



24TH ASIA-PACIFIC ROUNDTABLE

7-9 JUNE 2010 • KUALA LUMPUR

**STRENGTHENING COMPREHENSIVE AND
COOPERATIVE SECURITY IN THE ASIA-PACIFIC**

“India’s Engagement with East Asia”

India and East Asia

by

**Manu Bhaskaran
Council Member
Singapore Institute of International Affairs
(SIIA)
Director and CEO
Centennial Asia Advisors
Singapore**

Sponsored by



Supported by



PLENARY SESSION EIGHT Wednesday, 09 June, 2010 1700hrs – 1830hrs

INDIA AND EAST ASIA

Asia Pacific Roundtable

June 2010

Manu Bhaskaran
Singapore Institute of International Affairs

KEY TAKE AWAYS

India–E Asia relationship set for change

- **Current state of relationship**
 - Mixed record, patchy
- **Economic, policy context is changing**
 - E Asian vs G3 growth, India's trajectory
- **Challenges**
 - Mindset change is needed

**INDIA- EAST ASIA:
WHERE DO WE STAND?**

SUMMARY POSITION

Trade in goods has grown hugely

Link	Status 2000–08
India's goods exports	Up 22.9% pa Faster growth to SE Asia cf NE Asia China – Huge growth Resource exports
E Asia goods exports to India	Up 28.3% pa Faster NE Asia cf SE Asia Big growth in oil, raw materials
Trade balance	Deficit with China an issue
Services trade	Little data

EXPORTS

Surge in importance of China, Singapore as export market

% of Indian Exports	2000	2008)
Korea	1.0	2.1
China	1.7	5.6
Hong Kong	6.5	3.7
Japan	4.3	2.0
Singapore	1.9	4.9
Malaysia	1.3	1.7
Thailand	1.2	1.1
Indonesia	0.9	1.5
NE Asia	13.6	13.3
SE Asia	6.3	10.7
East Asia	19.9	24.0

EXPORTS (2)

But East Asia is not the main area of Indian export growth

	% of Total Export Growth	% of East Asia Contribution
Rest of World	74.7%	
East Asia	25.3%	
NE Asia	13.3%	
SE Asia	12.0%	
China	6.7%	26.5%
Singapore	5.8%	22.9%
HK	2.9%	11.4%
Korea	2.4%	9.5%
Malaysia	1.8%	7.1%

EXPORTS (3)

Growth in raw materials and oil related exports

% of Total Indian Exports to East Asia	2000	2008
Food and live animals	16.2	9.9
Beverages and tobacco	0.2	0.3
Crude materials, inedible, except fuels	7.6	20.0
Mineral fuels, lubricants and related materials	0.4	18.4
Animal and vegetable oils, fats and waxes	0.7	0.5
Chemicals and related products, n.e.s.	11.8	8.5
Manufactured goods classified chiefly by material	49.1	26.6
Machinery and transport equipment	5.9	9.9
Miscellaneous manufactured articles	7.4	3.5
Others	0.7	2.5
All Commodities	100	100

IMPORTS

China as key source of imports, Japan less key

% of Indian Exports	2000	2008
Korea	1.5	2.6
China	2.8	10.0
Hong Kong	1.7	1.6
Japan	4.2	2.5
Singapore	2.6	2.6
Malaysia	2.5	2.4
Thailand	0.6	0.8
Indonesia	1.9	2.0
NE Asia	10.2	14.2
SE Asia	8.1	8.5
East Asia	18.4	22.7

IMPORTS (2)

Growth in oil, manufactured components

% of Total Indian Imports From East Asia	2000	2008
Food and live animals	1.4	1.2
Beverages and tobacco	0.01	0.01
Crude materials, inedible, except fuels	8.1	3.9
Mineral fuels, lubricants and related materials	5.9	17.4
Animal and vegetable oils, fats and waxes	10.0	5.4
Chemicals and related products, n.e.s.	12.7	12.3
Manufactured goods classified chiefly by material	17.6	21.0
Machinery and transport equipment	34.4	36.9
Miscellaneous manufactured articles	7.1	4.3
Others	2.7	19.3
All Commodities	100	100

SUMMARY POSITION (2)

