

**“Nature and Implications of the Expanding Presence of India and China for Developing Asia”
organised by**

International Development Economics Associates (IDEAs)

and

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Workshop Report

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The first day of the workshop started with a welcome address by **Jayati Ghosh** (IDEAs and JNU). Referring to the theme of the workshop, she said that the issue has been receiving global attention for quite some time. IDEAs, on its part, had started exploring the issues related to the implications of India's and China's growth on the global economy nearly two years back in a conference organised in January 2008. Since then, much has happened in the global economy, with major changes taking place in the world. Apart from the different and changing perceptions on the issue of decoupling and then the lack of decoupling, there have also been different perceptions regarding the growing presence of China in terms of its ability to generate another growth pole. Much before that, there was also the perception, particularly with respect to China, but also with respect to some Indian investments, that these were recreating some of the old colonial patterns in terms of resource extractions, and building up imperialist relationships with the aim of capturing economic territory. In this context, she pointed out that it is not correct to club India and China together, as there is no comparison between the two countries either in terms of their global economic significance or their impact on particular regions of the world. Besides the fact that China is a much larger economy, with much larger share of global exports and imports, India does not stand at the same level even in its impacts on developing Asia. However, since these issues have been gaining currency, a need was felt to look deeper into them. IDEAs, therefore, embarked on a project to explore in detail the role of India and China in developing Asia, with respect to the changes that have taken place in the last decade in terms of trade and investment patterns.

Session 1: On the Question of the Shifting Power Centres in Global Economic Order: Role of China and India

Prabhat Patnaik (Kerala Board of Planning & JNU) began by pointing out that India's and China's strategy of increasing presence in the global economy is actually the strategy of the dominant social groups within the countries. The essential question then is of the viability of the capitalist class's ability to gather social consensus for achieving its ambition of greater global reach. In this context he pointed out that there are significant differences between the situations when the advanced capitalist countries went for global outreach and the one that faces countries like India and China at present.

In the case of the advanced capitalist countries, when they went for global reach, they imposed a pattern of international division of labour, with them exporting manufactured goods and importing primary commodities. While this could have led to displacement of domestic production and may have even given rise to internal social opposition to a certain extent, this social opposition could be overcome because of a number of possibilities open to them. As a

matter of fact, therefore, the advanced capitalist countries had been able to garner a kind of social consensus at the time of their global reach. In this context, he mentioned that some like Joseph Schumpeter had used this as an argument against the Marxist theory of imperialism to establish that in most of the countries imperialism had also been able to command a social consensus. In this regard, **Prabhat Patnaik**, argued that this could happen because of the possibilities of out-migration to the new world, and the fact that industrialization and the associated substitution of machinery for labour in that period did not lead to much labour displacement (as the machineries themselves were constructed largely with the help of labour). In short, according to him, the imperialist project was itself associated with the possibility of creating opportunities giving rise to a social consensus around it.

Even in the case of Japan, in which many like Hayami had argued that the imperialist expansion—which was accompanied by increasing agrarian crisis—was itself the cause of the breakdown of the social consensus, **Prabhat Patnaik**, opined that even if one accepts this view, Japan's capacity to draw in large number of distressed petty producers into the armed forces—which was a part of the imperialist project—and the fact that industrialisation in that period was somewhat more labour absorbing, provided a kind of safety valve against rising social unrest.

With regard to India following a similar strategy of expansion, **Prabhat Patnaik** felt that such a strategy would lead to considerable distress and displacement of a vast number of peasants and petty producers inside the country. This is because of the fact that India's capacity to absorb the petty producers either by resettling them in the newer open areas or by absorbing them into the industry or through some military adventure are extremely limited. As a result, the kind of social consensus that advanced countries, including the late advanced countries like Japan, could gather around the global expansion programme, would elude India or even China.

He also pointed out that the inability to gather social consensus, however, does not mean that Indian capitalists have not been harbouring increasing ambitions of global reach. This ambition is in fact, directly visible in the argument that India-ASEAN FTA is a part of India's 'Look East' strategy, put forward by the government. The growing ambitions are also clearly reflected in India's shifting attitude vis-à-vis other developing countries (including developing Asia) as well as in the rationale given for its need to continue on the high growth path. While earlier during the period of non-alignment, India stood for the rights of the countries (in opposition to traditional imperialists), to pursue their independent economic policies, now, it fights to have frameworks in which India claims it can provide greater advantages to some of these countries, than that by traditional imperialist powers. This new stand is associated with a change in even the rationale for achieving high growth. Earlier, it was argued that high rate of growth would take care of the poor through the 'trickle-down effect'. Subsequently, there was a shift in the argument in favour of 'inclusive growth'—that is, high growth would enable the government to intervene fiscally to garner larger resources for benefiting the poor. More recently, it is argued that a high growth rate is essential if India is to become a major world player. In other words, being a major world player has become an objective in itself. This desire to be a major world player, argued **Prabhat Patnaik**, is intrinsic to the nature of finance capital. As Lenin and Hilferding had said, the nature of finance is such that once a country is integrated into the phenomenon of globalised finance, the desire for domination is intrinsic to that integration.

Thus, he pointed out, while it is possible that many of the developing countries might be better off having a relationship with India or with China than with the US, but as far India is concerned this will give rise to accentuation of the distress of large segments of peasants and petty producers. The policy of the Indian government and the country's bourgeoisie for high growth rate or large economic strength is going to be associated with increasing distress of the bulk of the Indian people. In other words, it is part of the phenomenon of India's contemporary integration into finance capital that the desire for domination is bereft of acquiring the benefits for the small producers/workers as the traditional imperialists had ensured. This desire for a global reach, especially in developing Asia, accentuates and carries this dichotomy forward as well as restricts the prospects of such a policy of global reach. **Prabhat Patnaik** concluded by saying that regardless of whether this desire for global reach benefits other developing Asian countries, clearly it is unlikely to benefit the people of India.

Biswajit Dhar (RIS), in his presentation, focused on the possibility of and the extent to which India and China can emerge as economic powers in the global order. He pointed out that the bracketing of India and China together is faulty because the two economies are poles apart—whether seen in terms of foreign reserves holding, investment in Africa or even in the US Treasury Bills. The only similarity between the two is that the downturn has not affected their economies as much as other major economies of the world. In this context, he argued that the reason why poor countries like India and China have come into focus is because of the decline in the position of the Western economic powers. This decline has been led by the fact of the Western institutions, on which the entire post war structure was established, coming under serious threat now. The breakdown of the Washington Consensus (which formed the basis of globalisation and trade agreements for the world), uncertainty regarding the recovery of the capital markets (which was used as an instrument to establish their hegemony) and the importance of Chinese funds for propping up of the US economy, are some of the reasons explaining this apparent shift in the focus away from the West.

In this context, **Biswajit Dhar**, said that the main question is whether India and China, particularly the former, can correct some of the negative aspects of the functioning of the Western market. According to **Biswajit Dhar**, one of the most significant initiatives in the recent years has been the attempt by Asian countries to put a surveillance system for the capital markets—through the Chiang-Mai initiative. He however opined that while this might help China, in the case of India, such a surveillance initiative is unlikely to help stifle the flow of speculative capital or help alter the nature of India's engagement with the Western capital markets.

With regard to the issue of India's and China's rise in developing Asia, he said that the main thing is whether this can set the stage for a new arrangement whereby developing countries take on the mantle and try to pop up their institutions, so that regional cooperation is more equitable and non-hegemonic. In this context he mentioned that the stagnation of the Doha Round of negotiations—because of the lack of appetite of the US and Europe for further liberalisation—means that the changes demanded by the developing countries in the rule-based system to reflect the perspectives of the developing countries, is not going to move forward. In his opinion, establishing a new regime or arrangement would necessarily involve moving out of the confines of narrow tariff-based liberalisations or FTAs, into a more comprehensive WTO-like system.

How such an arrangement can be established and to what extent it can at all be done is, of course, something that needs to be seen. He concluded by saying that issues regarding climate change, particularly the position that India and China take, and whether they have sufficient agreement with each others' views to form a coalition and take the entire process out of the US-EU kind of thinking, is something that cannot be ignored when talking of increasing integration. All these issues would also determine where India and China are heading to—together and individually—as emerging economic powers.

In the discussion that followed **Jayati Ghosh** said that there is a view that China's entry into the international economic order is similar in nature as that of the Latin American manufacturing exports of the 1970s and 1980s. Like Latin American countries then, China too is still fundamentally in a dependency type of role, given its increasing dependence, on foreign capital and its cheap labour advantage for furthering its exports. The only difference of China with the Latin American countries is that it is trying to avoid the financial crisis that plagued Latin America throughout its industrialisation history, by desperately accumulating surpluses in the form of reserves. Therefore, it is not correct to look at China as an imperialist threat because the nature of its engagement in terms of suppressing its own wages to be able to export to the North and its entry into the global economic order on unequal terms, reflect its inferior position rather than its strength in the global economic order. She also questioned whether certain conjunctural features like China funding large part of the US deficit can be considered as a sign of China's increasing strength. In this context, she pointed out that the US economy being propped up by China is something even Japan had done in the 1980s. At that time Japan had been seen as a new imperial power, but since the liberalisation of its financial markets thereafter (encouraged by the developed countries), it has neither recovered from the huge crash that followed nor become another imperial power.

