2005, and is projected to be USD 29 billion in 2010 [EIU, 2006:114]. FDI share of GDP was 5.9 per cent in 2004. While actual levels of FDI are estimated at USD 5.5 billion 2004-05[38]**,** that of portfolio investments flows have already surpassed FDI inflows and have expanded significantly to about USD 9.0 billion by the 2004-05 period. (Figure 8) India's net FDI inflow in 2004 was USD 5.3 billion. Such inflow is projected to be USD 11.6 billion annually for the 2006-10 period, 19th in the world [EIU, 2006:33].

India is increasingly becoming an attractive destination for global investors. According to AT Kearney 2005 Survey, India was ranked as 2nd most favorable destination for global FDI after China. It is observed from Figure 9 that while China and India are ranked quite high in the FDI Confidence Index, some of the other Asian countries such as Japan, Singapore, Thailand and Korea are ranked below the global top 10 destinations. It is important to note that while India appears to be attracting much less amount of FDI inflows compared to that of China, the interest of foreign investors in India is relatively recent. FDI into China (and many other East Asian countries) is driven by capital-intensive manufacturing while in the case of India it is driven more towards skill and knowledge intensive areas involving service transactions in the Information and Communication technology, financial services and in research and development.

While the reflection of such investments in conventional merchandise and services trade data is relatively small in value terms, non trivial importance of the knowledge based work which is eventually incorporated into electronics, hardware and other products which provide large gross volume of merchandise trade is undertaken in India.

Although India is yet to substantially attract FDI in heavy and light manufacturing, the success of India's automobiles and steel industry continues to improve investor perceptions.[39] Korean company, Pohang Iron and Steel has recently invested 12 billion dollars in building a steel plant and building iron ore in the eastern state of Orissa. Global automakers like Volkswagen and BMW are planning to assemble cars in India for domestic consumption and export [Giridharadas, 2006]. India produced nearly 8 million motor vehicles in 2005, of which 1.3 million were passenger cars. The auto industry sales are expected to increase from USD 36 billion in 2005 to USD 145 billion by 2016 the Korean and Japanese auto producers have specially aggressive plans for India, but Indian companies are also gearing up for global competition [Yee, 2006b].

At the same time Indian companies continue to invest significantly in Asia. India's outward investment stock is estimated to be USD 12 billion (IBEF) in 2006[40]. This excludes the investments by the over 20 million Indian Diaspora. Southeast Asia in particular is expected to be the main beneficiary of India's FDI outflows, thus diversifying the regions source of investments and technology. Indian companies are poised to invest in Thailand (auto components sector), in Indonesia and Vietnam (motor vehicles and energy sector), Malaysia (herbal and medicinal plants), and in the Philippines (ICT sector), among others (Sen and Srivastava, 2007). India's national oil company is already involved in a joint venture to explore oil and natural gas in Myanmar[41] and Vietnam. An Indian company, Kirloskar Brothers Ltd (KBL) has partnered with Laos in addressing the challenges of floods and drought in rice production. High quality, well-tested, but reasonably priced pumps of KBL enabled Laos to increase its rice production by over 20 times, helping it to be self sufficient in its key consumption commodity.

The Indian companies have also invested in manufacturing companies in South Korea. An Indian company, Burrup Fertilizers, is the first such company in secondary processing of gas in Western Australia, with an investment of Australian dollar 630 million [Srinivasan, 2006].

VI
Implications for Poverty and Development[42]

What does the increased integration of India with the rest of Asia imply in terms of poverty reduction and development? As observed by Rajan (2003), the literature remains ambiguous on the impact of trade liberalization and integration on poverty reduction. While there is evidence to suggest that growth is a necessary condition, it is unlikely to be a sufficient condition to achieve poverty reduction. Frankel and Romer (1999) have demonstrated that in general trade openness does have a statistically and economically significant effect on growth, suggesting that a growth strategy based on trade openness is likely to have a positive impact on poverty reduction. However, policy measures are needed to ensure that such an impact on growth is not accompanied by markedly increasing income inequality.

While India has been able to reduce poverty levels by about 1 per cent per year the key challenge is to increase per capita income through higher growth rate and employment to GDP elasticity than has been the case so far during the last two decades.[43] The share of agriculture in GDP is relatively low (around one-fifth) but in many Asian countries, it provides employment to between half and two-thirds of the labor force. It is in improving productivity in this sector, and absorbing the manpower in productive activities in other sectors that the daunting development challenge lies. This challenge will be accentuated as urbanization is progressing rapidly in Asia, but the prevailing mind-set, institutions, and politics in countries such as India continue to be rural – focused. It is projected that more than half of India's population will be urban by 2030 (Bloom and Canning, 2006). Managing the resulting mega-cities, and providing livelihood opportunities will be a huge challenge which has not received due emphasis from the policymakers and elites in many countries, including Asia. On the positive side, this provides substantial opportunities for domestic and foreign businesses for several decades, including in India.[44] Thus, it is India who will face the daunting challenge of generating livelihoods for largest number of persons[45].

Most of the employment growth in India has been in the unorganized sector. This suggests a need to examine the labor demand and labor supply ecosystem, and to undertake reforms designed to encouraging greater labor elasticity (for example by creating conditions for activities such as labor intensive manufacturing, tourism and other services): and to reduce transaction costs (also involving modernization of large number of dysfunctional labor laws) associated with operations of the labor market [Team Lease, 2006].

India appears to be approaching the issue of better balance between jobs and livelihood creation on the one hand and preservation on the other in an ad-hoc manner by encouraging special economic zones (SEZs) and other special investment areas. While helpful, these may create distortions in investment decisions, and create substantial fiscal leakages. Therefore there are no substitutes for a well considered reform of labor markets, and fiscal policies. Policies which do not depend on tax concessions centering on developing quality infrastructure and services to strengthen existing industrial clusters and special economic areas may be considered. Increased emphasis on human resource development increasing the supply of technical and professional workers who meet the needs of the industry is also needed.

The PURA program should also be implemented with much greater urgency and result-orientation. Substantially reducing malnutrition, maternal mortality rates, and infant mortality rates should be given much higher priority. Mainstreaming of micro-finance in India has been an encouraging development [Yee, 2006c].

VIII
Concluding Remarks

The analysis in this paper strongly suggests that India has been far more intricately integrated into the rest of Asia than has commonly been perceived or acknowledged. This is particularly the case if overall value chain division is defined to include research and development, physical production, distribution, customer servicing and feedback. Overconcentration on gross merchandise trade flows in the conventional literature appears to have distorted the analysis of economic integration. This integration has been primarily market and private sector driven.

The role of Indian professionals, skilled and unskilled workers in contributing to Asia's economic growth and dynamism also appears to have been underemphasized. In several key Asian countries, including Japan, Malaysia and Singapore (and to a lesser extent in Australia), there has been noticeable increase in the size of the Indian diaspora. If the experience of the Indian diaspora in the U.S is any guide, then acceleration in economic linkages, and increase in comfort levels between India and these countries may be expected. Increasing presence of the Indian media and entertainment firms and products globally, including in Asia and Pacific countries, is also contributing positively to comfort levels.