Movements of people – patchy

Link	Status 2000–08
Tourism: Indians →E Asia	Up 3-fold, top choice
Tourism: E Asia → India	Disappointing growth, patchy
Migrant flows/ remittances	Ex-S'pore, relatively small

TOURIST LINKAGES

Outbound tourists from India

Hundred Thousands)	2003	2004	2005	2006	2007	2008
East Asia	763.6	1243.2	1605.6	1876.8	2251.6	2390.6
Total	4,508.0	5,410.2	6,198.1	7,030.8	7,882.7	8,523.1
<u>East Asia as % of Total</u>	<u>16.9</u>	<u>23.0</u>	<u>25.9</u>	<u>26.7</u>	<u>28.6</u>	<u>28.0</u>

TOURIST LINKAGES (2)

East Asia is not a key market for Indian tourism

	% of Annual (2008)	2000-08 % CAGR
Indonesia	0.4	8.4%
Malaysia	2.3	9.4%
Myanmar	0.2	17.4%
Philippines	0.3	12.8%
Singapore	1.9	9.3%
Thailand	1.1	19.0%
SEA:Others	0.1	5.6%
Total: SE Asia	6.4	10.8%
China	1.9	37.7%
Japan	2.9	8.4%
Korea	1.6	18.2%
Taiwan	0.6	19.0%
Other East Asia	0.1	-14.8%
Total: East Asia	6.9	14.0%

SUMMARY POSITION (3)

Capital flows position remains mixed

Link	Status 2000-08
FDI Inflows → India	E Asia ex-S'pore remains relatively small. Malaysia rising
FDI Outflows from India to E Asia	Ex-S'pore negligible
Portfolio flows into India	Ex-S'pore, relatively small
Economic agreements	Expanding

FDI – MIXED PICTURE

FDI % of Total Inflows into India	2001	2009
China	0.0	0.15
Indonesia	0.0	0.5
Japan	5.9	4.6
Malaysia	0.16	0.14
Singapore	0.96	11.2
Thailand	0.00	0.08
Taiwan	0.01	0.05
Hong Kong	0.15	0.5
South Korea	0.12	0.2
Mauritius	44.7	42.7
Total	100	100

CURRENT STATE

Relationship still in early stages

- India's inward policies
- Diverging patterns of growth
 - MNCs' production networks links to China
 - Indian manufacturing by locals not MNCs
- Not all the building blocks in place

INDIA TARIFF SUMMARIES

	Year MFN applied tariff	Binding Coverage (%)	Simple Average		Duty Free		Non ad valorem duties		Duties > 15%	
			Bound	MFN Applied	Bound	MFN Applied	Bound	MFN Applied	Bound	MFN Applied
India	2008	73.8	49	13	2.8	3.7	5.3	5.1	70.2	17.3
THAI	2008	70.9	25.6	8.2	3.0	23.3	14.8	7.0	62.0	17.7
JP	2008	99.6	2.5	2.6	58.2	56.5	1.7	3.9	0.7	0.7
CHN	2008	100	9.1	8.7	6.8	7.6	0	0.5	13.5	11.6
MY	2008	81.3	14.9	8.0	5.0	55.5	0.1	0.1	37.8	24.0
SG	2008	64.5	6.3	0	17.7	100.0	0	0	0	0

INDIA RELIES ON TARIFFS

Country	In Total Tax Revenue	To Total Imports
India	17.5	8.0
Singapore	0.1	0.0
South Korea	4.8	1.9
Japan	1.0	1.4
Malaysia	5.4	1.0
China	6.6	1.9
Thailand	6.2	1.5

INDIA EAST ASIA TRADE AGREEMENTS

Country	Partnership	Remarks
Thailand	FTA	Oct 03. Looking to sign comprehensive FTA
Singapore	CECA	Signed Jun 05
Malaysia	Trade Agreement	Looking to sign CECA end 10
Japan	Trade Agreement	Looking to sign CECA end 10, 13 th stage to be held.
China, Korea, Indonesia	Trade Agreement, Joint Study Group	To explore possible CECA

INDIA EAST ASIA TRADE AGREEMENTS

Region	Partnership	Remarks
ASEAN	ASEAN-India Trade-in-Goods Agreement	Signed Aug 09; Effective 1 Jan 2010: India, Malaysia, Singapore, Thailand have implemented the Agreement

