



Indian Council for Research on
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ICRIER-Wadhvani Chair in
India – US Policy Studies

Globalising India's role in Asia and its partnership with Japan

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India's domestic scene

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- As India's democratic institutions have matured, its democratic polity has progressively evolved.
- India has crafted its own template of democratic pluralism, from a decentralised federal structure to political fragmentation between national and regional levels. (A degree of political disarray and dysfunction is inherent to democratic governance, whether in India, Japan or the US.)
- India now has 20 years of experience with coalition governments, which are likely to remain the norm. The leadership of aging Japan has become younger, while the aging leadership of India is a mismatch for its youthful demographics. Till this balance is sufficiently restored, India's leaders will be lagging behind popular aspirations.
- Having ushered in India's economic liberalization in 1991, the Congress-led UPA-I & II governments have been ambivalent on Stage-II economic reforms since 2004. An initial promise of balancing social equity with economic efficiency has gradually dissipated. The focus has shifted to social spending and entitlements, with economic empowerment and productivity enhancement taking the back seat. This trend can be described as "paternalistic populism."

India's domestic scene

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- India's macro-economic situation has deteriorated over the past year, with a marked decline in investor confidence. High fiscal deficits, growing external imbalance, falling investment and savings and persisting inflation are causing concern. Q3 growth was down to 6.1% and overall performance for the current fiscal will see a significant shortfall on original government estimates of 8.5% GDP growth.
- The latest regional election results were a major setback to both national parties – Congress and BJP. Their main significance lies in the relative shift of public sentiment from the politics of caste and community to the politics of governance and aspiration.
- The union budget for 2012-13 indicates that the governments' room for bold initiatives has shrunk. There is no pronounced reform element that can power growth, which has been pegged back to 6.9% for 2011-12 and is estimated at 7.6% for 2012-13. Restoring India's macro-economic balance will be a challenge because of both domestic and external factors.

India's domestic scene

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- Prospects for the 2014 general elections are uncertain. If the decline in public support for the two national parties continues, there could be a revival of the third front which briefly ruled in 1996-97, 1997-98. The political outlook remains uncertain from the perspective of overcoming “policy paralysis”.
- The challenges facing India's political leadership are immense. In a coalition era, the political culture must become more participatory. There is need to balance economic growth and social inclusion with higher standards of democratic governance and accountability.
- India's economy has globalised. In 2010-11, India's total trade (goods and services) amounted to 48% of GDP, up from 18% in 1990-91. For accelerating development, India needs access to global markets, investment and technology. With their complementary economic strengths, India and Japan are natural partners.

India's international role

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- A fast growing dynamic economy has raised India's international standing to unprecedented levels between 1991-2004. However, India's ability to derive full strategic advantage from this favourable scenario has faltered in recent years after making a good start in the early 21st century. The past year has witnessed a partial return of old ideological mindsets (for instance in responding to the "Arab Spring").
- India's strategic partnerships with the US and Japan have been strengthened and transformed but some misplaced confusion over the meaning of "strategic autonomy" has resurfaced. India needs to forge strong ties with the world's leading powers to bolster its emergence as an independent pillar of the global community. It cannot create "a new and alternative universality" or "non-alignment 2.0" in isolation and must be prepared to shoulder greater responsibilities in the international system.

India's international role

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- China's inexorable rise poses the biggest challenge for India as it manages growing economic engagement, strategic competition and unresolved boundary disputes with China. As economic and military gaps with China widen, India has to depend on its partnerships with the US, Japan (and Europe) to preserve the strategic balance and secure its interests. (As Japan discovered in 2010, maintaining "equidistance" between the US and China is not an option for India).
- To transcend the limitations imposed by its troubled Af-Pak neighbourhood, India is now seeking to progress South Asian integration through asymmetrical economic incentives for SAARC neighbours.
- With multiple centres of power of which the military remains the most important, a stagnant economy and a plethora of extremist groups, Pakistan appears to have hit a low point. Its recent decision to open up trade with India is a positive development which can lead to progress in bilateral relations.