Surajit Majumdar (ISID) queried about the historical significance of the rise of poor, low-income, populous underdeveloped economies like India and China in the world economy. **Parthapratim Pal** (IIM, Kolkata) asked whether the argument put forward by Prabhat Patnaik implies that the Indian bourgeoisie is rising as a challenge to the existing imperialist forces or that a new form of imperialism, with finance capital taking a new route through these developing countries, is developing. He also queried about the Indian society's reaction to the increasing ambition of Indian capitalist class and the associated increasing social discontent. **Prasenjit Bose** (Research Unit, CPI-M) queried whether for India and China to play a non-hegemonic role in regional cooperation, the arrangements would involve doing things in the same way as the Western countries had done till now, or would mean going beyond what the world order has been and try to build up fundamentally different institutions, based on a different economic logic. **Suthipand Chirathivat** (Chulalongkorn University, Thailand) commented that the global crisis has led to developing countries, especially India and China, becoming important players in the world economy. Since the recovery of the Western countries would take some time, he queried whether the movement from G-8 to G-20 had any significance for further increase in Asian countries' role.

In response, **Prabhat Patnaik** said that just because India and China are still underdeveloped countries does not mean that they do not harbour imperialist ambitions. Japan also had similar ambitions in the pre-war or inter-war period when it was still not a developed country. He

reiterated that in the era of finance, this tendency for domination is ingrained in the ambitions of the bourgeoisie that is strongly integrated into the globalised financial structure. However, the imperialist ambition of the local domestic bourgeoisie in a country like India, does not necessarily mean that this brings it into conflict with a dominant power (like the case of Israel for instance). In fact, there is view within the US policymakers that countries like India should be given the freedom to dominate their local environment. In a certain sense, G-20 helped thwart a possible threat to the hegemony of the advanced capitalist countries (through the demands for a new Bretton Woods conference or a UN based initiative), by splitting the third world countries, by incorporating India and China into G-20. Given that G-20 continues to be dominated by advanced countries, this kind of localised imperialism does not mean that developing countries have got out of the imperialist orbit. To the question whether rising distress in India would lead to insurgency, **Prabhat Patnaik** said while it might lead to that situation (of insurgency), the more important point is that substantial disaffection of a social group, which is also numerically very large, itself would thwart the imperialist ventures and ambitions of the Indian bourgeoisie.

Biswajit Dhar, in his response, said that Japan's situation in the 1970s cannot be compared with China's situation today as that would amount to ignoring the fact these are two different historical eras (for instance, unlike now, in the 1970s the wisdom doled out by the developed countries still held weight). In today's situation, liberalisation, including that of the financial market, is not going to be made as easily as it had been done in the 1980s. In other words, unlike what Japan had done then, China can resist the demands of liberalising its financial market simply because of the fact that the developed countries have created a mess in their own financial system. In addition, the significant differences between the political systems of these two countries also means that China's and Japan's situations cannot be compared.

Responding to Prasenjit Bose's question, **Biswajit Dhar** said that because of China's large reserves of funds, which provides it the unique opportunity to form an alternative Asian currency unit, one of the possibilities is that regionalism could be backed up by a currency on which developing countries have some control. Further, with the recognition that the fundamental principle of regionalism has to be such that there is policy space available with the countries to pursue their own development, a differentiated arrangement (depending on the levels of development of various Asian countries), instead of 'one size fits all' would be adopted. This then could ensure that Asian regionalism is more equitable as well as non-hegemonic. How it is going to develop or how the alternative order will develop is something that requires further studies.

Session 2: China's Importance for Developing Asia: Trade and Investment Relations

The session chaired by **Smitha Purushottam** (MEA) had two presentations that looked at how far China's emergence and its export-led growth had impacted developing Asian economies and regional integration during the period 1998-2007, through examination of the various aspects of its trade and investment relations with these countries. The first presentation by **Deepanwita Dutta** (IDEAs Secretariat) looked at China's integration with developing Asia through trade. She began by making the point that China's high and sustained growth has led to a change in the geographical composition of its export and import partners. While China's imports are increasingly sourced from developing Asian country markets, western markets still remain its

major exports destinations. It was also argued that China has much deeper integration with Southeast Asia than with South Asian countries. Though China has become a very significant source of import for all the South Asian countries, these countries still remain small as trading partners of China.

The presentation confirmed that intra-industry trade and production sharing have played a dynamic role in the rapid expansion of regional trade between East Asia and Southeast Asia. In this regard, she mentioned that China has been increasingly involved in the process and has become the regional hub of this global production network. Further, this regional production network has, instead of crowding out export opportunities for poor developing countries, actually created more opportunities for these countries.

The study also pointed out that growth in China's exports has been driven mainly by the growth in machinery, and electrical & electronic equipments exports during 2002-07. Further, the rapid expansion of intra-industry trade and production sharing too, was heavily concentrated in these two sectors—the machinery, and electrical and electronic equipments. Therefore, any fall in demand for Chinese exports of machinery and electronic equipments from the developed countries would lead to fall in the trade, adversely affecting the developing countries of Asia. In fact, the dependence of other countries on China increases their vulnerability to external shocks and business cycles. Therefore, it is necessary to consider this dimension while adopting policy initiatives in the domain of regional economic integration.

The second presentation was by **Vineet Kohli** (TISS), who began by arguing that in the period following the Southeast Asian crisis, China has become the largest recipient of FDI flowing into the developing world. In terms of the regional composition of inward FDI into China, he pointed out that Asia, in particular South East Asia, is the most significant source of FDI for China, with Latin America being the second most important. He argued that it is likely that FDI flow even from Latin American tax havens like Cayman Islands and British Virgin Islands may be more of round-tripping of Chinese capital into China and some redirection of FDI from the rest of Asia.

He pointed that it is possible that the exaggeration of China's FDI figures arising from the huge gap between inflows of FDI reported by China and outflows to China reported by source countries and the problem of round-tripping may imply that Asian integration is not genuine. **Vineet Kohli** pointed out that the exaggeration of the Chinese inward FDI data notwithstanding, outflow data from source countries, in particular from South Korea, Hong Kong China, and Singapore show that there exist a strong level of integration through investment between China and Asia. He further argued that this has also fostered closer relations through trade. Apart from the fact that Asian MNCs use China as an export platform for their exports to a third market, China has also become important as the final sales destination of these MNCs. At the same time, Asian MNCs also procure a whole lot of inputs from their home countries and other developing Asian countries in order to service their exports to the third market (through China). The growing investment-trade nexus also confirms the fact of increasing integration of developing Asia with China.

Addressing the perception that China's rise as a destination of FDI may have displaced FDI for South East Asian countries, he argued that, even though China accounts for a larger share of total

inflow of FDI into the developing world, it has not displaced FDI from developing South-East Asia as FDI seems to have maintained its historical trend. Besides, he pointed out, the production network between China and these countries may have even made FDI into the two regions complementary.

With regard to China's outward FDI flow, he observed that other than investing in dollar-denominated financial securities, China has sought to utilize its massive accumulation of dollars (resulting from the huge inflows of FDI along with large export revenues) for outward FDI and providing aid to developing countries. The regional pattern of China's outward FDI flows shows that relatively more developed Asian countries like Hong Kong China accounts for the largest share of total Chinese FDI flow to Asia, implying that China is not a significant source of FDI for other developing Asian countries. In this context he showed that contrary to popular perceptions, China's outward FDI in developing Asia flows mainly into the services sector and is not directed at extraction of primary commodities. He added that while China is not important as an investor in most of developing Asia, it is an important source of aid for many of these countries. The fact that Chinese aid is mainly directed at building up infrastructure in developing Asian countries shows that it is fundamentally different from colonial investments in extractive industries. Moreover, unlike private investment, Chinese aid, even when directed towards primary extraction, do not lead to transfer of ownership thereby allowing developing countries the freedom to utilise the surpluses from these assets for internal developments. Further, he pointed out that unlike the World Bank, China imposes little conditionality or penalties for corruption in the use of funds. He argued that, all these factors show that even aid flows from China are more of development assistance, further confirming the fact that the nature of integration between developing South-East Asian countries and China is more developmental than exploitative. In the context of the impact of the global financial crisis, **Vineet Kohli** argued that because of China's excessive dependence on the Northern markets, its exports are likely to be adversely affected by the current downturn in these markets. Further, given that China has been the gateway for exports of South-East Asian economies, these countries along with China are going to be adversely affected by the developments.

The Chair, **Smitha Purushottam**, commented that there is a need to integrate the political and geo-strategic dimensions of China's activities and integration initiatives with the economic analysis presented by the two speakers in the session.