The analysis also suggests that while India and some of the other Asian countries are competitive in some areas, there are also considerable opportunities for cooperation. Computable General Equilibrium(GCE) simulations by Kumar (2005) suggest that India's inclusion in ASEAN plus Japan, China, and South Korea grouping would generate additional welfare gains of USD billion 48. These results suggest welfare enhancing win-win gains from India's complementary strengths.

The East Asian Summit in December 2005 in Kuala Lumpur involving ASEAN, India, China, Japan, Korea, Australia, and New Zealand represents a credible approach towards increasing Asia's role in global affairs through deeper economic partnership and integration.[46]Japan's proposal for Comprehensive Economic Partnership in East Asia (CEPEA) involving the entities mentioned above (ASEAN plus six) therefore deserves support (Kitamura, 2006). The CEPEA will cover trade in goods and services, investment, trade facilitation, and intellectual property. Japan has also proposed to set up an OECD like forum for these countries. The proposal is at an early stage and much ground work needs to be laid before concrete steps towards realizing the vision begin[47].

The dynamics of India's integration with the rest of Asia has been private sector led, with market forces playing a dominant role. Indian companies and India as a country however are competing with state led capitalism of most East Asian countries such as China, Singapore, and Malaysia, where the demarcation line between the public and private sector is not sharp due to intricate web of inter-connections between these companies and political and government figures; and where state-direction of other societal institutions is the norm.

Unwillingness of some of India's political parties and their media allies to pursue vigorously but constructively India's core economic and strategic interests against its regional and global competitors is indeed baffling, and should not be condoned. It is therefore essential that the Indian establishment, including the media, contribute constructively and purposely to improving perceptions about India in the rest of Asia, and to promote India's strategic interests.[48] The private sector's role in creating India Brand, as manifested in IBEF's activities, has been commendable. India's economic diplomacy however needs to become even more strategic and result-oriented. India's diplomatic missions and Indian public sector organizations abroad should be rewarded on the basis of their success in advancing India's economic and strategic interests.

India has demonstrated its commitment to partnering the rest of Asia in playing a more meaningful role through its constructive economic cooperation security initiatives. India sincerely hopes that the rest of Asia will exhibit pragmatism in mutually enriching cooperation in shaping the Asian economic community and enable Asia to play a large role in global affairs. The rest of Asia has an important stake in India's successful adjustment to globalization as this would contribute to Asia's stability and prosperity and provide global risk diversification.[49]

India, on its part, must continue to broaden and deepen its domestic reforms with the main objective of improving governance and quality of life for its people. It is time Indian people in general, and its intelligentsia in particular developed a constructive, confident, and problem-solving mind set to help India emerge as a modern, knowledge-economy based, and secure nation.

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Table 1

Macroeconomic Indicators of Selected Asian Countries, 2004

Countries	GDP	GDP Growth 2000-04	Population	Per capita GDP	PPP GNI	Agriculture (% of GDP)	Industry (% of GDP)	Services (% of GDP)	Inflation (%) 2000-04
	(US$ bn.)	(%)	(mn.)	(US$)	(US$ bn)				
World	36525.7	4.1	6365	5696	56289.0	N. A	N. A	N. A	N.A
SAARC	863.9	N. A	1391.5	62.1	4053	N. A	N. A	N. A	N. A
Bangladesh	56.6	6.3	140.4	391	274	21	27	52.0	4.2
India	691.2	6.9	1079.7	623	3369	21	27	52.0	5.3
Pakistan	96.1	6.4	152.0	684	328	23	24	54	n. a
Sri Lanka	20.0	5.4	19.4	1031	82	18	27	55.0	9.4
ASEAN	777.1	N. A	474.4	1638	2244	N. A	N. A	N. A	N. A
Indonesia	257.6	5.1	217.6	1176	753.0	17	46	38	6.1
Malaysia	117.7	7.1	25.2	4646	243.0	10	48	42	1.4
Philippines	86.4	6.1	82.9	1042	406.0	5	32	54	6.0
Singapore	106.8	8.7	4.3	24898	115.0	0	35	65	1.7
Thailand	163.4	6.2	62.3	2493	505.0	10	44	46.0	3.3
Vietnam	45.2	7.8	82.1	552	222	22	40	38	7.8
North East Asia	6952.2	N. A	1472.4	4722	N. A	N. A	N. A	N. A	N. A
China	1649.3	10.1	1296.5	1486	7170.0	15	51	35	3.9
Japan	4623.3	2.5	127.8	35914	3838.0	1	30	68	n. a
Korea, Republic of	679.6	4.7	48.1	14136	982.0	3	35	62	3.6
Others									
Australia	631.2	1.8	20.1	31647	588.0	3	26	71	n. a

Source: Calculated from World Bank (2006), ADB (2006).

Table 2
Real GDP growth, Selected Asian Countries

(Annual average, %)

Countries	GDP 2006-10	2011-20	2006-20	GDP/head 2006-10	2011-20	2006-20
World	4.0	3.3	3.5	2.7	2.4	2.5
Asia	5.5	4.5	4.9	4.5	3.6	3.9
China	7.8	5.1	6.0	7.2	4.5	5.4
India	6.6	5.5	5.9	5.2	4.3	4.6
Indonesia	5.6	5.0	5.2	4.2	3.9	4.0
Malaysia	5.3	4.8	5.0	3.4	3.1	3.2
Pakistan	5.9	5.3	5.5	4.0	3.6	3.7
Philippines	5.2	4.7	4.9	3.4	3.1	3.2
Singapore	4.5	4.0	4.1	3.6	3.4	3.5
South Korea	4.0	3.9	4.0	3.6	3.6	3.6
Taiwan	4.5	3.4	3.8	4.2	3.0	3.4
Thailand	4.5	4.7	4.7	3.8	4.2	4.1
Vietnam	7.0	4.6	5.4	5.7	3.4	4.2

Source: Economist Intelligence Unit (2006)

Table 3

External Sector Indicators of Selected Asian Countries in 2004

Countries	Merchandise Exports	Merchandise Imports	Total Merchandise Trade	Service Exports	Service Imports	Services Trade	Trade/ GDP	Net FDI Inflows
	(US$ bn)	(US$ bn)	(US$ bn)	(US$ bn)	(US$ bn)	(US$ bn)	(%)	(US$ mn)
World	9153.0	9495.0	18648.0	2127.5	2094.5	4222.0	63.1	632600.
SAARC	102.8	135.1	237.8	43.2	44.5	86.2	37.5	7135
Bangladesh	8.1	12.0	20.1	0.4	1.8	2.3	39.6	449
India	75.6	97.3	172.9	39.6	40.9	80.6	36.7	5335
Pakistan	13.4	17.9	31.2	1.7	n. a	n. a	n.a	1118
Sri Lanka	5.7	7.9	13.6	1.5	1.8	3.3	85.0	233
ASEAN	559.5	502.3	1061.8	89.2	108.1	197.3	162.0	25707
Indonesia	72.1	55.0	127.1	5.1	17.1	22.2	57.9	1023
Malaysia	126.5	105.2	231.7	17.2	19.1	36.3	227.6	4624
Philippines	39.6	42.3	81.9	4.1	5.0	9.1	105.3	469
Singapore	198.6	173.5	372.1	41.0	40.4	81.4	424.6	16032
Thailand	96.2	94.4	190.6	18.9	22.9	41.8	142.2	1949
Vietnam	26.5	31.9	58.4	2.9	3.6	6.5	143.5	1610
North East Asia	1412.5	1240.3	2652.8	196.9	255.2	452.1	44.6	70930
China	593.3	561.4	1154.7	62.0	71.6	133.6	78.1	54936
Japan	565.4	454.5	1019.9	94.9	134.0	228.9	27.0	7805
Korea, Republic	253.8	224.4	478.2	40.0	49.6	89.6	83.5	8189
Others								
Australia	86.4	109.3	195.7	24.7	25.6	50.3	38.9	42469

Source: Computed from World Bank, World Development Indicators 2006, World Trade Organization, International Trade Statistics, 2005.

