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Preface

This book is an outcome of the international symposium on 'Economic Integration in Asia and India', held at the Keidanren Hall in Tokyo, 8 December 2005. The symposium was organized by the Institute of Developing Economies at the Japan External Trade Organization (JETRO), Asahi Shimbun and the World Bank. The symposium specifically focused on how Asian countries would be affected by India's participation in economic integration, how India itself would be affected domestically in this process, and, finally, how the regions could successfully pave the way towards economic integration.

Chapter 1 presents a keynote lecture on Indian growth given by Professor Jagdish Bhagwati of Columbia University. In Chapter 2 economic integration in East Asia is discussed by Homi Kharas, in cooperation with Enrique Aldaz-Carroll and Sjamsu Rahardja of the World Bank. In Chapters 3 to 5 the relationship between India and each country from the perspectives of China, Thailand and Japan respectively is discussed by Zhang Yuyan, Chularat Suteethorn and Shuji Uchikawa. In Chapter 6 the problems of India's agriculture are discussed by Ramesh Chand, while Chapter 7 presents a summary of the panel discussion session.

The editor would like to thank Asahi Shimbun and the World Bank for their enthusiastic support as cosponsors of the symposium, as well as the keynote speaker and panel discussants for making this highly successful symposium possible, and for agreeing to contribute papers for this volume.

MASAHISA FUJITA

Notes on the Contributors

Enrique Aldaz-Carroll is a World Bank economist presently based in Indonesia, and has written papers on export competitiveness, regional trade integration, technological upgrading of exports, product standards and poverty. He has worked as a consultant for, among others, the United Nations. He holds a Master in Economics (London School of Economics and Political Science) and a PhD in Economics (Institute of Development Studies, Sussex University).

Jagdish Bhagwati is University Professor, Economics and Law, at Columbia University and Senior Fellow in International Economics at the Council on Foreign Relations. He was Economic Policy Adviser to the Director General of GATT and also served as Special Adviser to the UN on Globalization and External Adviser to the Director General, WTO. Currently, he is a member of UN Secretary General Kofi Annan's Advisory Group on the NEPAD process in Africa. Five volumes of his scientific writings and two of his public policy essays have been published by MIT Press. The recipient of six festschrifts in his honour, he has also received several prizes and honorary degrees. Professor Bhagwati's latest book *In Defense of Globalization* was published by Oxford University Press in 2004 to worldwide acclaim.

Ramesh Chand is ICAR National Professor at the National Centre for Agricultural Economics and Policy Research, New Delhi, India. He was Visiting Professor at the University of Wollongong, New South Wales, Australia (2000); and Visiting Fellow at the Institute of Developing Economies, Chiba, Japan (2003). Dr Chand has published six books and 60 research papers on themes related to agricultural growth and development, food policy and international trade.

Masahisa Fujita is President of the Research Institute of Economy, Trade and Industry, Japan, Professor of Konan University and Adjunct Professor of the Institute of Economic Research, Kyoto University. He gained his PhD from the University of Pennsylvania in 1972 and has

taught at the University of Pennsylvania and Kyoto University. He was President of the Institute of Developing Economies, JETRO, from October 2003 to April 2007.

Homi Kharas is currently a Visiting Fellow at the Wolfensohn Center for Development at the Brookings Institution in Washington, DC. He was the Chief Economist of the East Asia and Pacific Region of the World Bank and Director of the region's Poverty Reduction and Economic Management Department from 1999–2007 and has been following East Asian economies since 1982. He joined the World Bank in 1980 and has worked in the Research Department, the Latin America and Caribbean region, and the Economic Policy Department. From 1990 to 1991, he worked as a Senior Partner with Jeffrey D. Sachs and Associates, advising countries in East/Central Europe and the Soviet Union on transition issues. He completed his PhD in economics at Harvard University and his undergraduate studies at the University of Cambridge. He has published widely in the areas of external debt and developing countries' foreign borrowing and fiscal risks and contingent liabilities.

Sjamsu Rahardja is an economist for the World Bank Office in Jakarta, Indonesia, and was a visiting fellow at the Peterson Institute for International Economics. His research areas include subsidies and insurance offerings by firms, corporate regulation and financing constraints, and the effect of international firm's productivity. He received his PhD in economics from Georgetown University.

Chularat Suteethorn, a Thai national, presently serves as Deputy Director-General of the Fiscal Policy Office, Ministry of Finance, Thailand. Previously, she served as Bureau Director of the Bureau of International and Macroeconomic Policy. She gained her Bachelor's Degree in Economics from Kasetsart University, Bangkok and a Master of Development Studies on Economic Policy and Planning from the Institute of Social Studies, the Netherlands. She joined the Ministry of Finance as an Economist in 1977. She was nominated by the Minister of Finance of Thailand to work as Economic Officer at the ASEAN Secretariat in Jakarta during 1983–88. She serves as a resource person on economic cooperation under the ASEAN Committee on Finance and Banking, with experience at the ASEAN Free Trade Area.