India's international role

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- In Afghanistan, where India and Japan are major providers of development assistance, a successful exit strategy for the US is becoming increasingly difficult. The Taliban have little incentive for meaningful talks. India has to be prepared to face the repercussions for its security.
- Iran is an important neighbour, energy supplier and link to Central Asia. India is in full accord with the US (and Japan) on the need for Iran to abide by its commitments as a NPT signatory, as India's votes at the IAEA testify. Despite its heavy oil dependency (75% of supplies are imported), India has reduced its oil imports from Iran by a third (from 21m tonnes to 13m tonnes/month).
- The most promising region for India's external relations remains the redefined Asia which lies between India and Japan.

India's international role

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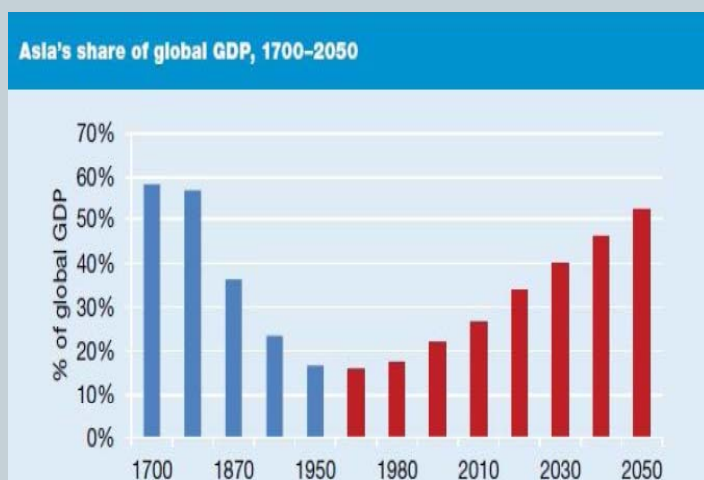
- Regional definitions have evolved. The “Indo-Pacific” has a far more geographically and geo-strategically inclusive connotation than the past Asia-Pacific” label.
- India’s entry into the East Asia Summit in 2005 marked its return to its historic space in Asia. India’s “Look East” policy is gathering momentum through both bilateral and regional engagement. India will host a special summit with ASEAN in December 2012.
- There is basic convergence between India and ASEAN on anchoring regional security in cooperative networks which sustain growing economic interdependence. India is increasingly regarded by ASEAN (as well as the US and Japan) as a net contributor to the regional security balance.
- India will play an important role alongside ASEAN, Japan and the US in building regional security architecture through EAS and ADMM+ in areas of maritime security, freedom of the seas, safety of sea lanes of communication, humanitarian assistance and disaster relief. The Indian Navy is well placed to expand its role in regional maritime cooperation and capacity building, for which Port Blair in the Andamans can be a hub.

India's international role

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- India has concluded FTAs/EPAs with important regional partners like ASEAN, Japan, ROK, Singapore and Malaysia. Others are under negotiation. An ASEAN+6 CEPEA, encompassing 80% of regional population and GDP, provides the best framework for regional economic integration. TPP can be an option for India only in the future.
- India must accelerate its integration with regional production networks and connectivity infrastructure. ERIA's Mekong-India Economic Corridor (MIEC) is designed to enhance India-ASEAN physical and institutional connectivity. Myanmar's importance as a gateway to ASEAN has grown and India will have to place greater emphasis on relations with that country.
- India's capacity to maintain rapid economic growth and engagement with the dynamic economies of East Asia is likely to determine its future place in the "Asian Century" scenario of the ADB. (Tables 1, 2, 3 and Map 4)

Table 1



Source: Maddison (1700–1950) (2007); Centennial Group International estimates (1951–2050) (2011). Data for 1750–1790 are PPP and data for 1991–2050 are in market prices.

Asian Century Scenario by Asian Development Bank

- Asia's share of global GDP to double to 52% (US\$174 trillion at market exchange rates) by 2050.