**WHY INDIA'S ENGAGEMENT
WITH EAST ASIA
WILL CHANGE
SUBSTANTIALLY**

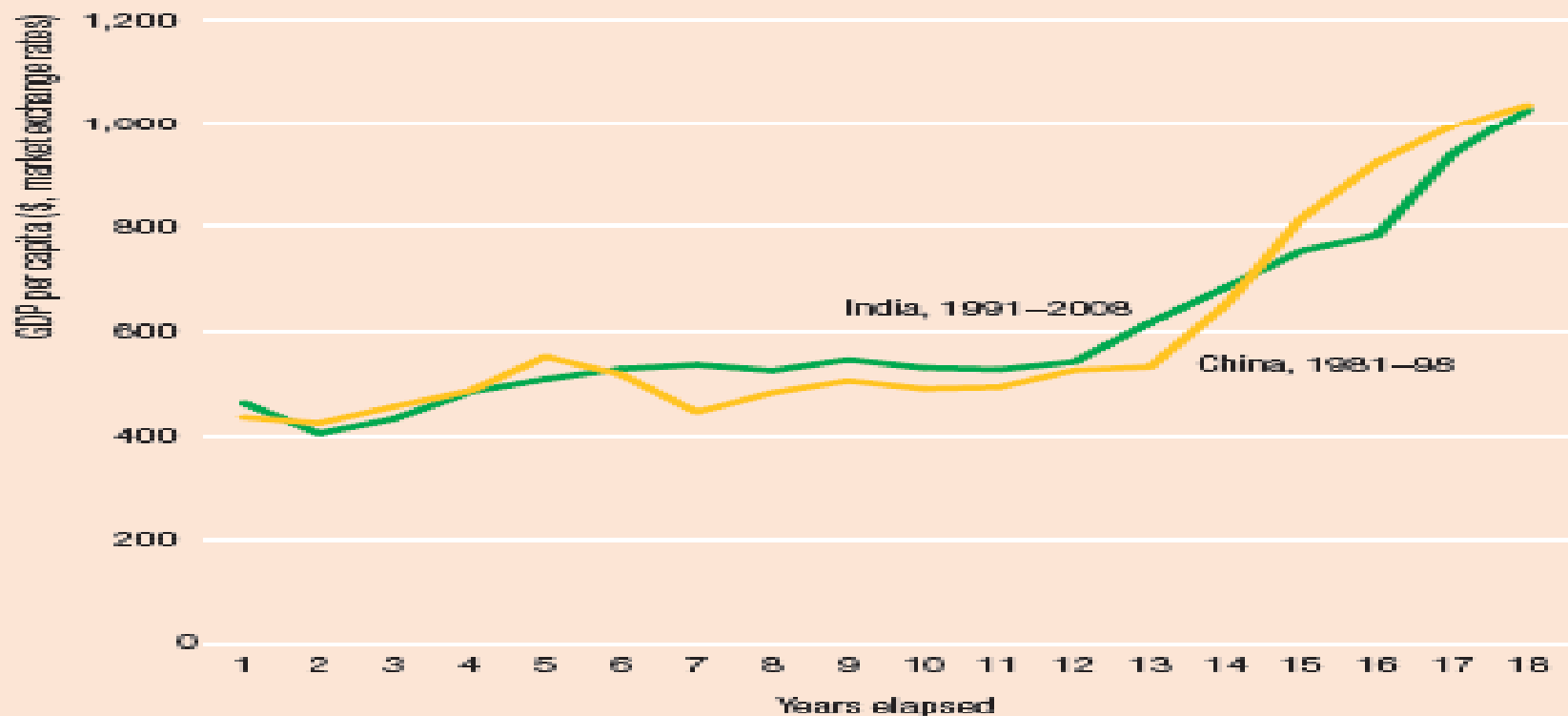
DRIVERS OF CHANGE

Dramatic transformation likely

- **Substantial growth in both regions**
 - India's acceleration
 - Changing sources of consumer spending
- **Impact of expanding FTAs etc**
- **Structural changes**
 - Changing competitiveness