Table 4

Leading Exporters and Importers in World Trade in Commercial Services (excluding intra –EU Trade), 2004

(Billion dollars and per centage)

Rank	Exporters	Value	Share in World (%)	Rank	Importers	Value	Share in World (%)
1	Extra-EU(25) Exports	427.1	27.8	1	Extra – EU (25) imports	381.7	25.1
2	United States	318.3	20.7	2	United States	260.0	17.1
3	Japan	94.9	6.2	3	Japan	134.0	8.8
4	China	62.1	4.0	4	China	71.6	4.7
5	HK, China	53.6	3.5	5	Canada	55.9	3.7
6	Canada	46.8	3.0	6	Korea, Republic	49.6	3.3
7	Korea, Republic	40.0	2.6	7	India	40.9	2.7
8	India	39.6	2.6	8	Singapore	36.2	2.4
10	Singapore	36.5	2.4	10	Taipei, Chinese	29.9	2.0
12	Taipei, Chinese	25.5	1.7	11	HK, China	29.8	2.0
15	Russian Federation	20.2	1.3	12	Australia	25.6	1.7
16	Thailand	18.9	1.2	14	Thailand	23.0	1.5
26	Indonesia	6.7	0.4	15	Indonesia	21.3	1.4
				16	Malaysia	18.8	1.2
				34	Vietnam	4.5	0.3
	Total of above				Total of above		
	World(excl. intra EU(25))	1540.0	100.0		World(excl. intra EU))	1520.0	100.0

Source: WTO (2005)

Table 5

India's Regional and Bilateral Preferential Trade Agreements: Salient Features

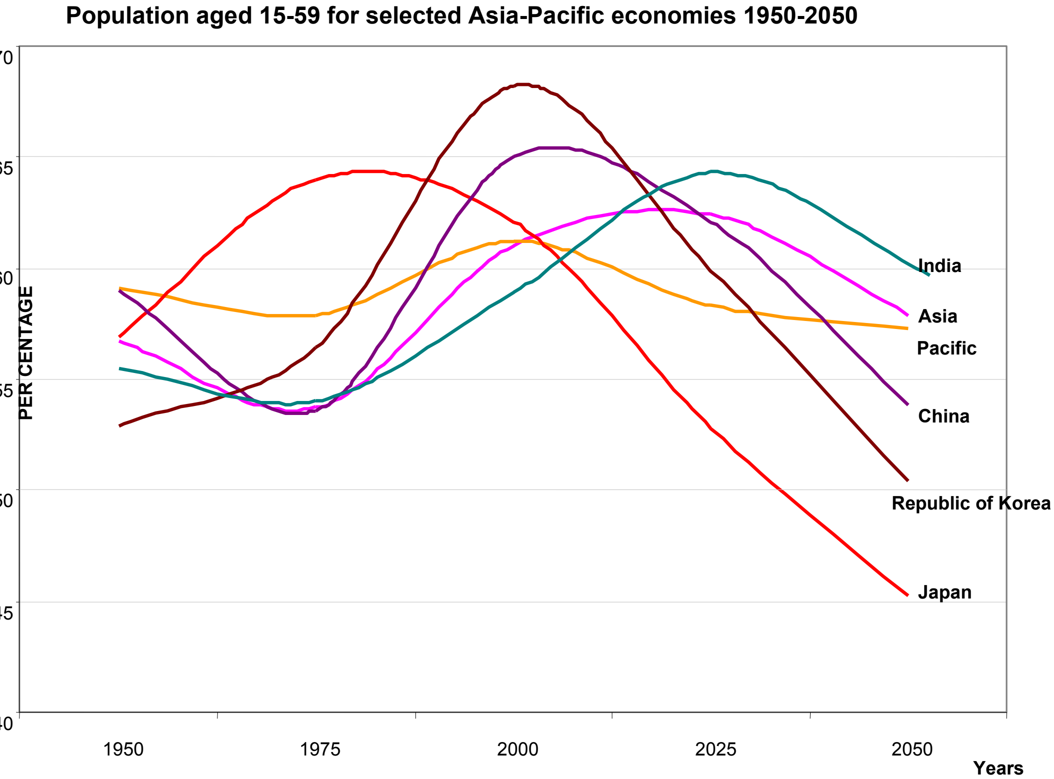
Title	Scope	Type	Status	Year	Notification	TARIFFS (Goods)	RULES OF ORIGIN (Goods)	Standards (Goods)	Trade in Services Negotiated	Dispute Settlement (Others)	Trade Facilitation (Others)
Asia-Pacific Trade Agreement (previously known as Bangkok Agreement)	Regional (ESCAP)	Non-reciprocal Agreement	In force since	1975	Enabling Clause	Positive list (with each country's concessions). Concessions effective upon signature of the agreement. Possibility of further tariff reduction through negotiation (yearly reviews)	No tariff heading change necessary. Minimum content: 45% (35% for LDC's). No specific manufacturing process required	n.a.	No	No	No
ASEAN -India Framework Agreement on Comprehensive Economic Cooperation	Country - Bloc	Framework Agreement	In force since	2004	No Notification	Includes an Early Harvest Programme. EHP tariff reduction, gradual from 2004 to 2007/2010 (Asean-6/New ASEAN).	n.a.	n.a.	No	No	Yes
Bhutan - India Free Trade Agreement	Bilateral	Free Trade Agreement	In force since	1995	No Notification	No list available. Tariff elimination since signing of the agreement.	n.a.	n.a.	No	No	No
Bay of Bengal Initiative for Multi-Sectorial Technical and Economic Cooperation (BIMSTEC)	Regional (ESCAP)	Framework Agreement	In force since	2004	No Notification	Negative list. Tariff elimination by 2012 (2017 for LDC's).	ROO's in the agenda for further negotiation.	under negotiation	Yes	No	Yes
India-Afghanistan Preferential Trade Agreement	Bilateral	Preferential Arrangement	In force since	2003	No Notification	.	.	n.a.	No	No	No
India-Bangladesh Trade Agreement	Bilateral	Framework Agreement	In force since	2006	No Notification	.	.	n.a.	No	No	No