Table 2

	2010 GDP (MER trillions)	2050 GDP (MER trillions)
PRC	5.7	62.9
India	1.4	40.4
Indonesia	.7	11.4
Japan	5.4	8.2
Republic of Korea	1.0	3.7
Thailand	.3	3.2
Malaysia	.2	2.6
Total Asia-7	14.8	132.4

Seven countries (China, India, Indonesia, Japan, ROK, Thailand and Malaysia) will be the main drivers, accounting for 91% of Asian GDP growth and 53% of global growth between 2010-2050. By 2050, they will account for 45% of global GDP.

Table 3

Economic 2050 outcomes under two scenarios—Asian Century and the Middle Income Trap		
Share of Global GDP (MER)	Asian Century	Middle Income Trap
Asia	51%	32%
PRC	22%	11%
India	14%	6%
United States	14%	21%
GDP (trillions \$ MER)		
Asia	148	61
PRC	63	21
India	40	12
United States	40	40
World	292	191
GDP per capita (\$ PPP)		
Asia	38,600	20,300
PRC	47,800	23,700
India	41,700	17,800
United States	98,600	98,600
World	36,600	25,900

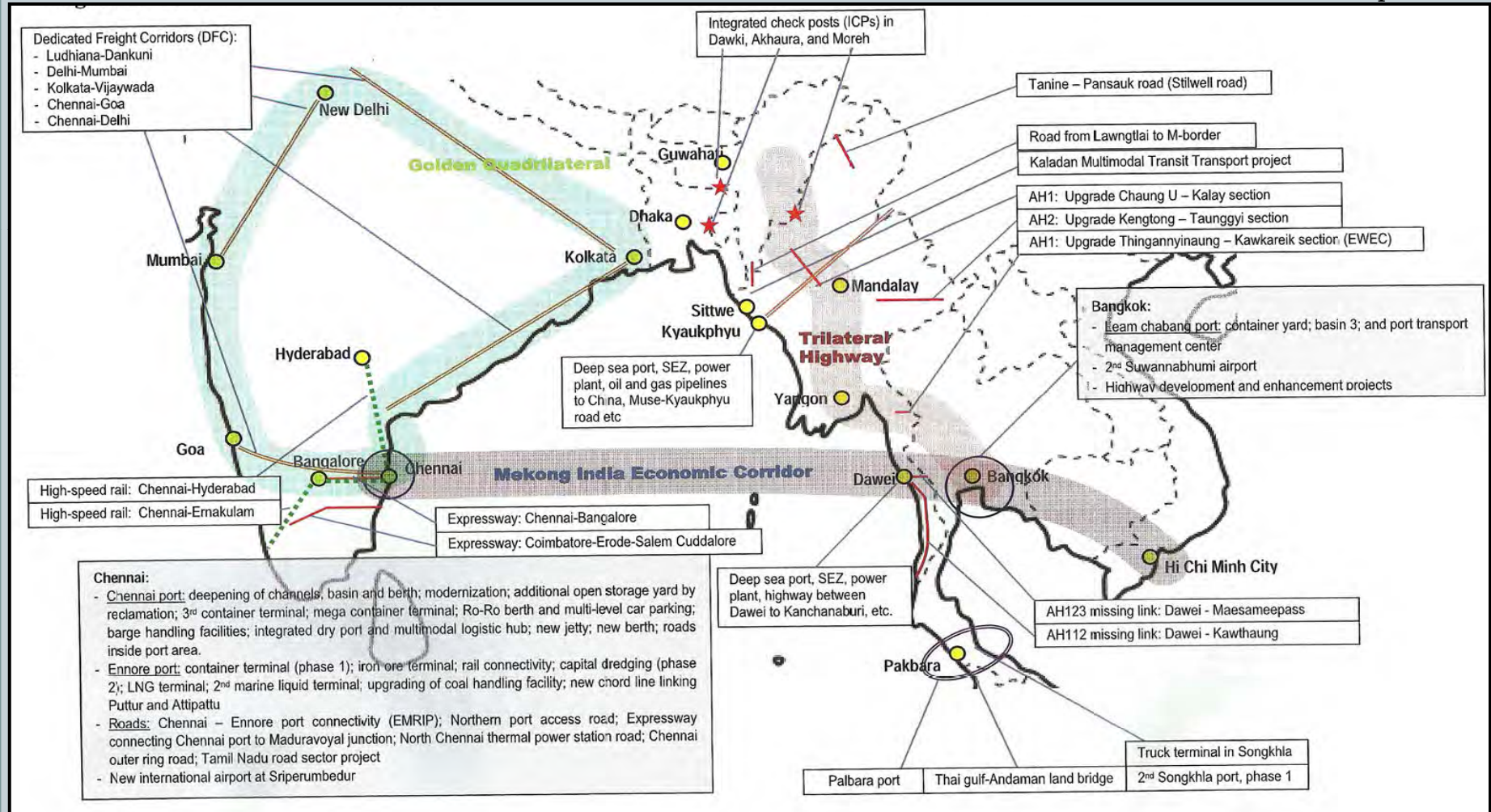
Source: Centennial Group projections, 2011.