The discussant of the session, **Prasenjit Bose** (Research Unit, CPI(M)) pointed out that the conclusion arrived at, in the paper on trade relations between China and developing Asia, is likely to change significantly because of the global downturn following the financial crisis. Focusing on the implication of this, he said that the main problem of the development strategy of China is that it is completely dependent on the growth process of the developed capitalist countries of the West. The global financial crisis has shown that the growth process of the developed capitalist countries—based on phenomenal rise in speculative investment and a massive expansion of debt-driven consumption of the affluent sections—itself was totally unsustainable. The other aspect of this particular growth strategy, in terms of the development implications of economies like China, has been that it has built enclaves and integrated those enclaves into the global capitalist economy. But the benefits derived by the enclaves have remained restricted to those enclaves alone and not spilled over to the rest of the Chinese

economy. In other words, the high rate growth has not led to the overall development of the Chinese economy, in terms of being able to draw in the agriculture or other non-agricultural sectors into it or even in terms of improving living standards. As a result, the domestic economies of either China or ASEAN countries have not been able to come out of the dualism that persisted in the earlier phase of industrialization and in some sense, this strategy of growth has actually accentuated the dualism.

The global financial crisis and the attendant collapse of the demand emanating from the developed countries, therefore, raises the question about the possible trajectories that China can take. In this regard, **Prasenjit Bose** said that there are two opposing forces that are likely to operate. One would be the status quoist forces—the Chinese capitalist class or the ‘round trippers’—which has benefited from the symbiotic relationship they have developed with the international finance capital. These forces would be interested in sustaining this particular structure of finance capital-led strategy of growth. The international finance capital would also want it since China is one of the few growing economies. These two forces together in turn, will push for liberalisation of China’s financial sector. If the Chinese government chooses to tread in this direction, the Chinese economy will be overtaken by speculative processes (like real estate bubble), thereby subsuming the manufacturing sector there and that will put an end to the so-called success of the Chinese growth story. However, the Chinese government may also opt for a different trajectory. In this context he said that the political economy in China is a complex one and there are forces within who favour a more egalitarian distribution of income and greater fiscal activism. In this scenario, which of these two opposing forces turn out to be the more dominant, would determine the future trajectory of Asian integration. He concluded by noting that with regard to Asian regional integration, the actual debate should focus on how it can be done in a non-hegemonic manner so that people of these countries also derive some benefits from these processes.

The discussion following the presentation touched upon wide-ranging issues regarding China’s growth process and the future path it can take. **Anurag Srivastava** (Centre for Trade and Development) commented that the undervaluation of the Chinese currency is one of reasons behind the growth in China’s exports to the US. He also queried as to why China could not use the huge reserves it has built up for fiscal purposes to deal with the problems of rising inequalities and growing unemployment plaguing the Chinese economy for some time now. **Prabhat Patnaik** pointed out the possibilities of China being able to maintain its current growth rate without giving in to the Western countries’ demands either for an upward revaluation of its currency or for a liberalization of its financial sector.

Parthapratim Pal (IIM, Calcutta) said that many Southeast Asian economies fear that increasing integration with China could make them more of ‘sitting ducks’ than ‘flying geese’. Elaborating on the ‘flying geese’ pattern of trade he said as one country goes up the value chain, it vacates the space for the lower value added products for the followers. Since China (and India) produce goods covering the entire value spectrum and given its necessity to focus more on the domestic market because of the global financial crisis, it is likely that China will start producing the intermediate goods themselves. As a result, the Southeast Asian economies would mainly become suppliers of raw materials. He queried about the implications of such a development on Asian integration. **Ranjan Sengupta** (Centre for Trade and Development) queried whether

China's rise has increased the threat perception among the South-East Asian countries, in particular the threat of their exports being confined to the bottom end of the value chain.

Vineet Kohli responded saying that it is not correct that the undervaluation of the Chinese currency has helped drive up its exports to the US, because in spite of a substantial appreciation of the yuan vis-à-vis the dollar between July 2005 and end of 2007, the trade gap rather than narrowing has actually widened. He also argued that revaluation of the Chinese currency is unlikely to change the situation, at least in the short run, since China's imports requirements has declined owing to increase in its capacity to produce new goods that it did not have earlier. He said that the reason why China failed to use fiscal policy to utilize foreign exchange reserves is to do with the balance of class forces in the Chinese economy. Answering the query raised by **Prabhat Patnaik** he said that so long as the Chinese financial system remains closed there won't be any bank run within China.

Responding to the questions raised, **Deepanwita Dutta** said that so far as poor developing countries are concerned they had gained through intra-industry trade. Therefore, these countries' trade with China is complementary rather competitive.

Responses by the speakers of the session, was followed by another round of discussion regarding the complex issues surrounding China's rise in the global economy. **C.P. Chandrasekhar** (IDEAs and JNU) pointed out that there are conflicting views as to who are battling to dominate the world, whether it is America or the EU, East Asia or China itself. In this context, he said that while some (like Nicholas Lardy) argue that China is very important for the US as an investment destination, Brookings Institute study shows that the US MNCs are using China to remain competitive globally; yet another view is that the East Asian countries are using China exactly as that kind of instrument for battle in the international competition.

Smitha Francis (IDEAs Secretariat) said that it was the US and the EU MNCs that started the trend of investing in China in the early 1980s, followed by investment from the developed Asian countries like Taiwan Province of China, South Korea and Japan. So, it is possible that a part of the Latin American investment is because the US and EU are also re-routing their investment through these channels. **Jayati Ghosh** also said that a lot of investments flowing into China through Cayman Islands and Hong Kong China are actually investments of the big US multinationals. Re-iterating the point that the notion of China dominating the world is very premature, she said that there seems to be clear signs that it is actually getting caught in trying to generate domestic consumption demand through growth in credit rather than through increase in wage-led consumption. That in turn could mean that it would also get caught in a similar situation like Japan, when it was seen as a rising power.

Session 3: China's Impact on Developing Asia: Case Studies

The session began with **Smitha Francis'** (IDEAs) presentation. It looked at the impact of China's emergence on Thailand, with a focus on the international production network-driven industries of the machinery and electrical machinery sectors. This focus was premised on the fact that while Thailand had been dependent on these two sectors for its export-driven growth performance since the late 1980s, China had also become integrated into these multinational

corporations (MNCs)-driven production networks by the mid-1990s. Thus, electrical machinery and machinery industries dominated not only Thailand's overall trade, but also its bilateral trade with China. The two sectors provided two important contexts for understanding the nature of competition and complementarity in China's trade and investment relations with developing Asia. Thus, the presentation looked at the implications of China's tremendous export expansion on Thailand through an in-depth examination of the nature and composition of the bilateral trade and investment between China and Thailand in these sectors.

The study found that, in parallel with Thailand's significantly increased trade integration with China since 2002, its trade with the developed countries outside (US and the EU) and within Asia (mainly Japan, Singapore and Taiwan Province of China) have declined in importance. But, simultaneously, Thailand's trade with developing Asia has increased significantly for both exports and imports. However, the analyses of Thailand's dominant export sectors of machinery and electrical machinery sectors established that its share is increasing, albeit marginally, in the developed country markets (most notably, in the case of Japan), along with its increasing trade with China. It was found that Thailand is involved in both the Chinese hub-based trade in these two machinery industries, as well as in direct exports to the developed country markets, most importantly to Japan. Therefore, given the path-dependent and cumulative nature of innovation processes in industries such as computers and electronics products, Thailand does seem to have benefited from its early bird advantages of integration into the East Asian electronics production networks, even after deeper integration into these same networks through China. The detailed analysis of the changing patterns of bilateral intra-industry trade in the machinery sectors established that Thailand is attempting to face the increased competition from China by focusing on niche products. There were also some products that moved from disadvantageous vertical specialization in 2001 towards horizontal specialization. But, the analysis also established the increased competition that Thailand faces from China in its major export sectors. Not only was there an increase in the number of products in these sectors with inter-industry trade (involving only imports from China), there were some products in which Thailand's advantage in vertical specialization was overturned to a disadvantage. Thus, even though Thailand's market shares in the developed country markets were maintained or registered an increase, it was found that its perception of China as a rising competitor in the export markets was quite justified. Both the division of labour in these industries and Thailand's position in the value chain are not static; instead, they are constantly subject to pressures linked to various costs and innovation cycles. This has important implications for the continuous need for technological upgradation and production restructuring within these sectors, with attendant implications for labour and government policies. Further, given that China's dominant markets continue to be the developed world, the increased participation in China-centred production sharing has increased the historical dependence of Thailand on extra-regional trade for its growth dynamism.

The second presentation was on the impact of China's greater economic integration with South-East Asia on Vietnam by **Amitayu Sengupta** (IDEAs Secretariat). In his presentation he showed that unlike Thailand, Vietnam is lesser developed and is still predominantly a primary commodity exporter. Despite liberalization, Vietnam has managed to retain controls over the nature of its economic development. While the share of foreign-invested sectors has risen over the years, Vietnam's net export of manufactured products has been rising over the years. Imports too are dominated by means of production and machineries while the share of consumer goods

have declined over the period. All these are evidences of a planned growth trajectory based on industrialization. Vietnam has managed to develop some manufactured commodity exports, which it sought to defend during the early years of this millennium when the impending accession of China seemed to pose threats to the same. This led Vietnam to engage in a BTA with the USA and join the WTO to protect its markets. Over the years, China has emerged as the most important import source for Vietnam, while Chinese FDI and aid in Vietnam and the proposed integration of Vietnamese electronic manufacturing base with the Southern Chinese industrial base through the GMS initiative are steps towards greater economic co-operations. The China-ASEAN FTA gives special provisions to the lesser developed countries like Vietnam and Laos to ease their integration into the larger network.