INDIA GROWTH TRAJECTORY

Figure 2 | India is following in China's footsteps, 10 years later



PROJECTION FOR INDIA

Table 1 | From poverty to affluence in one generation

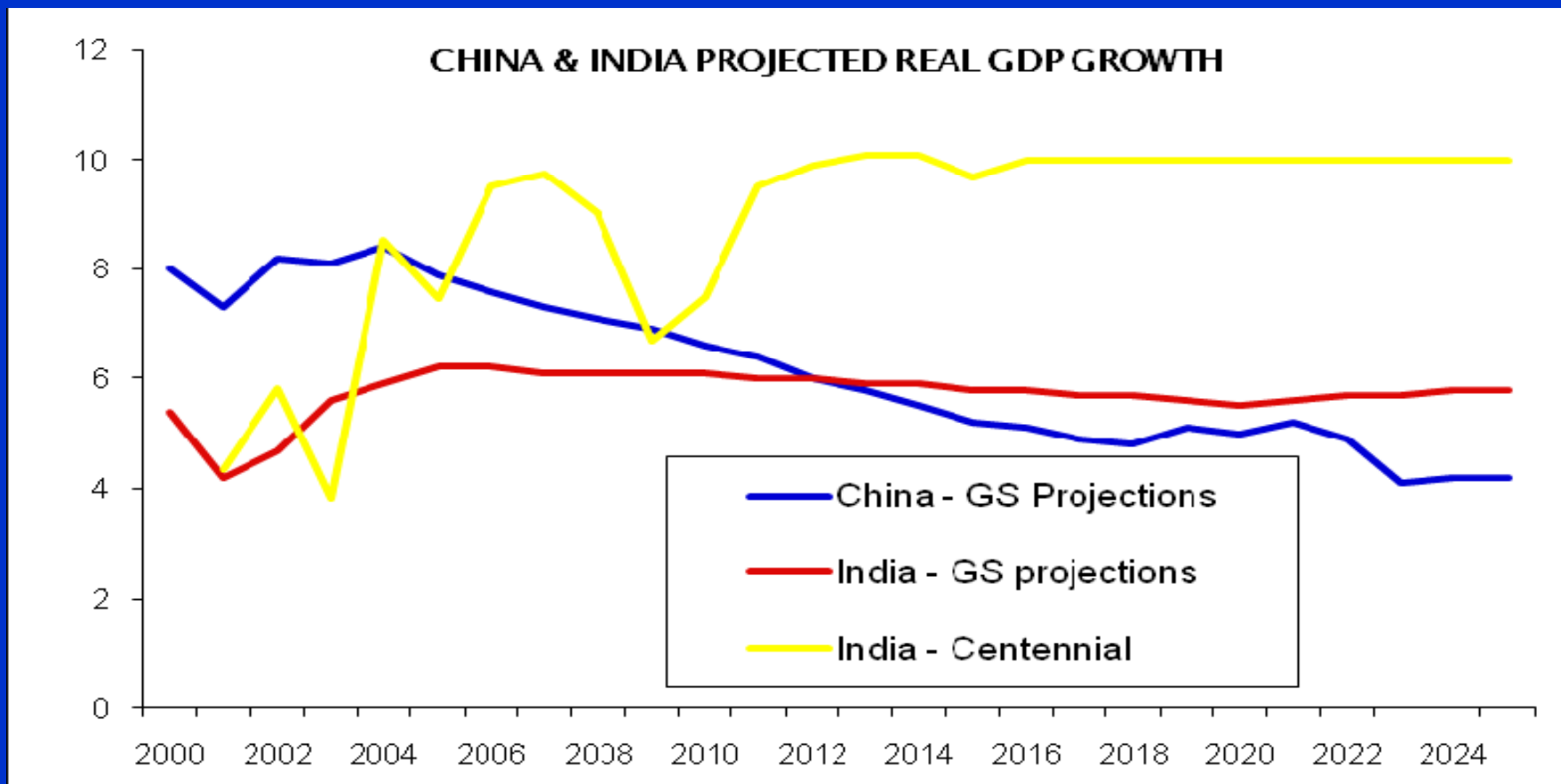
	2007	2039
Global output	\$62 trillion	\$200 trillion
Asia's share	20% or more	50% or more
<i>Average income</i>		
Global	\$8,500	\$23,400
India	\$940	\$22,000
India's rank	12th largest economy	2nd largest economy
India's footprint in global economy	<2%	>17%

PROJECTION FOR INDIA (2)