Source: ADB

Selected infrastructure projects for ASEAN-India connectivity

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Map 4



Source: ERIA

India and Japan

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- India-Japan relations over the past century have been marked by the promise of mutual goodwill being belied by periodic disruptions. Post-WWII warmth was rapidly dissipated as Japan forged an alliance with the US, while India turned towards non-alignment. Both countries have rediscovered each other in the aftermath of the Cold War and are today indispensable partners for an Asian Century.
- The India-Japan strategic and global partnership is based on the premise that a vibrant and prosperous India is in the best interest of Japan and a resilient and resurgent Japan is in the best interest of India. This implies a mutually reinforcing security posture and a vigorous economic partnership between the two countries.
- India-Japan relations enjoy bipartisan political support in both capitals. There have been annual bilateral summits since 2006, supported by multiple dialogue mechanisms. The two countries have concluded a CEPA as well as a security cooperation agreement. Despite the 2011 tsunami disaster, Japan has maintained its ODA assistance for India's infrastructure development.

India and Japan

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- From India's perspective, the India-Japan bilateral agenda includes the following key elements:
 - Strengthening defence and security ties through strategic and 2+2 dialogues.
 - Widening security engagement to include defence industrial cooperation (concretise Japan's offer of US-2 SAR seaplane, collaborate on missile and cyber defence).
 - Enhanced maritime security cooperation and interoperability through bilateral naval exercises (first exercise to be held this year).
 - Conclusion of the pending India-Japan civil nuclear cooperation agreement as a strategic and economic necessity.
 - Developing technology partnerships on energy efficiency and renewable energy.
 - Maintaining progress on mega infrastructure projects in India, DFC and DMIC, and initiation of a new Bengaluru-Chennai corridor.
 - Implementation of CEPA to expand bilateral trade and Japan's manufacturing investments in India, including in areas of high technology (trade is still meagre and there are only 812 Japanese companies in India).
 - Advancing India's integration with East Asian production and logistics networks under Japan-mentored ERIA programmes CADP2/MIEC.
 - Enhancing cooperation on Asian economic and security architecture building (EAS, ADMM+, CEPEA).
 - Progressing India-Japan-US trilateral cooperation across the Indo-Pacific littoral (next meeting to be held in Tokyo on April 23, 2012).

Conclusion

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- To conclude, the potential for developing relations between India and Japan into a defining partnership for an “Asian Century” is enormous. There is ample mutual understanding and few constraints to cooperation among these maritime democracies. In the years ahead, this strategic partnership is increasingly likely to be regarded as a regional public good, much like the Japan-US alliance has been for the past 50 years. Despite domestic political preoccupations in both countries, they have good reasons to celebrate the 60th anniversary of diplomatic relations in 2012.



Thank you