India - Chile Preferential Trade Agreement	Cross - Continental Bilateral	Preferential Trade Agreement	Under negotiation since	2005	No Notification	Positive list.	n.a.	n.a.	No	No	No
India - Gulf Cooperation Council (GCC) Framework Agreement	Country - Bloc	Framework Agreement	In force since	2004	No Notification	n.a.	n.a.	n.a.	No	No	No
India - Sri Lanka Bilateral Trade Agreement	Bilateral	Free Trade Agreement	In force since	2001	Enabling Clause	Positive/negative List. Full 100% margin advantage in 3 to 8 years.	Change in tariff classification. Value Added Minimum 35%. No specific manufacturing process necessary	-	No	Yes	No
India - Mercosur Preferential Trade Agreement	Country - Bloc	Framework Agreement	Pending country ratification	2005	No Notification	Positive list. Doesn't consider full tariff elimination.	60% minimum.	Calls for cooperation	No	Yes	Yes
India - Nepal Indo-Nepal Treaty of Trade	Bilateral	Non-reciprocal Agreement	In force since	1991	No Notification	Positive list. Preferential treatment for Nepal's products..	Change in tariff classification. Value added minimum 35%. No specific process required	n.a.	No	No	No
India - South African Customs Union (SACU) Trade Agreement	Country - Bloc	Preferential Trade Agreement	Under negotiation since	2002	No Notification	n.a.	n.a.	n.a.	No	No	No
India - Singapore Comprehensive Economic Cooperation Agreement	Bilateral	Free Trade Agreement	In force since	2005	No Notification	Positive list into India, all goods free into Singapore.. Full tariff elimination or reduction by 2010. Further liberalization through negotiation	Change in tariff heading at the 4-digit level. Minimum content 40%. No specific process required	Cooperation towards mutual recognition	Yes	Yes	Yes

India - Thailand Framework Agreement for establishing a FTA	Bilateral	Framework Agreement	In force since	2003	No Notification	There is an early harvest scheme with products to be liberalized in 2004..	change in tariff classification. value added minimum 40%. No specific manufacturing process required	n.a.	No	No	Yes
Korea-India Comprehensive Economic Partnership Agreement	Bilateral	Framework Agreement	Under negotiation since	2006	No Notification	.	.	n.a.	No	No	No
South Asian Association for Regional Cooperation Free Trade Arrangement (SAFTA)	Regional (ESCAP)	Free Trade Agreement	In force since	2006	No Notification	Negative list (Sensitive list). Tariff reduction to 0-5% in 7 years (8 years SLK, 10 years LDC's). Calls for accelerated reductions	Under negotiation, see details.	Calls for harmonization	No	Yes	Yes
SAARC Preferential Trading Arrangement (SAPTA)	Regional (ESCAP)	Preferential Arrangement	In force since	1995	Enabling Clause	Contracting states agreed to negotiate tariff preferences initially on a product by product basis.. Four rounds of trade negotiations have been concluded under SAPTA covering over 5000 commodities. .	40-60 % of its f.o.b. value. .	n.a.	No	Yes	Yes

Source: Compiled by the authors from UNESCAP *Asia-Pacific Preferential Trade and Investment Agreements (APPTIAD) Database* available at http://www.unescap.org/tid/pta%5Fapp/

Figure 1
Dynamics of Working Age Population in selected economies



Source: UN (2002)

Figure 2:

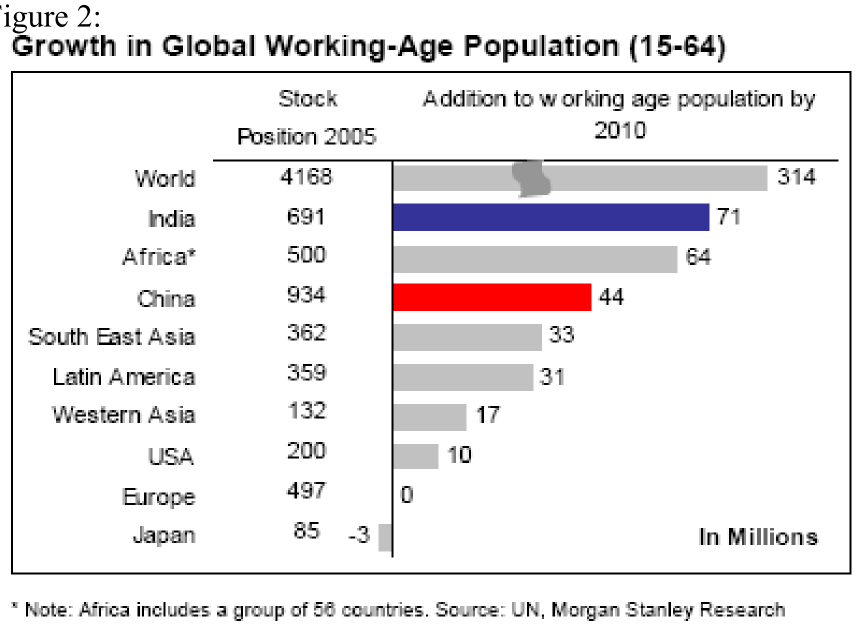
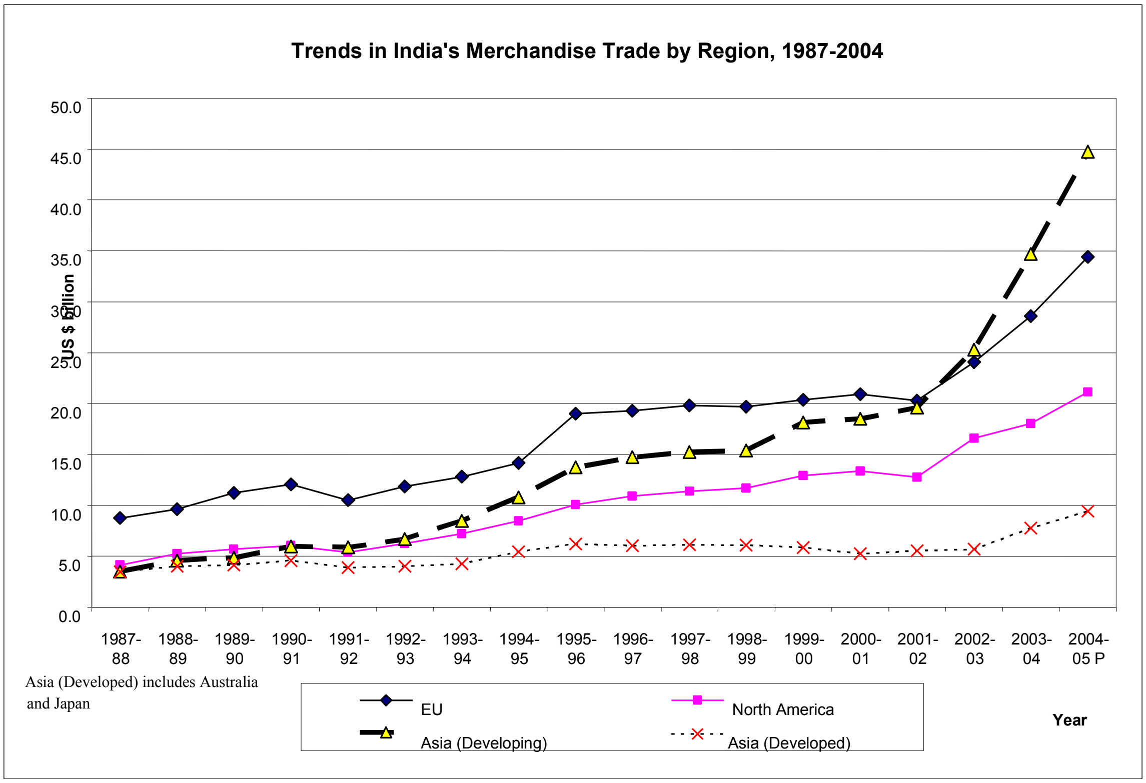
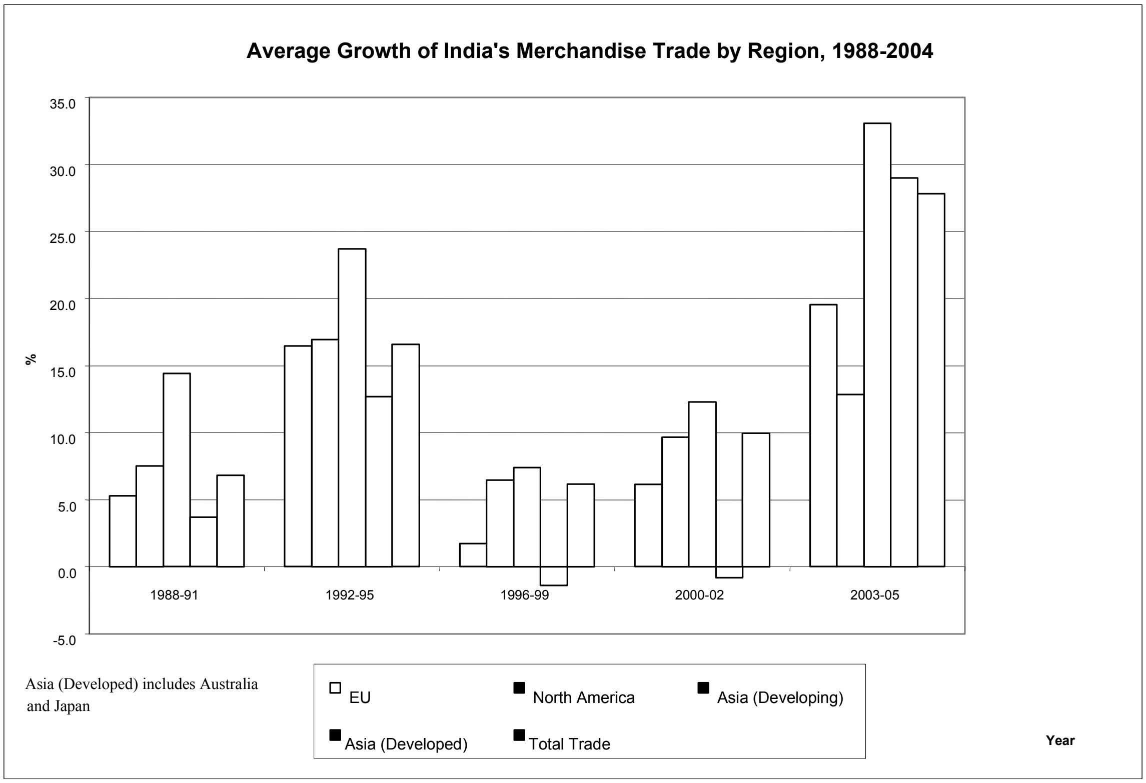