Incidentally, for a FDI-dependant country like Vietnam, the extent of Chinese FDI inflow is lesser than that from other developed countries, and hence the possibilities for negative consequences are higher from the latter than from Chinese investments. But, the study of Vietnam also points out the importance China gives to such developing countries in its plans of expansion. While Chinese firms use Vietnam as a testing ground for their foray into the global market, the fact that Vietnam is the second highest destination of Chinese outward FDI flow and that the rising reconstructive aid from China eventually funds Chinese SOE activity proves that Vietnam is more of an extension of its domestic market for China.

With the recent economic recession and the subsequent slump in the Western developed economies, it will be interesting to note how Vietnam will manage to maintain its distance from China. Perhaps, the importance of China may rise with it playing a larger role through aid and FDI in Vietnam than through trade. Much would depend on how Vietnam manages to maintain its manufactured exports to the Western developed nations and the impact that will have on its exports-led development strategy and, subsequently, investments level overall in the economy.

The discussant of the session **Kejpiroon Kate Khosuwat** (Ministry of Commerce, Thailand) mentioned that the conclusion of the presentation on Thailand is consistent with the belief prevalent in the country that China is a strategic partner rather than a competitor. The recommendations provided in the paper for Thai industries in the electrical machinery and machinery sectors would be beneficial for the country's private sector in terms of their future actions. She suggested further studies on the Thai agricultural sector, on agriculture-based or resource-based industries and on chemical industries.

Regarding the paper on Vietnam, she said that a possible explanation for greater flow of Chinese investments into joint ventures rather than fully-owned ventures could be because of the fact that the country does not allow wholly-owned foreign investment in certain sectors and as a result China has been forced to go in for joint ventures. She also felt that the conditions put by China that funds provided through aid can only be used for procuring goods and services from China, is similar to the conditions put by the Western developed countries for use of aid-funds provided by them to the poorer developing countries. She expressed doubt about the conclusion that Vietnam is strategically more important for China than China is for Vietnam, as China has been an important source of development funding in Vietnam.

Suthipand Chrathivat queried about the possible changes in strategies adopted by MNCs to utilise the wider China-ASEAN market after the signing of the ASEAN-China FTA (ACFTA).

Also, given the present global economic crisis he wanted to know the future prospects of Vietnam. **Hoang Phuong Thao** (ActionAid International, Vietnam) pointed out that while there has been a surge in commitments of FDI into Vietnam in the last few years, actual disbursements have been not as promising and this is one aspect the paper on Vietnam could look into. She mentioned that China is a very important source of investment for Vietnam, as a large part of investment flowing into the country through ASEAN Development Bank, actually comes from China and mining is one of the most attractive areas of investment for China, and this has created lot of discontent in the Vietnamese society. She also mentioned that informal trade between the two countries is very large and has huge impacts on the livelihood of small farmers and small traders who engage in this kind of informal trade. Therefore, further research on this could show that Vietnam is also very dependent on China even in trade. **Jayati Ghosh** queried about the ideal trade strategies that can be adopted by the economies, which are not very large and therefore, have to depend on some exports, given that this dependence on exports could either be seen as an additional avenue for greater global expansion or could even create the problem of de-industrialisation in certain crucial areas.

Smitha Francis responded to the questions saying that while ASEAN-China FTA (ACFTA) is expected to play some role in determining the strategies adopted by the MNCs for the wider ASEAN-China market, how these countries utilize their development policies to strengthen their national innovation system would play a greater role in guiding these MNCs' investments. Regarding the role of SMEs in the production network, she said that in the electronic industries it seems that SMEs were also getting subcontracted out by the MNCs and were losing out in the competition. It is only in some lower value-added segments like electric parts and components that Thai SMEs have been doing well, but they don't seem to be doing very well in the higher value segments. Responding to the question about the ideal strategy of trade for countries like Thailand, Smitha Francis said that the most important thing is to avoid getting into narrow specialisation and try and move into broader specialisation.

Amitayu Sengupta in his response to the comment that Chinese aid to Vietnam comes with riders similar to that used by developed countries, he said that the study shows that this is true for some of the projects but does not hold in case of the majority of the projects. While agreeing that Chinese involvement with Vietnam started much before the FTA or these two countries joined WTO, he pointed out that the aim of the study was to understand the developments in the post East-Asian crisis period. He accepted that Chinese investment coming in through ASEAN Development Bank is a significant point that needs to be considered. Regarding informal border trade he argued that inclusion of it would only result in some change in the magnitude of trade, and not affect much the composition of trade which shows that Vietnam was exporting mainly primary commodities to China. Regarding the sectors where China might be interested in investing in the post-crisis period, **Amitayu Sengupta** said that it would depend on whether Vietnam is able to protect its exports to the developed countries or whether it needs to get into the production network. But given the fact that Vietnam has managed to maintain some degree of autonomy in its export and import structure planning, it would seem that its preference for sectors it wants FDI to flow in, would determine where Chinese investment would be flowing.

Session 4: India's Importance for Developing Asia: Trade and Investment Relations

The presentation by **Malini Chakravarty** (IDEAs Secretariat) focussed on the issues related to the extent, nature and pattern of developing Asia's integration with India. She began by arguing that like China, India too has been able to increase its share in global output and trade. This in turn has meant that India and China are often clubbed together as two emerging economic powers which would determine the nature and pace of global economic growth. However, there are significant differences between the two countries' GDP, scale of operation and hence the impact on the global economy. It is therefore essential to understand the extent, the nature and pattern of India's integration with developing Asia and to see how far India's emergence has impacted different sub-regions and countries of developing Asia.

Presenting an overview of India's increasing presence in the world economy, she argued that one of the most significant developments of this has been the country's growing integration with developing Asia. Integration with China and South Korea along with South-East Asian countries has been the dominant aspect of India's integration with developing Asia rather than with its immediate neighbours in South Asia. However, even though India's share in Southeast Asian countries' trade has gone up significantly, especially in recent years, India is yet to become an important trade partner for most of these economies. This is not surprising given that India has not been part of the pan-Asian supply chain network that drives trade in these countries. At the same time, there is no denying that India has become an important trade partner in certain sectors like chemicals, engineering, auto-components, and there are signs of increasing intra-industry trade signifying the large potential that exists for future integration. Coming to South Asia, she argued that it is in this sub-region that India is relatively more important and over time India's presence in countries like Sri Lanka, Nepal and Pakistan's trade has increased significantly, while its share in Bangladesh's trade has remained more or less constant. **Malini Chakravarty** then went on to explore the nature of integration of India with two South Asian countries—Bangladesh and Sri Lanka. Explaining in detail the reasons for the notable differences in the nature of integration, she elaborated that while for Bangladesh, India is a major source of imports, it is important as a export destination only for some of Bangladesh's relatively technologically-advanced products like fertilisers and its input, petroleum products. But given that India is not a significant market in Bangladesh's total trade, despite some increase as well as diversification of Bangladesh's exports to India, the integration between the two has not lessened the trade imbalance much. Further, increasing integration has been largely confined to integration through trade and not much through investment. In the case of Sri Lanka, on the other hand, increasing integration with India has been accompanied by significant increase in Sri Lanka's exports to India, which has helped reduce the trade gap in favour of Sri Lanka. In addition, integration with India has led to inflow of Indian as well as third-country FDI in various sectors of Sri Lanka. That in turn, has also contributed to exports. However, the export success of Sri Lanka is, to a large extent, more a reflection of 'trade diversion' from Southeast Asian countries and, therefore, is likely to face challenges once the India-ASEAN FTA is operationalised. In terms of India's investment in developing Asia, she pointed out that it is not a major investor but recent trends show that the investment has started increasing. She concluded by making some observations about the future trajectory of the integration. She argued that the global financial crisis and recession in the Northern markets also highlight the need for diversification of export markets. And the India-ASEAN FTA might play a role in increasing integration with this part of Asia. A lot however, depends on whether India can sustain its high growth path in the aftermath of the global crisis. Given increasing protectionism in the major markets of India's exports, India has to depend even more on domestic demand to spur growth. Whether that will happen is open to debate.

The discussant, **Surajit Majumdar** (ISID), began by saying that he would stick to making comments on issues that emerge from the analysis presented in the paper. The paper looks at the trade relations of South Asia and South East Asian countries keeping India in the centre. His perception was that the analysis seems to point to an emergence of a three-tier structure where India occupied an intermediate level. He then suggested that analysis of why this kind of structure is emerging, where does the complementarities and competitive elements in the trade pattern lie, and what is the future trajectories of this pattern in the context of global financial crisis, are some questions that can be looked into. Regarding the detailed analysis of the pattern of trade between India and other countries, it seems to point to the fact that the unevenness in the openness of individual countries to other countries and the unevenness in the degree of openness (in terms FTAs) of different countries also seem to matter in shaping the pattern of trade.

