

# ISAS Brief

No. 366 – 12 May 2015

Institute of South Asian Studies  
National University of Singapore  
29 Heng Mui Keng Terrace  
#08-06 (Block B)  
Singapore 119620  
Tel: (65) 6516 4239 Fax: (65) 6776 7505  
www.isas.nus.edu.sg  
<http://southasiandiaspora.org>



## From ‘Look East’ to ‘Act East’:

### PM Modi’s visit to China, S. Korea and Mongolia

*While India’s Prime Minister Narendra Modi’s upcoming talks with Chinese leaders will grab the most attention, his visit to not only China but also South Korea and Mongolia is likely to redefine his ‘Act East’ policy.*

Amitendu Palit<sup>1</sup>

India’s Prime Minister Narendra Modi will complete his first year in office by travelling to China, South Korea and Mongolia. His visit to these three East Asian countries in mid-May 2015 will bring to an end a year that has seen him embarking on a diplomatic odyssey. This voyage to the East will also give a credible resonance to the Modi *mantra*: from non-alignment to multi alignment.

It is interesting that Mr Modi is concluding the year with a visit to China, India’s largest neighbour, while he began by visiting Bhutan, one of India’s smallest neighbours. For those interested in symbolism, the beginning and end of Mr Modi’s travels in his first year as Prime Minister might emphasise his much-vaunted policy of ‘neighbourhood first’. The latest visit

---

<sup>1</sup> Dr Amitendu Palit is Senior Research Fellow and Research Lead (Trade and Economics) at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore. He can be contacted at [isasap@nus.edu.sg](mailto:isasap@nus.edu.sg). Opinions expressed in this paper are those of the author, and do not necessarily reflect the views of ISAS.

to East Asia will also mark a new step in India's 'Act East' strategy of engaging its Eastern neighbours.

Much attention will be focused on China, for obvious reasons, during Mr Modi's forthcoming East Asian tour. Though two-way bilateral visits by Chinese and Indian Heads of States and Governments have become frequent in recent years, each individual visit is followed with rapt attention. This is hardly surprising, given the significance of Sino-Indian relations from geo-strategic, regional and economic perspectives.

In recent years, both China and India have been trying to simultaneously balance the awkward and promising aspects of their relationship. The dichotomy between the bonhomie on display between Prime Minister Modi and Chinese President Xi Jinping at the Gandhi Ashram in Ahmedabad and the tension over troop movements at the border during the latter's visit to India in September 2014, is too vivid to be erased quickly. The contrasts in the relationship remain stark, notwithstanding the hard efforts of both countries to iron out their differences.

## **Economics Remains the Core Agenda**

For the first time in many years, Prime Minister Modi visits China with the knowledge that India is widely tipped to grow faster than China. At a time when the world economy is recovering at a slow, uneven pace, China's economic contraction is accompanied by a rapid acceleration in India's economic growth. Forecasted to grow by 7.5 per cent in 2015, the Indian economy is expected to outpace the 6.8 per cent growth in the Chinese economy (IMF, World Economic Outlook April 2015). Further contraction in the Chinese economy would significantly enhance the distance between the growth trajectories of the two countries in the near-term. This gives Mr Modi the opportunity to hard-sell India to his counterpart as a market that can provide Chinese businesses the returns on investment they can hardly hope to obtain from anywhere else in the foreseeable future.

Like in most high-level meetings between China and India, economics is expected to dominate the discussions during Mr Modi's latest visit too. His pitch for 'Make in India' would be strengthened by the keen interest being displayed by Chinese investors in India. Notable among these is the Chinese hand-phone manufacturer Xiaomi's push to be a local player in India, where it has succeeded in getting Mr Ratan Tata – probably the most

respected name in Indian industry – to be a strategic partner. The Xiaomi commitment follows the earlier investment by the Tatas in Paytm – a mobile commerce platform in India that the Chinese e-commerce giant Alibaba had identified for its foray into the country. More business deals involving Chinese companies and China’s support for Mr Modi’s push to make India a global manufacturing hub are expected to be announced during the visit. Some of these are likely to be between Indian states and Chinese provinces, marking a new phase of sub-federal engagement between the two countries.