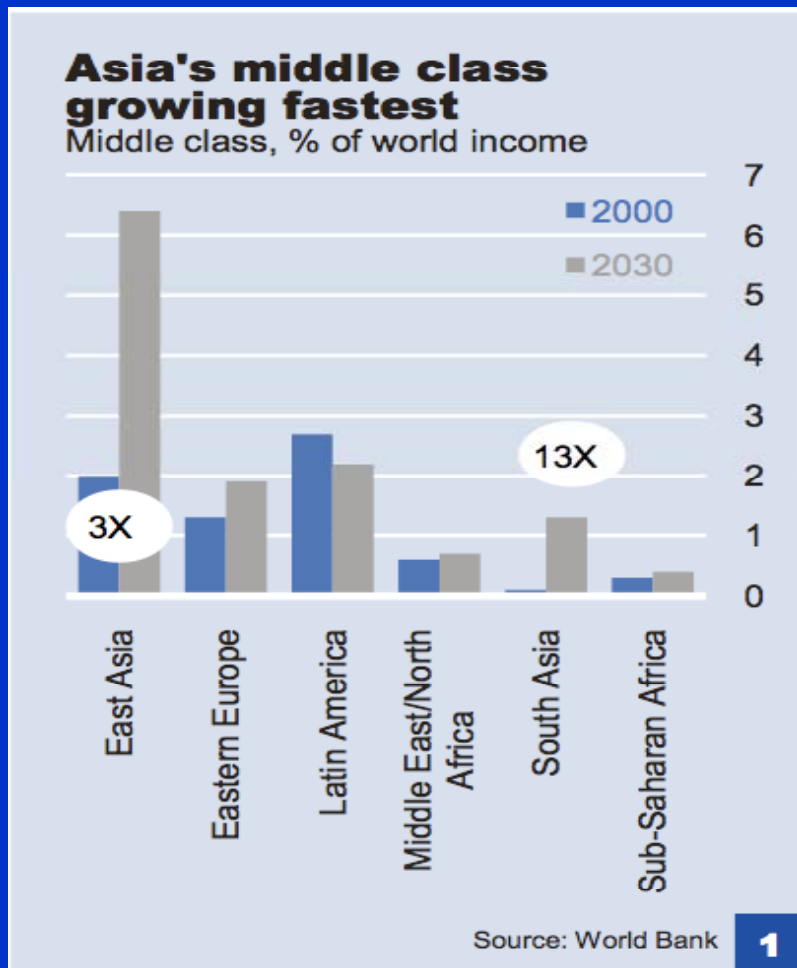
Next 30 years to 2039

- 8.5% per cap + 1% population = 9.5%
- + currency rise, growth = 11.5%
 - 12.8% in real USD terms 2003–07
- GDP reaches USD36tr (2007)
- Per cap income of USD22,000