He expressed some scepticism on the validity of the proposition that India's trade is increasingly getting oriented towards developing Asia. In this regard, he pointed out that there is lot of differences in the extent of Asianisation of India compared to other countries of developing Asia, particularly Southeast Asia.

Secondly, India is a special case because of its high proportion of services exports. The geographical composition of these services exports show that developed countries are very important in India's services exports. So, if one considers the period over which the shares of developing Asia in India's merchandise exports have been rising, it is noticed that this is also the period in which the ratio of services exports to merchandise exports has been moving drastically in favour of services; therefore, it is likely that the extent of integration with developing Asia is going to be much less. There is another peculiarity in India's nature of integration, and this is reflected in its FDI. India's outward FDI is directed more towards the developed world rather than the developing world. These peculiarities in the Indian case as well as the peculiarities in the nature of its integration would also matter in determining the extent of its integration with the rest of Asia. He also wanted to know whether the increasing importance of developing Asia in India's imports is due to the changing composition of India's trade or a result of a shift in the global production of these particular products itself towards developing Asia, primarily China and the East Asian region.

Andi Muhammad Ghalib (Indonesia's Ambassador to India) addressed the gathering and said that Indonesia is fully aware of India's emergence as the next economic power not only in Asia but also globally. Given India's current progress and prospects for further rise in the future, Indonesia needs to harness its bilateral economic relations with India. He mentioned that ever since the signing of the new partnership agreement between India and Indonesia, their trade and investment relations have been on the rise. Numerous measures have been taken by the government and private enterprises to boost and intensify the trade and investment relations between the two countries. Indian investment into Indonesia's automobile, textiles, mining and energy sectors have been rising in recent years. He was also optimistic about the prospects of Indonesian companies coming to India and exploring possibilities of investing in India. He concluded saying that the rise in bilateral investment and trade relations between India and Indonesia would bring mutual benefits for the countries.

Hendri Saparini (ECONIT, Indonesia) pointed out that because Indonesia exports raw materials and imports machineries and electronic goods i.e. secondary intermediate goods, it is incurring losses in value added. Therefore the kind of trade between Indonesia and all other countries that has been developing is not likely to be beneficial for Indonesia. Indonesia therefore needs to rethink its trade policy. She added that Indonesia needs to focus on building up proper industrial as well as investment strategies.

Prasenjit Bose commented that instead of a three-tier structure, may be there is a different way of looking at the pattern of India's integration with Asia. He said that India is not comparable to China or any other ASEAN country for the simple reason that India continues to run a current deficit and its foreign capital inflows are mainly driven by FIIs. That is, India is primarily receiving speculative finance capital rather than greenfield investments which can change the structure of the economy with a greater component of manufacturing. According to him, India is more into replicating the American economy, rather than trying to derive advantage by being complementary to the American economy, like the Chinese and South-East Asian economies have done. Secondly, manufacturing or industrial growth has never really been seriously pursued by the government of India in the post-liberalisation period. He queried whether the ASEAN-India FTA and increasing interest of ASEAN countries to integrate with India is being driven by the fact that India is primarily seen in the ASEAN countries as a market which is going to open up in a big way in future. The question is whether it has the potential to substitute for the decline in the developed country markets in the days to come.

In her response to Prasenjit Bose's question, **Malini Chakravarty** said it does appear that ASEAN is seeing India as a potential big market. She said that even the Sri Lankan export success to a large extent is simply ASEAN countries' export success; this is because a large part of Sri Lanka's exports is more of a 'trade deflection', with Sri Lanka being used as a channel through which ASEAN countries push their exports into India. But the fact that increasing imports from Sri Lanka has given rise to lot of social discontent within India and that there has been a sharp drop in Sri Lanka's exports to India in 2006, perhaps shows that the future possibilities of India's integration with ASEAN countries is likely to be constrained by these factors.

Surajit Majumdar reiterated the fact that India's growth process has been dominated by the services sector rather than by the manufacturing sector. India has opened up but it does not prove itself as a competitive location for industrial production. Also its imports of manufactured products today still appear to be significantly linked to the level of domestic economic activity, particularly in the industrial sector. The historical pattern of India importing capital goods and intermediates in order to facilitate production still lives on and, therefore, it gets current account surpluses in periods of slack industry and runs into huge deficits. Another peculiarity relates to the fact that India still is relatively more protected than many other countries and its industries still remain largely domestic market-oriented rather than export driven. This duality in India's case—that it has not been wiped out by import and at the same time it has not been a great export success story—needs further explanation.

The Chair, **Navrekha Sharma** (Former Ambassador of India), commented that India's integration with a lot of South Asian economies has been hampered by political factors. There is,

however, a need to increase economic integration with these countries and a lot needs to be done for achieving that. Responding to the concerns raised about Indonesia's pattern of trade, she said that as far as Indonesia-India relations are concerned, India has been an impeccable trading partner of that country. Integration with India, particularly through Indian investment into Indonesia, has increased Indonesia's manufacturing capability as well as provided employment for the people of Indonesia. Many Indians have set up production manufacturing units in Indonesia in the steel and the textile sectors, and have been exporting goods made in Indonesia. Though India imports some raw materials like coal from Indonesia, compared with many other countries, India-Indonesia trade has been mutually beneficial.

Day 2: 6 November 2009

Session 1-'Asian Experience of Integration through Trade, Aid and Investment: South Asia'

The second day began with welcome remarks by the Chair, **Jayati Ghosh** (IDEAs and Jawaharlal Nehru University). The first speaker, **Rashmi Banga** (UNCTAD), presented an argument establishing the economic rationale of South Asian regional integration and the role India can play in fostering closer ties. She began by pointing out that since South Asia is one of the most underdeveloped regions of the world, development concerns are one of the most important issues of the region. In this regard, it is often claimed that regional cooperation can help boost growth and development of the region. However, while many believe that regional cooperation by providing a larger market can lead to economies of scale and thereby development of a country, there is little consensus whether regional cooperation can have a positive impact and can at all address development concerns. Further, there is little empirical evidence to support this in the case of the South Asian region.

In the South Asian region, the first serious attempt for regional economic integration was undertaken with the implementation of the South Asian Free Trade Agreement (SAFTA) in July 2006. The SAFTA negotiations, which covers wide ranging issues from trade liberalisation programme to removal of para tariffs and non-tariff barriers, provision of technical assistance and revenue compensation mechanisms for least developed countries (LDCs) is relatively more systematic than the earlier attempts (SAPTA) of regional integration. Thus, even though experience so far point towards limited success of trade integration in the South Asian region, the new initiatives provide grounds for looking into the economic rationale of SAFTA. While a number of studies have pointed out the purported lack of economic rationale for SAFTA as the countries involved produce and compete in a narrow band of products which are very similar to each other, a joint study by UNCTAD and ADB (2008) show remarkable increase in intra-industry trade indices and Revealed Comparative Advantage (RCA) indices, in the period 2000-2006 as compared to 1991-1993. In other words, the changes witnessed in the export competitiveness of the countries of the region point towards greater potential for intra-industry trade and creating a production network in certain sectors. The study also brings home the point that even though cut in tariffs has the potential to increase intra-regional trade (by 120 per cent) and inflow of FDI from outside the region, there is need to pay greater attention to removal of non-tariff barriers and restrictive political environment for SAFTA to make sufficient impact. **Rashmi Banga** further argued that inclusion of services trade in SAFTA negotiations could augment closer economic ties within the region as trade in services, in particular in mode 4,

where there is lot of potential to exploit the comparative advantages that different countries enjoy in this kind of services trade. Regarding the role India can play in regional integration she argued that there is lot potential for India to initiate the 'flying geese' pattern of development in the region which would be an additional factor helping greater integration of the region.

The second presentation of the session by **Shahid Ahmed** (Jamia Millia Islamia University) focussed on understanding the factors responsible for the ineffectiveness of SAFTA in increasing intra-regional trade. According to **Shahid Ahmed**, the large negative lists adopted by the countries and the methodology used for making the negative list is one of the major reasons hindering intra-regional trade. The usual approach of preparing the negative list is to use RCA indices and unit value analysis. In his opinion, the problem with this method is that products in which a trade partner has high RCA are placed in the negative list. As a result, more often than not, instead of creating trade, criteria like these end up blocking trade. That is why it is necessary to be clear about the objectives of a trade agreement and make rules accordingly. Secondly, many studies have pointed out that the possibilities of increasing trade mainly through agreement in goods trade, as is the case with SAFTA, is limited. Hence there is also a need to make comprehensive trade agreements which takes into account services trade, agreement on investments, trade facilitation mechanisms etc. In terms of India's role in facilitating greater integration, Ahmed stressed the need for India to adopt more liberal approach for the region as a whole as India has done in case of the bilateral free trade agreements it has forged with Sri Lanka, Nepal and Bhutan. In this context, he opined that, India could cut down the size of its sensitive list for LDCs in order to facilitate "trade creation", address non-tariff tariff barriers in a time bound manner, take efforts for promoting investments in other SAARC members especially the LDCs, provide better infrastructure and support at the border check posts of customs in order to generate overall economic activity and create greater employment opportunities.