Old issues like market-access problems faced by Indian pharmaceutical exporters in China are expected to be taken up. Mr Modi might also announce visa-on-arrival for Chinese tourists. Indian agencies are reported to be sharply divided on the subject. While the Ministries of External Affairs and Tourism are backing the move, it is facing stiff resistance from the intelligence agencies. It remains to be seen whether these differences can be ironed out before Mr Modi begins his visit, enabling him to pronounce what many might label as a major confidence-building-measure (CBM). Mr Modi has already begun essaying CBMs before his visit: first, at a personal level, by registering on the Sina Weibo – the Chinese micro-blogging site and counterpart of the Twitter; and second by announcing Mr K V Kamath as Head of the New Development Bank of the BRICS countries headquartered in Shanghai. BRICS is the forum of five emerging economies – Brazil, Russia, India, China and South Africa.

### **Strategic Outreach: Diaspora, APEC and ‘Act East’**

Overseas Indians have been receiving special attention from Mr Modi. This is evident from not only his outreach to the large Indian Diasporas in the United States, Canada and Australia, but also during his travels to smaller countries with large sections of Indian Diaspora: Fiji, Mauritius and Seychelles. The number of Indians living and working in China has grown over time. A special address at Shanghai – the first such by any Indian Prime Minister – is aimed at connecting to the growing overseas Indian community in the eastern and southern regions of the mainland.

The last, but not the least objective of Mr Modi’s agenda in China is an extension of his ‘Act East’ strategy. As an action-oriented and upgraded edition of the ‘Look East Policy’, ‘Act East’ goes beyond Southeast Asia to include the Northeast Asian countries under its domain

focus. China is one of the most important aspects of ‘Act East’. Engaging China is no more an objective stemming from only a bilateral perspective. It is important for paving the way for India’s closer integration with the region, with the overarching aim of gaining entry into the Asia-Pacific Economic Cooperation (APEC) forum.

Cultivating strategic goodwill for joining APEC is also an implicit objective behind Mr Modi’s travels to Mongolia and South Korea. Mongolia is also keen on entering the APEC. India would have realised the importance of engaging other aspirants for a more effective bid at lifting the freeze on the admission of new members into APEC. Bilaterally, Mongolia’s rich uranium reserves, and the operationalisation of the nuclear cooperation agreement between the two countries, make it an important choice for a visit by the Indian Prime Minister. While some might interpret the visit as a sign of India’s eagerness to mark a presence in the Chinese backyard, it is important to note that Mongolia has been pursuing a fairly active policy of international engagement. There is no reason why India should not respond to the activism and why its ‘Act East’ should not include deeper engagement with a country with whom it has had diplomatic relations for almost six decades.

Greater inflows of capital and technology from South Korea are important to making Mr Modi’s ‘Make in India’ campaign flourish. The interest displayed by Korean companies like Hyosung Corporation in manufacturing electricity transmission equipment in India could mark the beginning of a trend where Korean investments in India spread beyond their current turfs of automobile and consumer goods. While Hyundai, Samsung and LG have become household names in India, Indian businesses like the Tatas and Mahindra have also begun investing in Korea. There is little doubt over the strategic importance of Korea to India’s ‘Act East’ architecture.

While China will be the most closely-watched segment of his visit, taken together, the travels mark the strongest push to the ‘Act East’ strategy that has come from Mr Modi so far. In this respect, it could well be a redefining point in India’s engagement with its Eastern neighbours. Symbolism apart, the points to watch would be the nature of the coverage that the Chinese media extend to the visit and the policy statements on bilateral trade imbalance and the disputed boundary between the two neighbours.

. . . . .