Figure 3



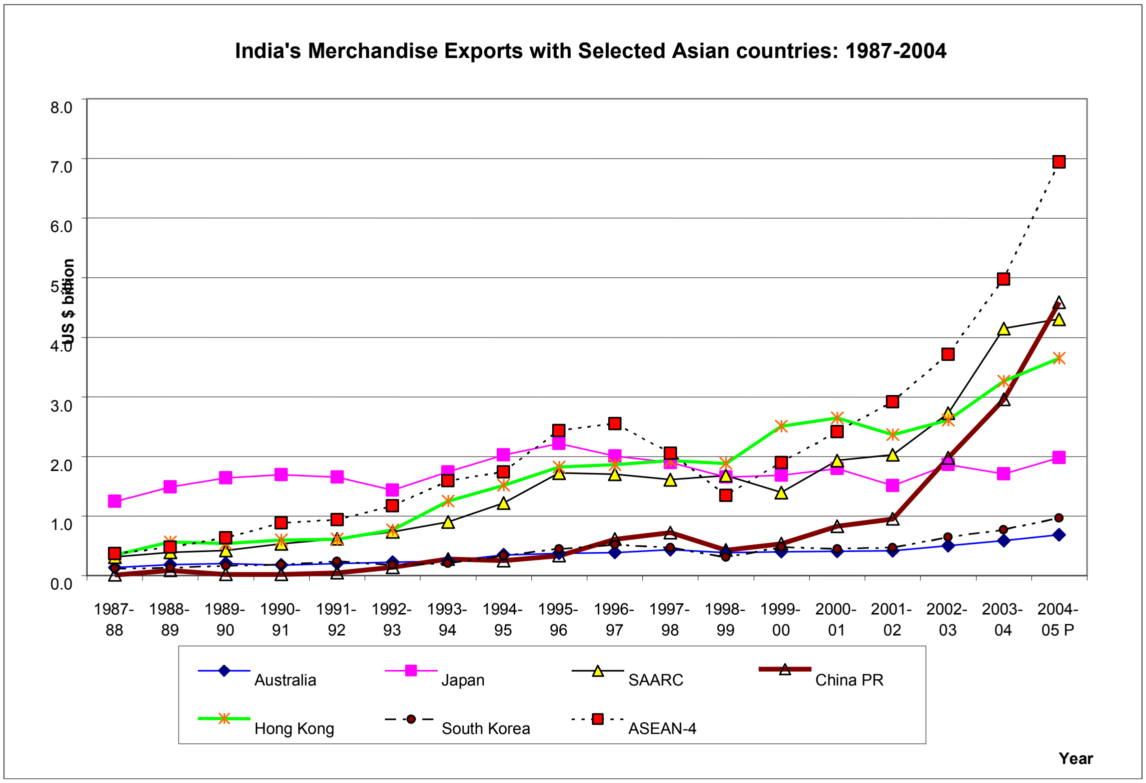
Source: RBI (2005)