I.N. Mukherji, (RIS), presented a comparative scenario of India and China in South Asian countries' trade. While pointing out that both China's as well as India's trade with the South Asian countries have gone up in the period over 2000 to 2008, he also showed that overtime, India's share in imports from these countries has gone up relative to that of China. Seen in terms of composition of trade, the structure of trade of South Asian countries with India is more balanced than that with China. Other than intermediate goods, which formed the major imports of the South Asian countries from India and China, China accounted for a larger share of imports of capital goods, while imports from India also comprised of consumer goods and raw materials. In their exports to India and China, the composition of exports to India has become more balanced over time and is more balanced compared to exports to China, which consisted mainly of raw materials and intermediate goods. This shows that the South Asian countries were able to diversify their exports to India.

Comparing the scenario regarding presence of India and China in South-East Asian countries' (ASEAN-6) imports, he opined that unlike in the South-East Asian region, India seems to be playing a more important role than China in South Asia. Not only has India provided a growing market, it has also imported more value-added goods than China. However, India plays a relatively smaller role in South-East Asian countries (ASEAN-6) and needs to take seriously the ASEAN-China FTA if it wants to maintain its competitiveness in these markets and forge greater ties with this region of Asia.

In the discussion following the presentations, **Jayati Ghosh** pointed out that when talking of SAFTA, discussions invariably veer around explaining the factors responsible for failure of SAFTA to augment intra-regional trade. In this context, political reasons and lack of willingness to liberalise further are cited as some of the reasons for the apparent ineffectiveness of SAFTA. What perhaps is missed out is that even if SAFTA is successful in increasing intra-regional trade, 'trade creation' need not be necessarily welfare enhancing. In neoclassical theory, certain assumptions like full employment, constant returns to scale need to be fulfilled for 'trade creation' to be welfare enhancing. Since these assumptions do not reflect the ground realities, in particular of the South Asian region, it is unlikely that increased trade would automatically lead to greater welfare of the people. Therefore, whether or not more trade would be beneficial is also an issue which needs to be kept in mind when recommending policies. She also brought to the fore the need to highlight the issue of connectivity as a crucial factor for increasing integration, especially in South Asia. She opined that greater connectivity between Bangladesh and India, which could also increase the connectivity with the North-Eastern States within India, can perhaps be a more valid argument, rather than just trade creation, for favouring a Bangladesh-India FTA. **Huang Phong Thao** (Actionaid, Vietnam) pointed out that when talking of increasing integration, its impact on issues regarding movement of labour and labour regulations on one hand and the role of aid in South Asia on the other also needs to be brought out. This is necessary also because in the case of South-East Asian region, these issues have often turned out to be major barriers, limiting the possibilities of increasing welfare of the people. In fact, the thrust should be to understand how greater integration through trade, investment and aid can protect human rights, lead to welfare of the common people.

Amitayu Sengupta (IDEAs Secretariat) queried about the sectors which show the potential for establishing a production chain in the South Asian region. He also pointed out that if the South Asian region itself is to be the main market for these exports, then the smallness of the market as well as displacement of labour arising from increased trade could itself hamper greater integration. **Nityananda Mandal** (TERI), pointed out that as seen in the case of Japan, shortage of labour is one of the essential conditions for a country to become a source of flying geese pattern of development and it is unlikely that India can become the source of this kind of development since India is not likely to face labour shortage in a long time to come. **Dionisius A. Narjoko** (ERIA) queried about the implications of recently signed India-ASEAN FTA in the background of the fact that China and Japan already has strong connections with South-East Asian countries because of the production network. **Malini Chakravarty** (IDEAs Secretariat) argued out that when talking of increasing integration of South Asian countries with India, it cannot only be seen in terms of increasing exports from India to these countries for it is equally necessary to see whether India is an important destination for these countries' exports. Besides, with regard to the increasing potential of intra-industry trade and building up production network in the region, it is also necessary to understand whether and to what these sectors play a role in total trade of the countries.

In the ensuing discussion, **Rashmi Banga** agreed that the need for including movement of unskilled labour in the upcoming services trade negotiations in SAFTA, the necessity of increasing trade liberalisation only for sectors which can bring benefits to all the trading partners, are some crucial aspects that to have been kept in mind for ensuring that greater integration also

results in greater welfare for the people. She also opined that India can initiate the ‘flying geese’ model of development, by becoming a low cost supplier. **Shahid Ahmed** pointed out that with regard to the issue of movement of labour, factors related to Mutual Recognition Agreement (MRA), Double Taxation Treaty and visa rules need to be dealt with and settled. There is need to also focus on trade facilitation mechanisms in order to increase integration. Speaking on the role of development cooperation in this region, **I. N. Mukherjee** opined that India being the largest country in the region, it can play an important role in enhancing supply capabilities of other South Asian countries, build up infrastructure by providing grants (as it has done in case of Bhutan and Nepal) and this can help expand trade. However, what also needs to be kept in mind is that unlike ASEAN, until recently, there were many restrictions on free flow of capital in the South Asian region. And the South-East Asian kind of production network is unlikely to be replicated in this region so long as flow of capital is restricted and there is no agreement reached on investment. Second, in the case of India, expansion of trade has been driven by trade in services, which has lesser linkage for trade expansion. That is why it becomes all the more crucial to develop investment linkages to help further integration of the region. Further, building up a production network for even meeting the domestic market needs can also have positive impact in terms of bringing about industrial restructuring in these countries.

November 6: Session 2- ‘Asian Experience of Integration through Trade, Aid and Investment: South-East Asia’

In her presentation, **Hendri Saparini** (ECONIT, Indonesia), argued that while the ASEAN region as a whole has been entering into a number of FTAs, all countries of the region have not been equally ready to commit in such FTAs. This is because, for some of the countries of the region, integration with China and India could pose to be a major challenge as these two countries are much bigger in terms of GDP and are also more competitive. Besides, given that China, in particular, has better ability to deal with the global financial crisis because of its large holding of foreign reserves and large share of investment (and not domestic consumption) in GDP, also increases the threat that South-East Asian countries could face in the process of greater integration with China.

Speaking about the existing pattern of trade, Hendri Saparini pointed out that all ASEAN member countries face trade deficit vis-à-vis China and primary commodities comprise a major part of their exports to China while imports consist mainly of value added manufactured goods. Even with India, exports of some ASEAN countries are dominated by primary commodities and imports by manufacturing products. Given the fact that ASEAN members (excluding Singapore) are rich in natural resources, and have low industrial productivity and competitiveness, it is often the case that rather than complementing each other, these countries compete with each other for markets in products like crude palm oil, cocoa. Since the impact of greater integration with China and India is likely to be different for different countries of South East Asia, it is difficult to find a common ground for ASEAN as a whole, in their response to the impact of greater economic ties with these two countries. In the case of Indonesia in particular, such trade agreements have not been beneficial for the economy. Given the fact of increasing de-industrialisation of the Indonesian economy, reflected in the declining competitiveness of Indonesian manufacture exports, further integration with China could in fact increase Indonesia’s

dependence on China for imports of manufactured products, while Indonesia gets trapped in being an exporter of natural resources and raw materials.

In this scenario, she argued, that even though FTA with China might attract more investment it need not necessarily result in betterment of the people of Indonesia. China has been investing in Indonesia, mainly through loans to state-owned enterprises (SOEs) in power sectors and other important sectors. Considering the privatisation trend in Indonesia, China will have bigger opportunity to own shares of strategic Indonesian SOEs, like electricity, power plant, railway, steel, etc. Thus, even though free trade agreements (FTAs) may increase exports, investments and economic growth, these need not solve the problems of poverty, unemployment facing the Indonesian economy as the structure of trade resulting from Indonesia's flawed trade policy, is likely to be further exacerbated with greater integration with these two Asian giants. Or in other words, increasing integration could have severe implications for growth of employment opportunities and welfare of the people of Indonesia.

Suthiphand Chirativat (Chulalongkorn University, Thailand), the second panellist of the session, argued that while the global financial crisis has resulted in improvement of Asia's position in the global economy relative to that of the developed countries, it has also shown that Asia is not decoupled from the impact of crisis emanating in other parts of the world. This therefore demands that for Asian recovery there is a need to focus more on regional final demand rather than solely depending on regional production networks. Since all emerging Asian economies shows potential of rise in per capita income in the longer term, relying less on the US market would be beneficial for more stable economy.

In the context of the need for Asian economies to re-balance and look more within the region, he mapped out the evolution and progress of Asian regionalism. He pointed out that unlike in the past when ASEAN countries had been more open to multilateral processes and unilateral liberalisation rather than regional integration, following the Asian financial crisis, Asian regionalism has been on the rise. While the first step towards Asian regionalism was taken by the establishment of the ASEAN-AFTA, it is after the Asian financial crisis that Asian regionalism has taken on a more serious note with increasing emphasis on institution-led integration. He elaborated in detail the progression of Asian regionalism from AFTA in 1992 to attempts at building up an ASEAN economic community in 2009. He pointed out that other than a pan regional integration, ASEAN countries have also been forging various bilateral free trade agreements (ASEAN-China FTA, ASEAN-Japan FTA, ASEAN-Australia, New Zealand FTA, ASEAN-Korea FTA, ASEAN-India FTA), inter regional and sub-regional agreements (BIMSTEC, GMS, BIMP-EAGA) with other parts of Asia. However, he cautioned that while attempts to further Asian integration through regionalism have increased, these arrangements still remain very fragile. In this context, he pointed out that issues like 'noodle bowl syndrome' (*a la* Bhagwati's 'Spaghetti Bowl syndrome'), discriminatory nature of the arrangements and using protective measures like 'rules of origin' are some of the challenges that Asia would have to deal with for achieving effective regional integration.