Shuji Uchikawa is Senior Researcher, Bangkok Research Center, JETRO. He gained his PhD from Jawaharlal Nehru University in 1994, and has taught as a Lecturer in the Faculty of Administration and Informatics, Tokoha-gakuen Hamamatsu University in 1993–96 and was a Visiting Faculty Member of the Indira Gandhi Institute of Development Research, Mumbai in 2000–02.

Zhang Yuyan is Deputy Director of the Institute of Asia-Pacific Studies, Chinese Academy of Social Sciences (CASS), China. His research area is in institutional economics and international political economy. He gained his PhD in economics from the Graduate School of CASS in 1991. He has published widely in the areas of institutional economics, international political economy, and China's economic security.

Introduction

Masahisa Fujita

In the march of globalization in the world economy, the regional economic integrations which have been progressing institutionally in the EU and the Americas are now substantially under way among countries in Asia, including Japan, Korea, China and the ASEAN countries too. India, often compared to a Gigantic Elephant, has also taken steps on its passage towards economic integration. By substantially raising its trade and investments in the Asian markets, this Elephant may walk faster than ever and come to play an important role in the progress of Asia's economic integration. India's full-scale participation in the Asian market will affect other East Asian countries, which in turn will also have manifold influences on India.

India initiated economic reforms in 1991 and gave up the import substitution strategy which she had followed since independence. This was the turning point from which India started to adjust her economy to globalization; previously the Indian market had been distorted by regulations and was dormant. The purpose of the economic reforms was to activate the market through competition, and India tried to introduce advanced technology from developed countries through foreign direct investment and increase her exports.

After the industrial licensing regulation, which had limited investment in the manufacturing sector, had been swept away, there was a boom in investment in the manufacturing sector, particularly in consumer durable goods industries. The investment promoted growth of production, and the manufacturing sector maintained growth rates of gross value-added around 10 per cent. However, after reaching a peak in 1996, investment declined.

In sharp contrast with the manufacturing sector, investment in the service sector has risen since the end of the 1990s and the sector has grown rapidly. Primary, secondary and tertiary industries accounted for 34 per cent, 24 per cent and 42 per cent of GDP respectively in 1991; and 21 per cent, 27 per cent, and 52 per cent respectively in 2004, during which period the principal industry shifted from agriculture

to service. On the other hand, industrial structure of the workforce presents a different picture. The primary, secondary and tertiary industries accounted for 62 per cent, 15 per cent, and 23 per cent respectively of the total labour force in 1999, which means that agriculture account for a large proportion of the underemployed workforce, which cannot get sufficient income to survive. Agriculture is still very important in India.

India has actively approached ASEAN in the twenty-first century; for example the Indo-ASEAN summit has been held back-to-back with the annual ASEAN Summit since 2002, and the first East Asia Summit took place in December 2005. The Government of India will maintain its 'Look East Policy'. One reason why India is approaching ASEAN is to attract foreign direct investment from developed countries. The domestic market is not large in spite of a population of one billion, and the investment boom of the mid-1990s was over after utilization of capacity decreased and over-investment emerged. Domestic demand did not increase as much as expected. Exports therefore become important as an outlet, but India does not have neighbouring countries with big domestic markets. If India's economic integration with ASEAN progresses, foreign direct investment may flow into India to capture not only the domestic market but also the ASEAN market.

At the same time, economic integration might have a reverse effect. As economic integration makes exporting from ASEAN to India easier, some foreign companies may withdraw from India. In fact, a Japanese company closed down its unit in India and its units in Thailand started to export to India. Indian companies must improve international competitiveness *vis-à-vis* foreign companies to grow further under globalization. The industrial world is keen to take advantage of the business opportunities created by economic integration with North-East Asia and ASEAN. Although the Indian media argued against the inflow of Chinese goods around 2000, calling it a threat, our main contention is that foreign trade with China is an expansion of business opportunities.

The Institute of Developing Economies (IDE-JETRO), Asahi Shimbun and the World Bank organized an international symposium entitled 'Economic Integration in Asia and India' in Tokyo on 8 December 2005. This symposium specifically focused on how Asian countries would be affected by India's participation in economic integration,

how India itself would be affected domestically in this process, and, finally, explored the ways in which the region could successfully pave the way towards economic integration. This book has grown out of the proceedings of the symposium.

Jagdish Bhagwati points out that the East Asian economy has developed taking advantage of foreign trade, but unless multilateralism is guaranteed it cannot maintain its growth on the basis of foreign trade. He expects East Asian countries to assert that non-trade issues such as labour standards, environment rules and capital flow control should be discussed at the Doha Round of the WTO. Homi Kharas argues that as high productivity sectors are different in East Asia, East Asian countries compensate for their weak sectors by economic cooperation. Zhang Yuyan contends that although foreign trade between China and India is beneficial for both countries, domestic interest groups are obstacles to the development of foreign trade between them. Chularat Suteethorn points out the possibility of economic cooperation between Thailand and India, while Shuji Uchikawa finds that, though India is benefiting from globalization, poverty in some unirrigated areas creates trade conflict on palm oil imports from Malaysia and Indonesia. Ramesh Chand discusses the bottleneck of agricultural growth in India.

In the dynamic economic integration process under way in East Asia, there are various interesting aspects worthy of study. We hope that this book touches on some of them and will be happy if it contributes to further understanding some of the issues involved.