Figure 4



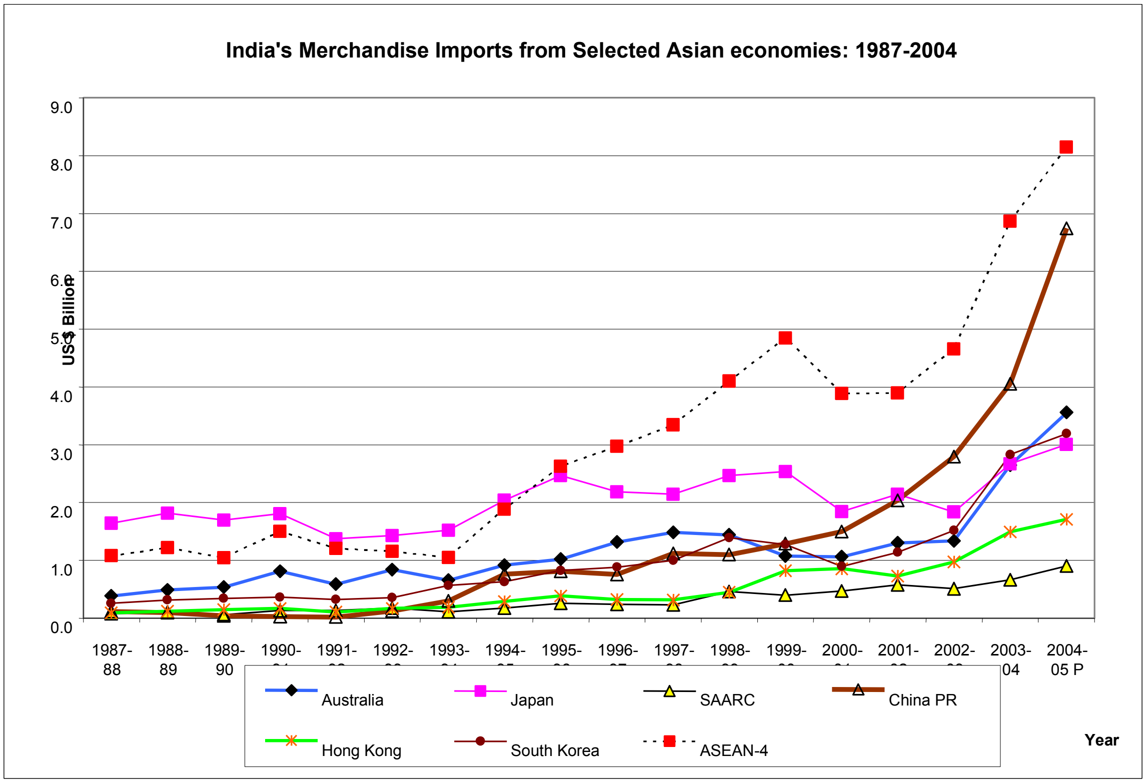
Source: RBI (2005)

Figure 5



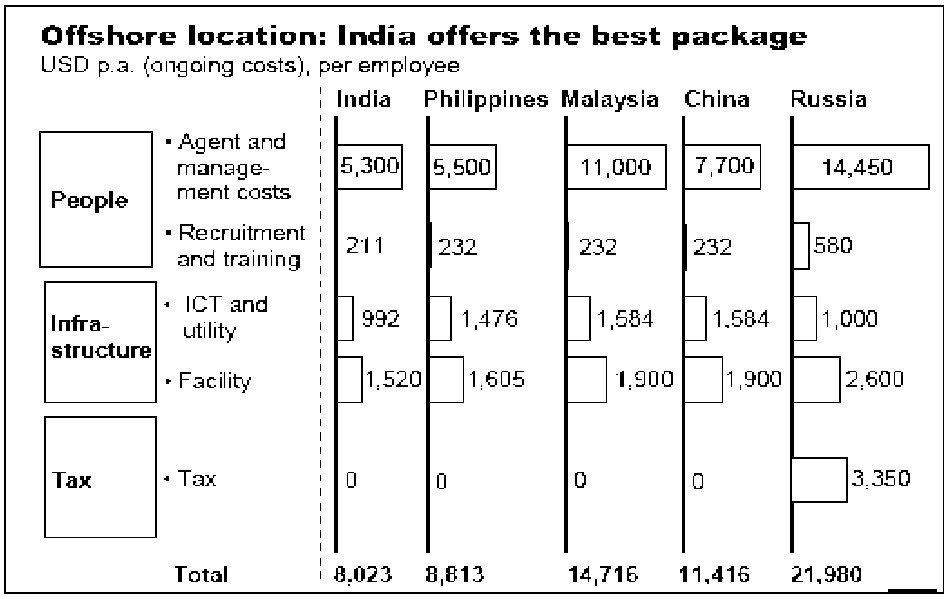
Source: RBI (2005)

Figure 6



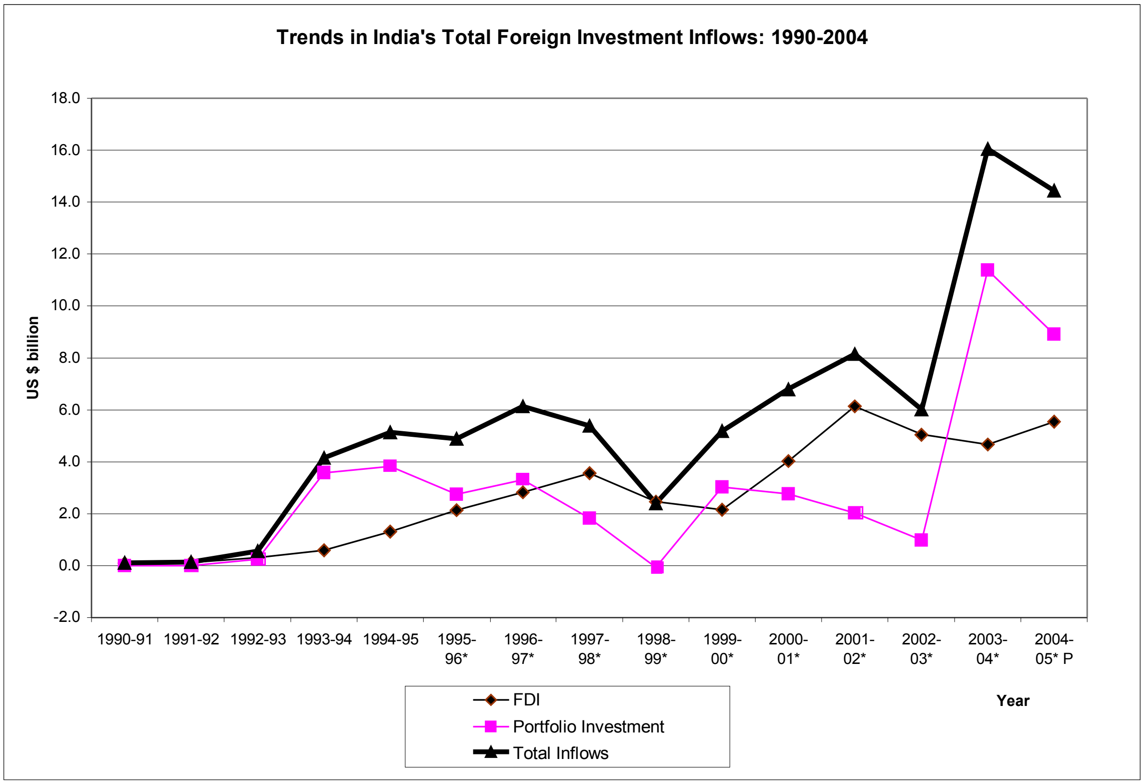
Source: RBI (2005)

Figure 7
Relative costs in India and Other Selected Offshore Locations in Asia



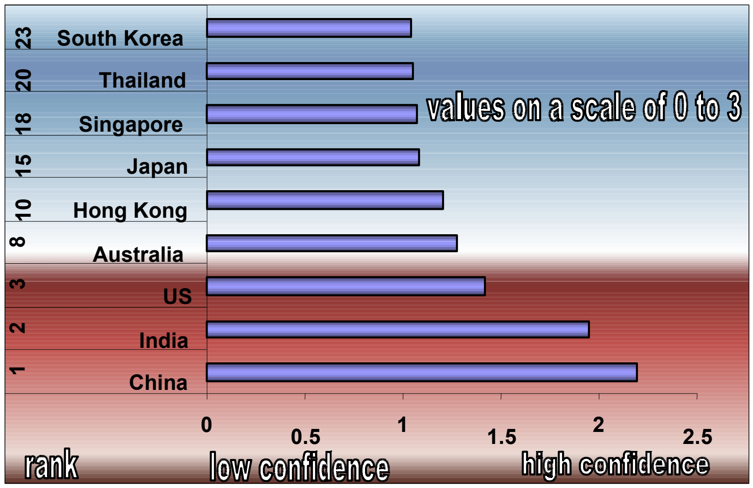
Source: Deutsche Bank Research (October 25, 2005), Chart 8, p.4.