In his discussions of the papers presented, **Parthapratiim Pal** (IIM (Kolkata) raised the point about Indonesian people's reaction to increasing integration with China and India given that Indonesia has been facing the spectre of de-industrialisation and rising casualisation of labour

force following the 1997-98 crisis and greater integration with the other countries of the East Asian region. He also argued for a need to broaden the ways of understanding implications of trade rather than taking the mercantilist notion of balance of trade as the main criteria for judging success of a trade agreement. In his discussion of the presentation by **Suthipanth Chirathivat**, the discussant pointed out that the large number of FTAs being established in the Asian region seems to indicate that the negotiators have completely given up on WTO. For, the adoption of the Swiss formula suggested under Doha Round of negotiations, would in any case result in further lowering of already low tariff barriers of the Southeast Asian countries. In this scenario, the pains taken to increase regionalism by signing large number of trade agreements and dealing with the associated problems of overlapping FTAs and noodle bowl syndrome might prove to be a futile exercise. Other than this, what also needs to be kept in mind in discussion regarding Asian integration, is whether the countries are ready to and have the mechanisms to deal with the various problems that can arise from these agreements, for instance surveillance cooperation and so on.

The Chair, **Muchkund Dubey** (Centre for Social Development) stressed the need for government intervention to broaden the positive impacts that FTAs can bring about, via enlargement of the market and increased investment flows, to include sectors that could create more employment. **Jayati Ghosh**, pointed out that Indonesia could have resorted to banning export of primary products (which is legal even under WTO norms) in order to stop Indonesia's increasing dependence on primary product exports for earning foreign exchange. Further, as pointed out by Adam Smith, the purpose of exports is to be able to import more and increase consumption, it is therefore essential to broaden the terms of assessment and see how this pattern of trade affect the conditions of life of most people, whether it leads to enhancement of welfare or not and not just focus on net exports. **C.P. Chandrasekhar** also pointed out whether it is justified to attribute the transition depicted of Indonesia, in particular the de-industrialisation aspect, to FTAs alone. It could more be a result of the changes in policies –precipitated by the crisis- and the specific path to recovery that Indonesia chose, that generated this kind of sudden 'Dutch disease'. **Biswajit Dhar** wondered about the efficacy of increasing regional integration through free trade agreements as there is little evidence to show that FTAs have increased intra-regional trade. Besides, China ASEAN experience has shown that a lot of traders on the ground do not use the preferential route because it is too cumbersome and instead take the MFN route for trading. Even if one looks at other pair of countries where trade has grown tremendously, like between India and China, it has grown despite there being no FTA between the two countries. He also queried about the impact of the China, Japan and Korea FTA on the entire dynamics of Asian integration, given that integration till now has centred around ASEAN. His query related to the presentation on Indonesia was given that each episode of trade liberalisation has cost the country dearly (in the first phase it moved from exporter of paddy to being a net importer of paddy, in the second it is leading to de-industrialisation), why isn't a democratic voice coming up against these agreements? **Satyaki Roy** (ISID) queried whether based on Indonesia's experience one can surmise that for some countries of the South East Asian region, greater integration has meant that in the garb of cooperation, another periphery and centre is emerging in the periphery itself. **Dionisius A. Narjoko** (ERIA), said that while it is true that the decoupling theory doesn't hold and therefore there is a need to look inward towards the region and not rely on North American markets alone, one also needs to understand whether undermining export-promotion strategy (as promoted by ADB) is going to have a positive impact.

In response to the questions raised, **Hendri Saparini**, answered that there has been increase in volume of primary commodity exports from Indonesia, which has increased the vulnerability of the Indonesian economy to international price movements. On the issue of increasing de-industrialisation of the Indonesian economy, she said that the problem of de-industrialisation is, in large part, a result of lack of proper economic planning and properly envisaged industrial policies. Further, following the East Asian crisis, the country resorted to taking loan from IMF and the conditionalities that came attached with the loans are also responsible for the deplorable condition of the Indonesian economy today. In this context, she opined that increasing integration with China and India can be beneficial for the Indonesian economy only if the Indonesian government has clarity about the envisaged trajectory of development. **Suthipanth Chirativat** opined that lot of these FTAs can be beneficial for ASEAN and trade creation is not the only purpose of these agreements, since they are also important for building up relations for strategic purposes.

November 6: Session 3- “Future Regional Integration: Possible Trajectories-I”

Hari Roka (Constituent Assembly, Nepal), gave a detailed summary of the evolution of South Asian regionalism since the implementation of South Asian Preferential Trade Agreement. He opined that lack of trade complementarities, the prevalence of sizeable informal trade, weak governance, hostile political climate, limited effective concessions, low level of mutual trust, ethnic and religious conflicts, bilateral disputes and lack of intra-investment climate are some of the major factors limiting intra-regional trade.

At the same time, some countries like Bhutan and Nepal have been able to derive benefits from the bilateral trade agreements forged with India as this has opened up a huge market for these countries. For Nepal and Bhutan, India has become the gateway to do business with other SAARC Countries. Thus India is a very important trade partner for these countries. However, for India (as well as for China), the US, Middle East, South East Asia, European Union, Latin America are more important as trade partners than the South Asian Countries. India is in fact, he argued, not focused on consolidating political relationship within SAARC countries or giving priority to investing in South Asia, especially in infrastructure building. For China too South Asia doesn't seem to be an important trade partner, as it focuses on building up trade and investment relations mainly with South East Asia including Japan and other countries like the US, Russian Federation, Africa, Latin America and EU.

It is therefore expected that for the betterment of the South Asian countries in the future, India (and China) would take measures for confidence building within SAARC removing all kind of disputes, especially those related to settlement of the boundary issues, provide aid and investment with focus on infrastructure building and extend adequate tariff concessions.

Chengfeng Di (Beijing Normal University) argued that history has repeatedly shown that innovation has played a key role in economic development of the developed countries. In today's era of knowledge-based economy especially, innovation has been regarded as the core impetus of economic development. Stressing this point, she argued that difference in national innovation capability, to a large extent, explain the differences in the potential and the level of economic

growth between the developed and the developing countries. In the Twenty First Century the developed countries are all planning on increasing expenditure on research and development (R&D) expenditure as well as on education to deal better with the global economic crisis.

In general it is believed that it is the developed countries who are the initiators of innovation in science and technology. In the opinion of **Chengfeng Di**, this belief is no longer valid in the era of information and knowledge-based economy. It is being recognised that issues of science and technology should be integrated into the basic economic development strategies of low income countries. So, the former low-income, newly industrialised economies, created a miracle in the last quarter of 20th Century. In addition to import of labour and capital, the success can be attributed to the adoption of strategic industrial policy aimed at achieving high levels of technological excellence and innovation capacity. For instance, because of increased R&D expenditure, Singapore is now ranked number one in national innovation capacity.

China too has benefited from its increasing efforts to build up science and technology in the recent years. The progress in science and technology has provided support for the sustainable growth of the economy in the long run. But lot more needs to be done, as China's pattern of development depends heavily on exports, which exposes it to risk of world economy fluctuations. Most researchers feel that existing pattern of development, with its excessive focus on growth and complete disregard of the problem of lack of domestic demand, is not sustainable. The key problem is that the economy relies on exports of assembled manufactures which are at low end of value chain. This is not sustainable and therefore the adjustment of the economic structure is more important than economic growth. And innovation of science and technology is necessary to change the situation and the aim is to construct an innovative country and change the growth model from resource driven to innovation driven model of growth.

In the context of economic cooperation between developing countries, Chengfeng Di argued that there is a need to focus on not just flow of commodities and investment, but also see the effect of the flow of these on the promotion of national innovation capacities of trade partners. The increasing integration between China and ASEAN countries, for instance, shows that there has been considerable shift in the structure of trade, in favour of technologically advanced products. The increase in intra-industry trade also is an engine for promoting economies of scale for the trade partner. She therefore argued that the China-ASEAN economic cooperation especially after the implementation of the FTA, holds great potential for further integration. In particular, with rapid growth of the Chinese economy, the less developed ASEAN countries would also be able to break the limitations of a small market and be able to improve their national innovation capabilities. They would not only experience static gains in economies scale but also dynamic gains by 'learning by doing' and technological up-gradation. She concluded by saying that the move towards strengthening such economic cooperation between China and ASEAN has already begun with the Chinese government having recently announced steps being taken to increase cooperation in the areas of education and technology.

