

**11<sup>th</sup> International Conference organized by Nihon Keizai Shimbun, Inc. (Nikkei)  
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“The Future of Asia” - Charting a Course for Asian Economic Integration**

Hon’ble Mr. Ryoki Sugita, Excellencies, Distinguished Participants, Ladies and Gentlemen,

I feel greatly privileged to be invited to speak at this prestigious international conference on “The Future of Asia”. I would like to compliment the Nihon Keizai Shimbun for regularly bringing together participants from different parts of Asia to discuss issues of common interest for our continent.

The theme of this year’s conference is particularly pertinent in view of the changes which have taken place in the world in the last fifteen years or so. Asian countries have opened their economies to foreign trade and investment and have aggressively integrated with the global economy. They have generally done well in this process and Asia has the best record of economic development and poverty reduction compared with any other region. This has given us confidence to think of deeper economic integration among ourselves. Regional integration is taking place in Europe and in North America in parallel with the steps to achieve multi-lateral liberalisation. The concept of Asian economic integration is therefore a logical development as a means of promoting the common prosperity and well-being of the people of Asia.

In other parts of the world, successful regional integration has been driven by prior political closeness. Asia is different in this respect because it includes a much greater diversity of countries at very different levels of development and also with very different political systems. However, commonality of economic interests is also a powerful driver and there are strong economic forces which justify greater integration. In the case of Asia, unlike Europe, it is possible that economics will lead in the integration process and politics will follow.

I would like to use this opportunity to share some thoughts on how India looks at the prospects.

We, in India have long admired the remarkable economic performance of many Asian countries, which led people all over the world to view Asia as a success story in development. In fact, when India embarked on a process of economic reforms in the 1980s, the move was in part stimulated by the demonstrably superior performance of East Asian countries such as South Korea, the Taiwan province of China, and later China itself, and the countries of South-East Asia, all of which demonstrated that market oriented policies, with a particular focus on exports, could be a recipe for rapid economic growth and poverty reduction.

Economic reforms in India have been successful in raising India’s growth rate from 3.5 percent in the 1960s and 1970s to just under 6 percent in the 1980s and 1990s. The economy has grown at an average rate of 6.5 percent in the last three years and we expect to average 7.5 percent in the next two years. We are aiming at taking the economy to an 8 percent growth path thereafter.

Our assessment that India has the capacity to grow at 8 per cent per year is shared by many observers. A much quoted recent study by Goldman Sachs has identified Brazil, Russia, India and China as the set of large emerging markets projected to grow rapidly over the next thirty years. Within the group, India’s potential growth has been projected to be the fastest – around eight percent per year – faster even than China, which is currently, and has been for many years, the fastest growing economy, but is expected to slow down in future. According to this study, by 2040, India will become the third largest economy after the USA and China. This projection has been adopted by the US National Intelligence Council’s 2020 report “Mapping the Global Future”.

We recognize that these projections are not guaranteed outcomes and there is a great deal more we ourselves need to do to realize our potential. The process of economic reforms must be carried forward and the government is committed to doing so. We will continue the process of reducing the import tariffs to bring them in line with those in other countries in East Asia. We will actively encourage foreign investment from Asia and other parts of the world. We will work to creating an investor friendly economic environment.

One of our major priorities is to upgrade our infrastructure, including especially roads, electric power, ports, railways and irrigation. Our objective is to bridge the gap between our infrastructure and the standard of infrastructure in East Asia so that India becomes more competitive for domestic and foreign investors. The government proposes to achieve the objective of strengthening infrastructure through a combination of expanded public investment and private public partnerships.

Our experience in attracting private investment into infrastructure is mixed. We have had very good experience in telecommunications and ports. It has been more difficult in the area of electric power, but we are trying to overcome these problems. We are currently planning a major expansion in airports infrastructure, based on public private partnership. The expansion plan for roads will be dominantly in the public sector, but we are planning a significant role for private sector BOT projects in this area in those stretches where the traffic density is high.

Large investments are also needed in the health sector and in education, particularly in rural areas, to make up the gaps which exist in social indicators. We have done less in these areas than we should have, and we are taking steps to correct these deficiencies. We also propose a new focus on expanding and modernizing Indian agriculture, agricultural marketing and agro-processing industries.

India's economic reforms are similar in many ways to the changes that have taken place elsewhere. We are trying to create an environment in which the private sector is given freedom to compete and innovate and the economy becomes more open to trade and investment. The main difference with India's reforms is that they have been implemented at a more gradualist pace than in many other countries.

