

ISAS Insights

No. 96 – 5 April 2010

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



India's 'Look East' Policy: Reflecting the Future

Amitendu Palit¹

Abstract

India's 'Look East' Policy is aimed to integrate it more closely with its Eastern neighbourhood in the post-Cold War globalising world order. After almost two decades, it is important to reflect on the scope of the policy and shape that it should assume in the days to come. This paper argues that while economic benefits from the policy have been substantive and visible, it is essential for India to decide whether it wishes to play a more strategically proactive role in Asia-Pacific in future. In this regard India must realise that in the aftermath of the global financial crisis, the rise of the East is accompanied by a strategic marginalisation of the West.

Introduction

One of the major foreign policy initiatives taken by India after the end of the Cold War was its 'Look East' policy. Announced in 1992, the policy marked India's intention to establish close ties with a part of its neighbourhood that had received insufficient attention during the Cold War. Economic motives were strong determinants behind the efforts to establish close ties with Southeast and East Asia². With India finally deciding to open up its economy after more than four decades of inward-looking import-substitution policies, East and Southeast Asia – as key hubs of the 'Asian economic miracle'³ – were natural options for seeking greater economic engagement. Besides, the emergence of the post-Cold War new

¹ Dr Amitendu Palit is a Visiting Research Fellow at the Institute of South Asian Studies, an autonomous research institute at the National University of Singapore. He can be contacted at isasap@nus.edu.sg. The views reflected in the paper are those of the author and not those of the institute.

² For a detailed illustration of different factors influencing India's decision to engage Southeast Asia, see Sikri (2009), *Challenge and Strategy Rethinking India's Foreign Policy*, Chapter 7, pp.112-115; Sage.

³ Major economies of the Southeast and East Asia, notably Singapore, Hong Kong, South Korea, Indonesia, Thailand and Malaysia, grew by impressive rates of 8-12% during the 1980s and early 1990s. Such remarkable rates of growth encouraged the coining of the phrase 'Asian economic miracle' for describing the region's economic progress. The phrase became particularly a favourite with the International Monetary Fund (IMF) and the World Bank (WB).

international order also offered India an opportunity to reconnect to its neighbourhood on the basis of new fundamentals.

With the policy about to complete two decades, it is important to reflect on the policy and consider its future course. Such reflection should carefully analyse the need for expanding the scope and objectives of the policy. The world has changed considerably since the announcement of the policy. Global changes have been accompanied by fundamental shifts within Asia as well, primarily in the economic balance of power within the region. India, too, has advanced rapidly in its economic and strategic capacities. All these changes necessitate a close review of the 'Look East' strategy.

Economic Engagement

The economic implications of the 'Look East' policy have been substantive. The direction of India's trade with the rest of the world has undergone phenomenal changes as a result of the policy. India's trade with its eastern neighbourhood was distinctly limited during the Cold War days.⁴ Among the countries of the Association of Southeast Asian Nations (ASEAN), its economic exchanges were confined mostly to Malaysia, Indonesia, Singapore and Thailand. Trade with other major East Asian economies such as China, Hong Kong and South Korea were noticeably limited. Indeed, Singapore was the only country among those mentioned with whom the size of India's bilateral merchandise trade was US\$1 billion-plus in 1992-93 (US\$1.2 billion) with Hong Kong coming a close second (US\$935.4 million).⁵

The scenario is very different now. Southeast and Northeast Asia have emerged as significant trading regions for India. India's trade linkages with the ASEAN countries have deepened and widened. The ASEAN region and Northeast Asia presently account for more than 26.0 per cent of India's total trade.⁶ China has emerged as India's largest trade partner with Sino-Indian trade amounting to US\$41.8 billion in 2008-09. Singapore (US\$16.1 billion), Hong Kong (US\$13.1 billion) and South Korea (US\$12.6 billion) also figure among India's top ten trade partners while Malaysia (US\$10.6 billion) and Indonesia (US\$9.2 billion) figure among the top twenty.⁷ It is noteworthy that increasing exchanges are not confined to merchandise trade alone. Services trade between India and Southeast Asia and other East Asian countries has also increased significantly. Such increases are most visible through higher tourist flows and trade in information technology (IT).

Rise in trade with Southeast and Northeast Asia has been accompanied by simultaneous increase in cross-border investment flows. Singapore has emerged as the second-largest source of inward foreign direct investment (FDI) into India by contributing 9.0 per cent (US\$9.5 billion) of India's total FDI during the period April 2000-December 2009.⁸ Japan and South Korea are the other major sources of inward FDI for India. Investments from

⁴ Japan was an exception and one of India's largest trade partners.

⁵ *Handbook of Statistics on Indian Economy*, Reserve Bank of India (RBI), Mumbai, India; Computed from 'Direction of Foreign Trade – US Dollar', Table 137, pp 223-225; See http://rbidocs.rbi.org.in/rdocs/Publications/PDFs/137T_HB150909.pdf. Accessed on 27 March 2010.

⁶ <http://commerce.nic.in/eidb/ergn.asp>. Accessed on 27 March 2010.

⁷ Singapore, Hong Kong, South Korea, Malaysia and Indonesia were ranked 6th, 8th, 10th, 14th and 18th respectively among India's major trade partners for the year 2008-09.

⁸ http://www.dipp.nic.in/fdi_statistics/india_FDI_December2009.pdf. Accessed on 28 March 2010.

Malaysia and Indonesia have also been on the rise in recent years.⁹ At the same time, India's investments in the ASEAN have increased more than three-fold from US\$108.1 million in 1995-96 to US\$380.4 million in 2007-08.¹⁰ Singapore garners the largest share of outward FDI from India while such investments are becoming substantive in Malaysia and Thailand as well.