Kejpiroon Kohsuwan (Ministry of Commerce, Thailand) gave a detailed summary of the centuries old ties that Thailand has with India and China. Speaking about the more recent past she mentioned that Thailand has established closer economic ties with both the countries through bilateral trade agreements, tri-trade committees, double taxation agreements (DTA) and bilateral

investment treaty (BIT) meant for promotion and protection of investment. Both India and China are important trading partners for Thailand, though the scale of trade is much more with China. She also presented a comparative picture of the nature of the products that Thailand trades with China and India. In terms of their importance as investors in Thailand, she argued that while these two countries are yet to become important investors when seen in terms of quantum of investment, companies from both India and China have increased their investment in certain strategic sectors in Thailand. In the case of India, investment in Thailand are mainly in chemicals, plastics, synthetic yarns, whereas Chinese investments are more in heavy industries like metals, engineering products and even services sectors like construction etc. Similarly, lot of Thai companies too have been investing in both India and China. So overall there are signs of increasing integration through trade and investment.

She also opined that in terms of the possible trajectories of future regional integration, the FTAs and the ensuing increase in bilateral trade has played a positive role in capping Thai people's apprehensions of having trade ties with these two economic giants. As a result, Thailand is keen on building up further relationships with not just India but also South Asia and is working towards negotiating for proper framing of the BIMSTEC agreement. She, however, cautioned that in order to make the exercise of increasing integration more productive and to avoid 'spaghetti bowl' syndrome, it is necessary for ASEAN to integrate first and have a common tariff levels, before integration with India and China can be taken to a deeper level.

Discussing the three presentations, **Satyaki Roy** (ISID), suggested that the whole issue of integration need to be located in how the international division of labour is evolving. In this context he pointed out that in the last 20 years there has been a definite stagnation in growth in manufacturing value added in the developed countries relative to that of the developing countries. That in turn has provided a scope for developing countries to integrate with the world and have greater role to participate in global manufacturing trade. The paper related to Thailand, which is a contrast to the Indonesian experience, shows that in Thailand's case the growth in share of manufactured exports have increased significantly, compared to what it was even in the 1970s. Second it also brings out the fact that increased integration with India and China, which can result in increased complementarities as well as competitiveness, can be beneficial even for smaller countries. The paper on China, shows that China has been moving up the ladder in value chain and is moving towards innovation and technology, which confirms to the trend in division of labour unfolding as suggested by the neo-structuralist school of thought, that a country can increase and sustain growth in exports only by diversifying its production base and exports basket. Or in other words, the trend confirms that countries like Thailand and China have been able to integrate closely with the global economy because of greater variation in their production and export structure as they moved up the income ladder. He also queried about the impact of the hybrid mix of market forces and state ownership that exists in China today, on the production and distributing of the codified, commercialised knowledge-base, for helping China move up the ladder in the global manufacturing process.

The Chair, **Abhijit Sen** (Planning Commission and JNU), pointed out that all the papers except for the one related to Nepal, essentially gave a statement of realities as it stands today. The idea should be to also bring out in more concrete terms the possible trajectory of greater integration into the future.

In the ensuing discussion, important queries and points regarding the reality as it stands today and the possible trajectories of future integration were raised. **Huang Phuong Thao**, pointed out that issues related to employment and labour should be considered seriously when talking of future trajectories of integration as these aspects seem to be missing in the discussions in this panel. In particular, the discussions on increasing integration between China and ASEAN countries, should also bring into focus the fact that for many ASEAN countries, integration with China is not just about getting access to a bigger market, but is also about the threat of losing out to China's low cost products and destruction of local markets. **Jayati Ghosh**, also pointed out that when thinking of possible trajectories of future integration one needs to be clear that the current realities are not rosy, in particular trade creation has not necessarily been beneficial for all sections of the society and has led to displacement in many countries of the region. If in the future too, the same pattern of trade (that has emerged till now) is going to be replicated, then the implications for livelihood throughout the region and finding ways to address these problems would become even more crucial. Further, it is also important to bear in mind that there is a need to build up a trajectory that is sustainable and one that does not lead to massive degradation of resources, patterns of pollutions as has been happening till now. So the need is to also think more creatively to cooperate in order to build up a different kind of future. **Vineet Kohli** (TISS) raised the question as to how China's increasing stress on knowledge economy, is going to help China deal with the problem of growing unemployment, given that China has not been able to absorb labour force despite high industrial growth precisely because of more than average productivity growth in fast growing foreign invested enterprises. **Smitha Francis** (IDEAs) wondered about the actual policy efforts being taken by Thailand for re-orienting its export markets from the developed countries to the countries of the Asian region and the role FTAs can play in this. In the responses following the questions raised, Chengfeng Di said that the Chinese government has begun to take the unemployment problem seriously and is considering bringing about changes in the structure of the economy to develop the services sector in order to absorb the labour force. Kejpiroon Kohsuwan argued that for greater regional integration there is need to be patient as these take time, to plan it out and make the rules easier for making it effective.

Abhijit Sen rounded up the discussion by throwing up the question whether integration needs to bring in aspects other than simply focusing on integration through trade and whether the process of trade integration can go together with or conflicts with integration in other crucial issues. He also opined about the need to widen the ambit of issues that can have significant implications for greater regional integration. In this context, he opined, both India and China have critical role to play given that, unlike small countries, these countries have the advantage of more possibilities open to them for adjustments. In the case of China, which is clearly the bigger player, structural change is necessary and the way China adjusts will impact all of the Asia and perhaps the world. Whether this would also result in a more democratic world order is what is of importance. For, in the ultimate analysis, what the future can be in terms of climate change, in terms of becoming less an exporter and more a society which looks at people is the shared goal of the region and what needs to be worked out is how to achieve it.

November 6: Session 4 -'Future Regional Integration: Possible Trajectories –II'

Ram Upendra Das (RIS) presented an interesting argument about the role of regional economic cooperation agreements and in particular that of sensitive lists and rules of origin, in addressing the development aspects of regional integration.

Dionisius A. Narjoko (ERIA, Indonesia) spoke in detail about the East Asian production networks and the challenges facing regional economic integration. He pointed out that while the South-East Asian region has experienced increased integration through the regional production network, increasing number of formal trade agreements, especially in the last decade, has also helped deepen the extent of production network and foster closer integration. The issue is how these trade agreements, including FTAs, would affect the production network, whether they would help evolve closer ties or not. He went on to explain in detail the factors responsible for the growth of production network in the region. In this context, he argued that the simultaneous occurrence of the need for Japanese and Korean industries to relocate plants on one hand and the adoption of export promoting as well as import substituting industrial strategy by Southeast Asian countries on the other, paved the way for the growth of production network in this region. With regard to the likely impact of growing regional trade agreements on the internal production network, he argued that unlike the multilateral agreements under WTO, regional trade agreements (RTAs) are more flexible and are therefore amenable to be used for furthering the regional production network. The RTAs can reduce costs and facilitate inter-firm transactions and are therefore beneficial for improvement of international production network. Ideally then, trade arrangements has the potential to foster international production network. However the process is not automatic as it takes firms considerable time in terms of choosing suppliers and also involves large costs for interpreting the complexities of the trade agreements. This in turn implies that for future trajectories of integration and for FTAs to be useful there is a need to focus more on providing technical assistance, in particular to small and medium enterprises (SMEs), to develop the basis for strengthening the international production network further.

The presentations of the session was followed by lively and instructive discussions on the need to understand that employment creation via rules of origin in trade agreements has to be seen in terms of net employment creation to take into account the displacement caused by trade creation. **Sunanda Sen** pointed out whether it is wise to ignore the role of big capital in expanding trade. **I. N. Mukherjee** pointed out that vulnerability of the countries in this region in one sense has actually increased because of the South-East Asian countries' dependence on external market for the growth of the production network. He also argued for the need to keep in mind the distinction between South-South and North-South regionalism, saying that one cannot unambiguously claim that rules of origin would necessarily be trade creating even in the latter case. **Smitha Francis** (IDEAs) pointed out that given that Dionisius A. Narjoko's presentation clearly showed that only big firms have gained from these trade agreements and governments needs to provide technical assistance for SMEs to benefit from these FTAs, it would perhaps be better to undertake strategic industrial policy for developing indigenous capability for promoting sectors involved in the production network. **Sangeeta** (RIS) commented that even in process of democratic consultations, the consultants and peer groups are not bereft of their biases and interest, so for moving forward, the distributive question has to be dealt with, without which integration would not be economically or socially sustainable.

The Chair, **L.K. Ponappa** (RIS) concluded the session by saying that since trade is an integral part of globalisation, it is necessary to be able to gain maximum advantage from increasing trade. However greater trade is not an end in itself, therefore negotiations on trade agreements should take into account the welfare gains for the common people. It is therefore important that countries use the various instruments like rules of origin, sensitive lists, etc. creatively to ensure that trade can create employment as well as foster building up of strategic industries. In this regard, governments have to play an important role in facilitating trade, providing technical assistance, helping understand the documentations. In other words, a building block approach needs to be adopted so that each of the instruments serves a purpose. It also needs to be kept in mind that integration through trade is only one of the ways of increasing regional integration. Cooperation on security issues, migration issues, technology sharing, etc. are equally important and has to go hand in hand with integration through trade and investment.