Figure 8



Source: RBI (2005)

Figure 9
Comparisons of FDI confidence Index for Selected Asian Economies



Source: AT Kearney, 2006

Annex A

Figure:

Source: Nageswaran 2006, HPAIR

[1] Anstey (1964) has an explicit chapter on measurement in economics; while Anstey (1939) is full of policy related use of wide variety of statistics from official and other sources.
[2] Indiresan (2006) has persuasively argued for PURA (Providing Urban Services to Rural Areas) Program to be implemented with high degree of urgency.
[3] India will not be "developed" in the sense of achieving per capita income equivalent to that of a developed country by 2020. But that should not preclude developing institutions, social and political norms, and key social indicators; achievements in science and technology; and quality of public debates which are much closer to those of the developed countries than is the case today. There is no short-cut to achieving this, except to persistently focus on the goal and vision President Kalam has articulated for the country.
[4] For the purpose of this paper, the globalization phenomenon may be defined as involving shrinkage of economic distances between nations impacting the real economy and financial, capital, and manpower flows. Three novel aspects of the current globalization are scale and pace of integration, with merchandise exports now accounting for over 20 per cent of world gross product compared to 8 per cent in 1913, and 15 per cent in 1990; transformation of the international division of labor; and growth of trade in tasks within manufacturing and services (Wolf, 2006).
[5]ASEAN, established in 1967, comprises ten Southeast Asian Countries, namely Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.
[6] India-EU merchandise trade which in 2006 was Euro 40 billion (If services trade is included, the level will be higher) are hoping to complete a trade agreement by early 2009 (Wall Street Journal, October 13, 2006).
[7] ASEM was set up in 1996 as a forum for regular dialogue between Asian countries and Europe. European countries who are part of ASEM are Austria, Belgium, Denmark, Cyprus, Czech Republic, France, Finland, Estonia, Germany, Greece, Hungary, Italy, Ireland, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, the United Kingdom, and the European Commission. The Asian member countries are Brunei, Cambodia, China, Indonesia, Japan, Laos, Myanmar, Republic of Korea, Malaysia, Philippines, Singapore, Thailand and Vietnam.
[8] This is exemplified by the fact that India's Gini Coefficient is 0.33 (based on expenditure) compared to that of 0.45 for China and 0.38 for the US in 2000 (WDR, 2006). India should focus on substantially raising the per capita income through inclusive and sustained high growth to reduce absolute poverty, rather than trying to directly address the inequalities. India needs to make much more progress towards inclusive growth, including addressing imbalances in quality of governance and in standards of living among its districts (Indiresan, 2006).
[9]For the 2001-2005 the share in capital expenditure averaged 62% - the corresponding shares of public sector and MNCs were 32% and 5.7% respectively (Business Standard, 0ct 26, 2006). In the 2006 list of Forbes magazines Fabulous 50 publicly traded companies with revenue or market capitalization of at least USD 5 billion in the Asia Pacific, 12 Indian Companies were selected, nearly all of them being from the private sector (Orr and DeCarlo, 2006). Other countries whose companies made the list were Japan (10), S. Korea and Taiwan (6) each, China and Australia had 5 companies each, Hong Kong (4), and Indonesia, Malaysia and Philippines,(one company each)
[10] An overview of India's stock market index and capital market reforms since 1985 is provided in Annex A. As of October 2006, asset under management by the Indian mutual funds amounted to USD 68 billion, and these are growing at a healthy pace.
[11] India's savings and investment ratios already touched 30 % of GDP in 2005 (www.ibef.org)
[12] India is expected to be USD 450 billion in 2006-07, more than 50% of projected GDP (Business Line, November 10, 2006).

[13] East Asia is also gradually incorporating some of the features of India's model, particularly encouraging entrepreneurship, and competition into its growth strategy. Indications are that China is on the path towards less liberal and more nationalistic FDI regime. As Japan, Taiwan and South Korea would like to diversify their global investment risks, India represents an attractive opportunity. East Asia's "embedded mercantilism" (Jayasuriya, 2003), and state capitalism are however likely to change only very gradually unless a major economic or political crisis occurs in key countries. As India does not pursue mercantilist policies, and does not exhibit state capitalism characteristics, greater engagement with it provides another opportunity for global risk diversification. As India has also not been an aggressive and "invading culture", this should provide comfort for other nations (Sabnavis, 2006).

[14]Thus, multinational companies such as General Motors, Nokia and Motorola are preparing to build plants in western and southern India for manufacturing of their products. Similarly, Posco of South Korea and Mittal Steel of the Netherlands have each announced plans to build steel mills in eastern India. India's own private sector companies such as Reliance are also constructing one of the world's largest coal-fired power plants in the Eastern India.

[15] The South Asian Association for Regional Cooperation (SAARC) was established in December, 1985. Eight countries have been accepted as members, viz., Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

[16] To penetrate the SAARC markets, strategies for marketing to those at the 'bottom of the pyramid' will be required. Prahalad (2005) provides many examples of successful penetration. Karnani has argued that those at the "bottom of the pyramid" should not just be regarded as consumers, but their capabilities to earn sustainable income should be improved in their capacity as producers. While the number of households in the upper income groups is small as a share of the total, absolute numbers are sufficiently large to provide opportunity to businesses catering to the upper end of the income group. (Karnani, 2006)

[17] Defined as increase in country's real GDP at constant 2005 PPP, as a share of increase in global GDP over the same period.

[18] TFR represents an average number of children a woman produces in her lifetime. TFR of 2.15 indicates a replacement rate, implying eventual stable population.

[19] Offshoring of tasks may be regarded as an equivalent to technological progress, which also produces winners and losers, but which leads to net welfare gains (Wolf, 2006).

[20] See Section 4.2 for elaboration.

[21] India's total flows in 2005-06 were USD 20.3 billion, comprising FDI of USD 7.8 billion, and portfolio flows of USD 12.5 billion.

[22] This follows the categorization by RBI 2005.