This gradualism should not be mistaken for lack of conviction. It is, rather, the inevitable consequence of India's democratic polity. India has worked hard over 60 years to build a functioning democracy in which an electorate of 700 million registered voters exercise their franchise. Elections are held regularly at the federal government level and at the level of the States and governments often change in the process. About ten years ago, we amended the Constitution to ensure regular supervised elections at the village and town level. As a result of this change, a total of 3 million elected representatives will constitute the third tier of India's democracy. We take pride in the vibrancy and highly participative nature of our democracy. However, this also means that policy changes which affect existing systems must be made at the pace at which consensus can be built. This slows the pace, but has the advantage of building a broad base of support, which ensures political continuity and sustainability. Sometimes our friends abroad become impatient at the continuing debate on so many economic policy issues in India. It makes us impatient also. But I take heart at the fact that we are bringing about a change of very far reaching importance and consensus is important for sustainability.

The transformation that has taken place in our policies has given us a new perspective on the importance of the Asian region. We have always attached emotional importance to the concept of Asian unity and identity. Our first Prime Minister, Pandit Jawaharlal Nehru was clearly driven by a common vision of Asia when he spearheaded two important Asian movements of his time – the Asian Relations Conference in Delhi in 1947 and the Bandung Conference in 1955. He was ahead of his time because the factors that drive Asian cooperation and interdependence today, such as globalization and trade liberalization, had not yet emerged. Today those factors justify the resurrection of that vision of Pan-Asian regionalism. Driven by this vision, India has been striving to strengthen relations with its

Asian partners – with Japan, China, Korea and countries in the ASEAN region. We have a similar vision of South Asia, unshackled from historical divisions and bound together in collective pursuit of peace and prosperity.

We believe that cooperation between India and East Asian countries in the 21<sup>st</sup> century is economically logical and will help to make this century the century of Asia. It was with this vision that a decade ago, our Government unveiled the “Look East” policy, which is now a vital part of India’s foreign policy.

This is not a mere political slogan. Our “Look East” policy has a strong economic rationale. East Asia– including Japan, China, South Korea and ASEAN – is now India’s largest trade partner, ahead of EU and also ahead of the US. This region is an important source of Foreign Direct Investment into India. Japan’s investments in India are growing. South Korea has become an important investor in recent years. Singapore and the other South-East Asian countries have also begun to invest.

At present, the inflow of Foreign Direct Investment into India is about \$4 billion per year, if we exclude portfolio investment in Indian equities by Foreign Institutional Investors. This is a big increase from less than \$100 million in 1990 when the reforms began, but it is far below our potential. China, for example, attracts FDI of \$60 billion. China is a larger economy and would be expected to attract a larger flow. There are also differences in the definition, which, if corrected, would increase the Indian figures. Nevertheless, we believe that an economy of India’s size and growth prospects should be able to absorb three times the level of FDI it currently does. The government is committed to creating a more investor friendly environment in which this increase will take place and we believe that a large part of the increase could come from Asia. In the past one year, the government has announced a number of steps aimed at liberalizing investments in critical areas such as telecommunications, real estate development, and the financial sector.

The path of greater openness in the area of trade and investment that we have charted makes greater integration with Asia inevitable. Our trade to GDP share has been increasing, but compared to the East-Asian countries it is still low. We expect this share to increase substantially as a consequence of open policies. Asia, with its mix of technologically advanced and highly competitive economies is bound to have a large share of this increase.

India greatly values its relations with Japan and believes that as the second largest global economy, Japan has a natural central role in Asia’s global future. Japan has been India’s largest aid donor for some time and we greatly appreciate its support. I recall in particular, when India had a serious balance of payment crisis in 1991, Japan responded generously and speedily with bilateral support and support in multilateral forums. In the depth of the crisis India’s reserves had fallen to \$ 1 billion. Today, our reserves are about \$ 130 billion. But we recall the assistance we received in difficult times with gratitude. During Prime Minister Koizumi’s visit to India last month, the two Prime Ministers signed a Joint Statement, which adds a new “strategic” orientation to the India-Japan global partnership in the “new Asian era” and lays down a concrete “Eight-fold Initiative” for strengthening it. The Joint Statement recognizes that India and Japan will be two of the key anchors in the new emerging Asian era, with a broad convergence in their long-term interests and concerns. We have together agreed to explore the feasibility of an India-Japan Economic Partnership Agreement.

India seeks friendly and cooperative ties with China and we are working to improve our relations in all areas without allowing our differences to define the agenda of our relationship. During the visit of the Chinese Premier Wen Jiabao to India last month, India and China agreed to establish a “strategic and cooperative partnership for peace and prosperity”. This reflects the consensus between the two sides that there is more than just a bilateral dimension to their relations. Trade and economic ties between the two countries are expanding rapidly and the two countries have now decided to examine the feasibility and benefits of an India-China Regional Trading Arrangement. I am particularly happy to say that

Chinese firms are investing in India and Indian companies, including especially those in IT and pharmaceuticals, where we have some strength, are investing in China.