SUBSTANTIAL GROWTH



DEMOGRAPHIC SHIFTS

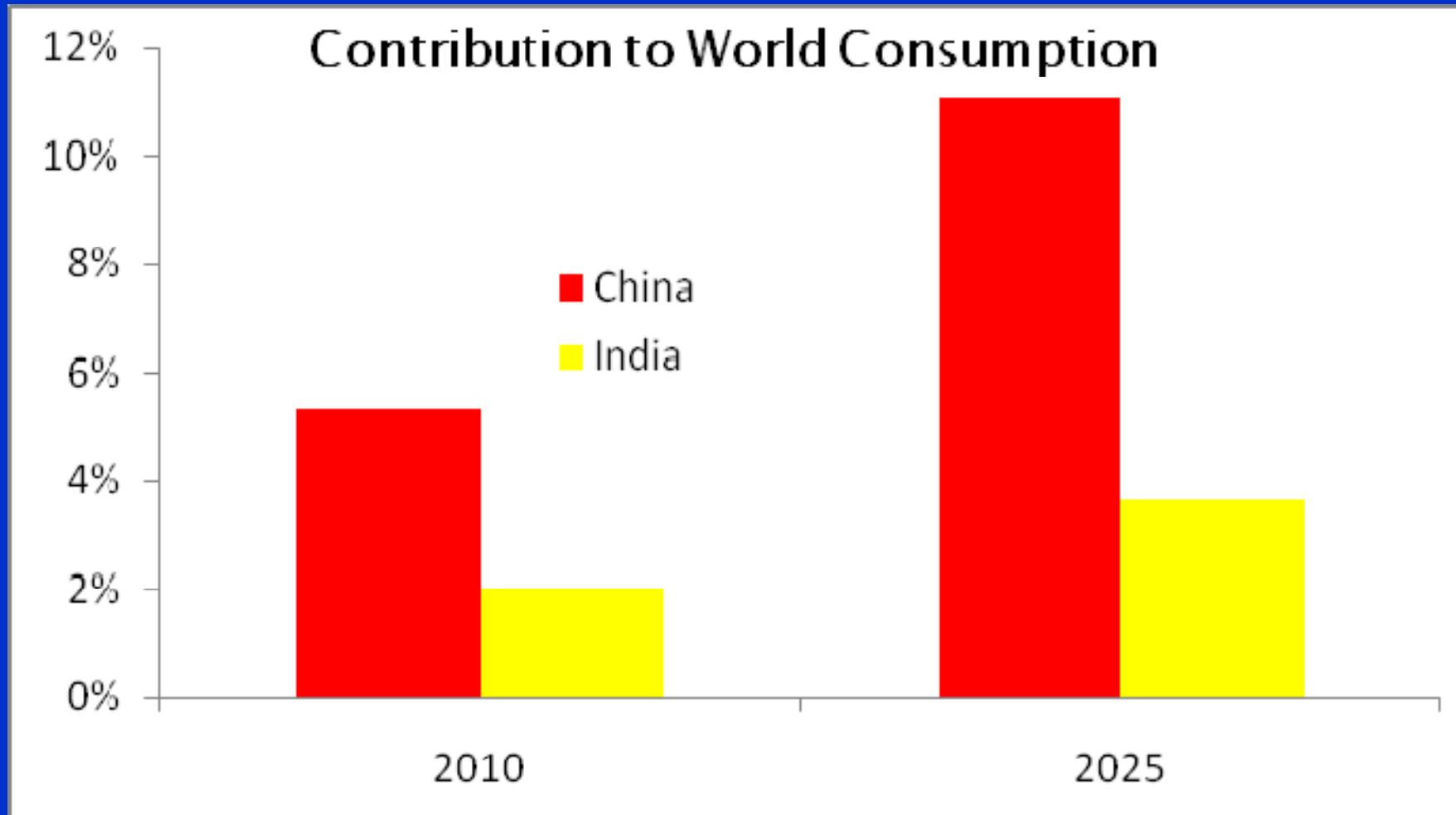


Rise of Middle Class

(Income USD4k–17k pa)

- Massive growth in Asia
- Top in size: East Asia
- Rapid growth: South Asia
- E and S Asia middle class
 - 8.9% of world population
 - 7.7% of global income