[23] Japanese manufacturing companies, financial institutions and venture capitalists are exhibiting substantial interest in India. India and Japan's industry associations have signed a cooperation agreement to boost Japan's FDI in the electronics sector (Yee, 2006a). The focus will be on pharmaceuticals and manufacturing. This has been in part a response to take advantage of India's markets in electronics, and in part a response to match aggressive investment strategies by Korean companies in India. One of the indications of Japan's growing economic linkages is the decision by Honda to make India's Honda operations report directly to Tokyo. (Business Line, 2006)

[24] India's Tata Group has proposed USD 3 billion in investments in Bangladesh in coal, steel, gas and fertilizer projects. The Bangladesh aid donors and international analysts regard these proposals as beneficial for Bangladesh, but the authorities have not responded to these proposals for the past two years. This reflects a mindset which would make it difficult for Bangladesh to avail of the economic opportunities and to enhance its rate of economic growth (The Economist, 2006).

[25] Bhattacharyay and De (2005), observe that economic cooperation between China and India can be sustained regardless of other ongoing multi country cooperation initiatives. They argue in particular for increased

economic cooperation between South-West China and the Eastern states of India.
[26] It is important to keep the employment share in perspective. India's labor force by 2009-10 is expected to be over 600 million, and therefore IT sector employment will be less than one per cent. The employment generation strategies therefore will need to be considerably more broad-based. Team Lease (2006) provides an agenda for reforms in this area.
[27] This is indicated by the limited results from Malaysia's super corridor project in its capital. Malaysia has plans to initiate another IT related project in the southern state of Johor Bahru. It thus has the opportunity to implement appropriate strategies to develop critical mass of IT sector enterprises. Malaysia's reported plans to set up an office of its recently launched Johor development project, which seeks to encourage the IT sector in India, is a step in the right direction. But more positive signals from Malaysia are needed.
[28] India is aiming to be a centre for car design (Giriprakash, 2006). To the extent such work is translated into actual car production globally, it should be regarded as an integral part of the motor-vehicle production fragmentation.
[29] Qantas has awarded US$145 million contract to two Indian software companies. This is a recognition of the mutual economic benefits that have arisen as a result of the advantages of demographic complementarities between Australia and India (Business Standard, November 10, 2006).
[30] India and ASEAN are aiming to put in place an open skies policy by 2012.
[31] Singapore and Malaysia do not permit their citizens to enroll in such international schools without case by case permission from the authorities. There is a strong case for liberalizing such restrictive practices, particularly as these two countries are projecting themselves as possible education hub for the region.
[32] http://www.manipal.edu.my/melaka/
Significant contribution of Indians is also evident in Malaysia's initiative in increasing domestically trained professionals in the health care sector through establishment of the Asian Institute of Medicine, Science, and Technology.(www.aiast.edu.my)

[33] Benefits from SAFTA (South Asian Free Trade Agreement) will be greater if Pakistan were to make a shift from a positive list of commodities to be traded with India (numbering around 1000 in 2006) to a negative list.
[34] Implementation integrity involves ensuring that both the latter and the spirit of the agreement are adhered to. This is of particular importance for India when it deals with countries such as Singapore and China which follow the state capitalism model in which state investment agencies dominate but whose transparency and accountability are low, and in which distinction between the public-private sector firms and organizations is not well defined.
[35] India however must make urgent efforts to become more competitive in these areas through infusion of technology, knowledge, investments, and modern land-use practices. The Commerce Ministry has indicated that the FTAs can not wait until domestic reforms are complete, though specific areas such as the issue of inverted import duty structure due to FTAs which puts domestic industry at a competitive disadvantage will be addressed (The Financial Express, November 10, 2006).
[36] In 2004, intra-ASEAN trade was USD 222 billion (22.5 per cent of total ASEAN trade); if Singapore's trade with ASEAN were excluded, the share drops to 14.3 per cent (ASEAN Secretariat, 2006). The intra-ASEAN trade share has been essentially constant in recent years.
[37] India set up three national multi-commodity exchanges in 2002-03, all of which are ranked among the twenty largest in the world as measured in terms of number of contracts traded (UNCTAD, 2006). These demutualized organizations have focused on establishing hi-tech, low-cost web-based trading. They are regulated by the Forward Markets Commission (FMC). As with Indian companies in general, these exchanges have been seeking international alliances and ventures. Some of the traded contracts have purely domestic focus, others such as precious metals, raw jute, and oilseeds, have the potential to take on international importance.

[38] This was exceeded by Australia, Singapore, China, Japan and Korea.(Table 3) However, the FDI figures in India need to be interpreted carefully, as the official FDI figures do not report reinvested earnings, intra-company loans and some part of portfolio flows prior to 2000 (Srivastava, 2003). As stock of FDI in India

increases, these components can be expected to increase, as has been the case in other countries.

[39] Even when Indian wages are adjusted for productivity differentials, India ranks as the most competitive in unit labor cost (19.7% of the US costs) among the sample countries in a study by the Conference Board of the US(Financial Times, 2006)
[40] In September 2006 there were 220 inbound Merger and Acquisition deals with a total value of USD 8.6 billion while 112 outbound M & A deals were valued at USD 7.2 billion.(The Financial Times, 2006)
[41] Through land custom station at Moreh in India's Manipur state, trade is estimated to be USD 400 million in 2005(Business Line, 2006). This is 200 times the officially registered trade of only USD 2 million, leading to revenue loss and other distortions. The Indian government is considering expanding trade infrastructure and other facilities at Moreh; and to increase the number of such trading areas along the 1600 km border with Myanmar. India is also keen to enhance banking and other facilities for bilateral trade. This is one of the methods by which India's neighbors can engage in win-win economic opportunities.
[42] Much of the information in this section is from the Team Lease Services (2006).
[43] Contrary to perceptions, the growth since 1991 reforms has not been jobless growth. During the 1990s, total employment increased by 2 per cent, only a shade smaller than the employment growth rate of 28.4 per cent during the 1980s .(Team Lease Services, 2006)
[44] Another advantage of mega-cities consists of agglomeration economies. To realize this, social and physical amenities, will have to be developed.
[45] This trend strongly suggests that India's labor market and other policies should emphasize creation of new jobs and opportunities for livelihood rather than preserving existing jobs.
[46] ASEAN + 3 (Japan, Korea, and China) approach preferred by some may be regarded as sub-optimal as it leaves out key Asian economic entities such as India (Kumar, 2005).
[47]In the inaugural speech to the parliament, the Prime Minister of Japan Mr. Shinzo Abe emphasized the issue of compatibility of fundamental values which is often overlooked. To quote Prime Minister Abe "I will further promote cooperation with the Association of Southeast Asian Nations (ASEAN), and as a democratic nation in Asia, I will engage in strategic dialogues at the leader's level with countries that share fundamental values such as Australia and India, with a view to widening the circle of free societies in Asia as well as in the world".(http://www.kantei.go.jp/foreign/abespeech/2006/09/29speech_e.html)

[48] In particular, the Indian media and the policymakers need to follow up on Japanese Prime Minister's Abe's readiness to promote cooperation among democratic nations in Asia as this is in India's strategic interests. Indian economists also need to enhance their expertise of Japanese economy, politics, and technological developments. Japanese language training and studies in Japan should receive much higher priority than is the case presently.
[49] APEC will be re-opening the membership issue during its 2007 summit in Australia. Inclusion of India into APEC has the potential to generate mutual benefits. APEC was set up in 1989 to advance economic integration among its 22 member countries, which also includes the United States.