With the ASEAN, we have a partnership that is steadily expanding and has the potential to become a catalyst of economic integration in our region. The potential for beneficial co-operation is recognized by both sides. At the third India-ASEAN Summit, we signed an agreement on India-ASEAN Partnership for Peace, Progress and Shared Prosperity. We have started evolving a Free Trade Agreement with ASEAN. We already have an FTA with Thailand and a Comprehensive Economic Cooperation Agreement with Singapore. Singapore is already an important investor in India and we expect this flow to increase.

There is a steady development of friendly and cooperative relations between India and South Korea over the last thirty years, since the time these two countries established diplomatic relations. South Korea has responded positively to India's opening up and, as I have already mentioned, they have made important investments in India in the past few years with the distinct prospect of more to come.

These policy initiatives vis-à-vis Asia are the logical consequence of our new economic policies which emphasise openness and integration. An open and fast growing India will, we believe, have much to offer to Asia, helping to knit the continent together in a manner never seen before. It is with this conviction that India espouses a vision of an Asian Economic Community, which encompasses ASEAN, Japan, China, South Korea, and India – the five pillars which may form the initial core to drive Asia's emergence as the epicentre of the global economy.

At this point I would like to quote from the speech of our Prime Minister, Dr. Manmohan Singh to the Third Indian – Asean Business Summit in October, 2004:

*Such a community would release enormous creative energies of our people. One cannot but be captivated by the vision of an integrated market, spanning the distance from the Himalayas to the Pacific Ocean, linked by efficient road, rail, air and shipping services. This community of nations would constitute an "arc of advantage" across which there would be large scale movement of people, capital, ideas and creativity. Such a community would be roughly the size of the European Union in terms of income, and bigger than NAFTA in terms of trade. It would account for half the world's population, and it would hold foreign exchange reserves exceeding those of the EU and NAFTA put together.*

It will take a great deal of time, energy and perseverance to translate this vision into reality but we should at least start thinking about the idea and develop the roadmap for its realization.

Studies by a leading Indian think-tank show that economic integration within the East Asian Community has the potential to generate welfare gains of up to US\$ 210 billion. Another recent joint study by Asian Development Bank, World Bank and Japan Bank for International Cooperation concludes that developing countries in Asia need to spend more than a trillion dollars over the next five years on roads, water, communications, power and other infrastructure to cope with rapidly expanding cities, increasing populations, and growing demands of the private sector. Monetary and financial cooperation in Asia, designed to mobilize the huge foreign exchange reserves of Asian countries for development of regional commons and regional infrastructure, could have the potential of creating hundreds of billions of dollars of additional output to overcome these constraints.

The major countries of Asia are already engaged in developing preferential trading arrangements between themselves. India too is actively pursuing these possibilities. This should continue, but we must also keep in mind that the larger East Asian Community offers the opportunity to build a broader regional trade and investment architecture which can overcome the sub-optimal benefits of bilateral arrangements and build stronger synergies and deeper complementarities for greater mutual advantage.

Cooperation for ensuring energy security can be another highly lucrative collective endeavour for the East Asian Community as many of its members are amongst the largest consumers and importers of energy in the world. Two possible areas of such an Asian energy cooperation could be building an Asian Strategic Petroleum Reserve and creating an Asian Emergency Response System. The cooperation could also extend to cover joint patrolling of the sea-lanes through which pass the bulk of the oil and gas supplies for the region. The possibility of building an Asian gas or oil pipeline through collaborative efforts is also promising.

Cooperation in the development of transport infrastructure and connectivity is another area of promise for the East Asian Community. In addition, collective venture in core technologies for addressing the digital divide and nutritional and health related issues also presents opportunities for fruitful cooperation especially in fighting the common challenges of poverty and underdevelopment in the region.

The possibilities are indeed enormous. Prime Minister Manmohan Singh and Prime Minister Koizumi articulated this in the Joint Statement signed on April 29, 2005 during Prime Minister Koizumi's visit to India, when they said this Community of nations would constitute an "arc of advantage and prosperity" which would act as an anchor of stability and development for Asia and beyond.

Ladies and Gentlemen, today, Asia stands at the cusp of exciting times, which hold a bright promise for our future collective endeavours. We share the responsibility to shape our collaboration to liberate the creative energies of the entire region. We must put in place a political and economic architecture which is conducive to Asia's emergence as a pre-eminent region of stability and prosperity. This can make the 21st century the Asian century in the truest sense. India seeks closer and wider engagement with her Asian neighbourhood and is willing to work closely with them to realize this shared aspiration.

Thank you.