CHINA AND INDIA AS MARKETS



CHANGING RELATIVITIES

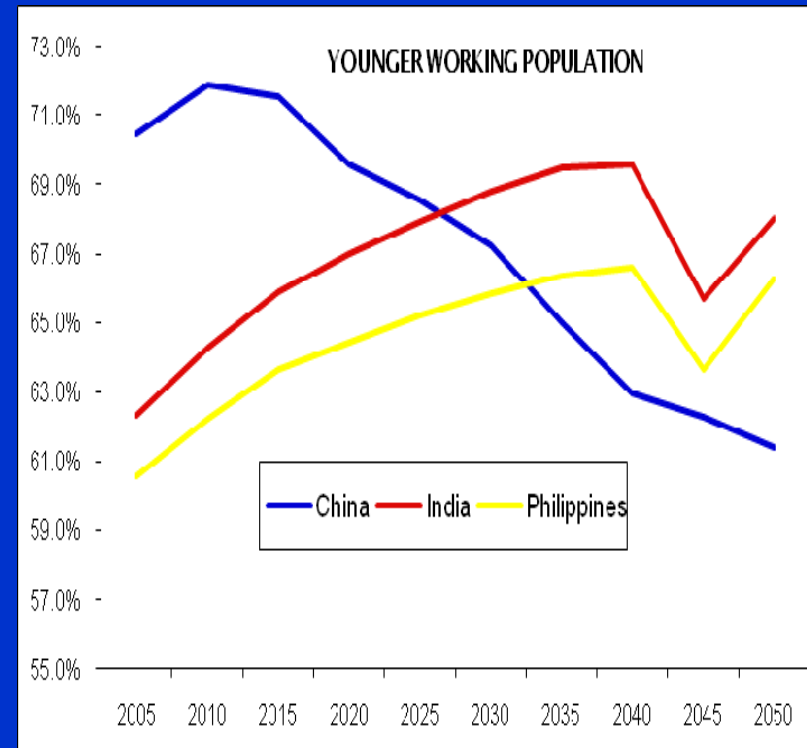
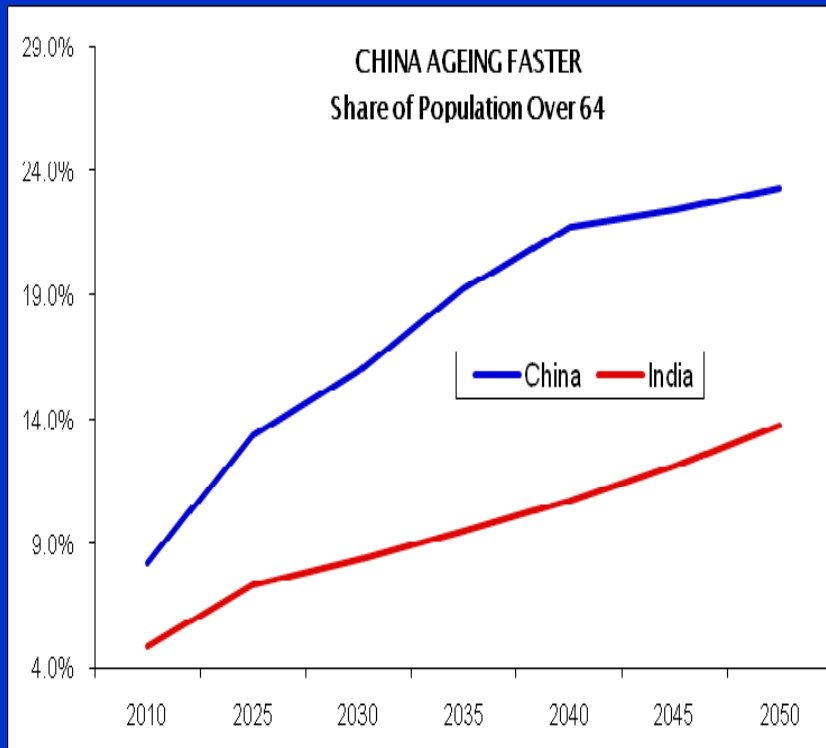
Changing weights of Asia – 2025

- China-India-Korea = EU size
- China No 2 economy, India 6th
- Asia's export share from 29% to 35%
- China, India become large source FDI
- Capital flows from both also surge

DEMOGRAPHIC SHIFTS (2)

Differential rates of ageing will have tremendous implications

- Competitiveness
- Growth rates



CHINA'S TRANSFORMATION

China ahead of others

- **Reaches “Lewis” turning point first**
 - Labour supply tightens, wages rise
- **Ages much faster**
 - Greater need for social safety nets
- **Currency strengthens secular fashion**
 - Better control of inflation
 - Relative productivity levels

INDIA'S TRANSFORMATION

Biggest changes are ahead

- **Infrastructure improvements underway**
 - Closes gap with others, reduces costs
- **Slow but cumulative reforms**
 - Reduces distortions
- **Corporate restructuring**
 - Bottom-up competitiveness
 - Indian MNCs emerge, new supply chains

STRUCTURAL CHANGE

STRUCTURE OF COMPETITIVENESS

- Re-industrialization of US
 - Huge restructuring, USD down, ...
- China: moves up value chain
- India: manufacturing rises
- Manufacturing outsourcing shifts
 - More complex pattern of production shifts

OBSTACLES

India is not easy to do business with

- **Mindset change**
 - India is still looking West
- **Ease of doing business**
 - Posco, Mumbai–Delhi corridor
- **Indian market is not easy to crack**
 - But Koreans have excelled, patience pays

CONCLUSION

Slow patchy relationship to expand

- Current relationship lags
- Huge changes underway boosting ties
- Mindset change is needed

THANK YOU!