The 'Look East' policy has also been instrumental in India's pursuit of formal economic framework arrangements with different countries in the region. The India-Singapore Comprehensive Economic Cooperation Agreement (CECA) has been one of India's most successful bilateral trade pacts, both in terms of its scale as well as scope. India has a free-trade agreement (FTA) with Thailand and is at a fairly advanced stage of formalising a trade pact with Malaysia. Similar efforts are also on with Indonesia. Moving further eastward, India has entered into a Comprehensive Economic Partnership Agreement (CEPA) with South Korea. A similar agreement with Japan is in the final stages of negotiations. Despite considerable opposition to the contrary, efforts are also on to move towards a FTA with China. The most significant of all the framework agreements, and in many sense one of the biggest successes of the 'Look East' policy, has been the FTA with ASEAN. This FTA that has come into force from 1 January 2010 with an ambitious trade target of US\$50 billion by 2010¹¹ has the potential for emerging into one of the most successful economic agreements in Asia.

The 'Economics Plus' Aspect

While economics has certainly been the strongest fundamental of the 'Look East' policy, there has been an 'economics plus' component to the policy as well. This pertains to India's playing a relatively bigger role in the strategic affairs of the Asia-Pacific. As far as involvement with the ASEAN is concerned, beginning from a sectoral dialogue partner in 1992, India has graduated to becoming a full dialogue partner (1995), member of the ASEAN Regional Forum (1996) and finally a summit-level partner (2002). From a larger regional perspective, India's entry in the East Asia Summit (EAS), which represents the ASEAN+6 combine,¹² enables it to have a firmer foothold in the strategic affairs of the Asia-Pacific. It needs to be noted, however, that India is yet to be a member of the Asia-Pacific Economic Cooperation (APEC).

The Outlook

How should India's 'Look East' policy shape in the years to come? Economic engagement will continue to remain a vital aspect of the policy. India needs to engage its Eastern neighbours in a vigorous and constructive manner for multiplying its economic engagement

⁹ *Ibid.*

¹⁰ Palit, Amitendu (2009), *India's Economic Engagement with Southeast Asia: Progress and Challenges*, ISAS Working Paper, No. 60, 4 June 2009; http://www.isas.nus.edu.sg/Attachments/PublisherAttachment/ISAS_working%20paper_59_21102009182431.pdf. Accessed on 28 March 2010.

¹¹ http://commerce.nic.in/PressRelease/pressrelease_detail.asp?id=2461. Accessed on 28 March 2010.

¹² The EAS includes the ten countries of the ASEAN (i.e. Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam) and Australia, China, Japan, India, New Zealand and South Korea.

with the region. The foremost initiatives in this regard should include efficient implementation of the FTA with ASEAN. The emphasis should be on reducing transaction costs of using the FTA on both sides.

At the same time, ongoing negotiations on the FTA pertaining to trade in services and cross-border investment should be expedited. Quick and successful conclusions of the ongoing negotiations are important for pushing trade in services given the enormous potential which such trade has. Furthermore, implementation of the FTA in its full scope (i.e. trade in goods and services) is also essential given the implementation of the ASEAN-China Free Trade Area (ACFTA). The ACFTA became operational on 1 January 2010 and covers a population of 1.9 billion with a total trade of US\$4.3 trillion.¹³ The economic scale of the ACFTA is larger than that of the India-ASEAN FTA. Delays in services negotiations and lack of progress on the India-ASEAN FTA will only increase difficulties for India as far as deepening its market access in the region is concerned.

There is a more fundamental issue. India needs to address in determining its future approach to the 'Look East' policy. This pertains to the strategic role that it envisages for itself in the East. While the 'Look East' policy has enabled India to position itself as a key player in the Asian region post-Cold War,¹⁴ primarily on economic grounds, it is time for India to decide whether it wants to upgrade its strategic involvement beyond economics in the regional affairs. Indeed, in this regard it is important to take note of Singapore Senior Minister Mr Goh Chok Tong's recent observations on India requiring to proactively 'engaging east' rather than only 'looking east'.¹⁵ India's aspirations to play a larger role in the world stage must be matched by adequate efforts aiming to posit itself as a more influential strategic force in the regional architecture of the Asia-Pacific.

Why has India, till now, not been as strategically proactive in the East as it should have been? From an economic sense, India has been deploying its efforts and resources in a manner that does not indicate any overt prejudice towards the East. Along with negotiations on the FTA with ASEAN, it has continued negotiations with the European Union (EU) along with active participation in multilateral trade negotiations. The stance of the negotiating strategies indicates that India grants as much weight to its East as to its West in pursuing market access talks. However, the global financial crisis and the decisive shift in the balance of the global economy should convince India about engaging the East more vigorously, both economically and strategically. India, despite being aware of the phenomenal rise of the East, has probably not been able to reconcile to the reality that the rise of the East is being accompanied by a steady strategic marginalisation of most of the West. The aftermath of the financial crisis may just drive home the point.

oooOOOooo

¹³ Sanchita Basu Das, 'China trade pact will be good for Taiwan'. *The Straits Times*, Singapore, 5 April 2010, p. A17.

¹⁴ See, Chak Mun (2009), *India's Strategic Interests in Southeast Asia and Singapore*; Macmillan, Delhi; Chapter 6, p. 146.

¹⁵ 'Global Shifts a Challenge for East Asia: SM Goh', *The Straits Times*, Singapore, 21 March 2010, p. 2.