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RIS
Research and Information System
for Developing Countries

Core IV-B, Fourth Floor
India Habitat Centre
Lodhi Road
New Delhi-110 003, India.
Ph. 91-11-2468 2177-80
Fax: 91-11-2468 2173-74-75
Email: dgoffice@ris.org.in
Website: <http://www.ris.org.in>
Website: <http://www.newasiaforum.org>

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**Regional Economic Integration, Foreign Direct
Investment and Efficiency-Seeking Industrial
Restructuring in Asia: The Case of India**

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Core IV-B, Fourth Floor, India Habitat Centre
Lodhi Road, New Delhi – 110 003 (India)
Tel: +91-11-2468 2177/2180; Fax: +91-11-2468 2173/74
Email: dgoffice@ris.org.in

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Regional Economic Integration, Foreign Direct Investment and Efficiency-Seeking Industrial Restructuring in Asia: The Case of India

Nagesh Kumar*

Abstract: This paper examines the India's RTAs policy in Asia and the emerging patterns of efficiency-seeking industrial restructuring unleashed by it. Section 2 provides a discussion of the analytical relationship between RTAs, patterns of trade, FDI resulting from the industrial restructuring. It also summarizes some examples of industrial restructuring of the type the EU's Single Market Plan has led to. Section 3 summarizes the India's RTA policy in Asia and indicators of its growing economic integration with East Asian countries. Section 4 highlights the emerging patterns of industrial restructuring resulting from India's RTA's policy. Section 5 concludes the paper with a few remarks on the importance of a broader framework for regional economic integration.

1. Introduction

The decade of 1990s is widely seen as the decade of globalization. However, a more striking trend of the 1990s was the emergence of strong RTAs in different parts of the world led by Single European Market by European Union in 1992 and North American Free Trade Agreement (NAFTA) in 1994. These RTAs pursued a deeper type of integration covering preferential free trading arrangements complemented by strong rules of origin and mobility of capital (and some times even labour) across the region. The level of economic integration was progressively deepened and coverage of RTAs expanded over time. Thus, EU progressively evolved into an economic union and then a monetary union with a single currency while expanding the membership to cover 25 countries. NAFTA is expanding southwards into a Free Trade Area of the Americas (FTAA). A major motivation for pursuing deeper regional economic integration in the new wave has been to facilitate restructuring or rationalization of industry across the region on the most efficient basis so as to exploit the economies of scale and specialization and strengthen the competitiveness of their industries in the

*Director General, RIS. Email: nkumar@ris.org.in

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context of completion of the Uruguay Round of trade negotiations and not just promotion of intra-regional trade. These RTAs have over time become major factors in shaping global patterns of trade, foreign direct investments (FDI), production, and competitiveness. As they began to account for the bulk of global trade, other regions also started to evolve their own schemes of global economic integration.

Asian countries had continued to follow multilateralism all along very faithfully began to respond to the trend of regionalism towards the late-1990s. The East Asian Crisis of 1997 provided a much needed stimulus for regional economic integration in the region. The ASEAN countries expedited the programme of implementation of ASEAN Free Trade Area (AFTA) from 2008 to 2002 and moved on to further deepen the economic integration. Japan conducted a revised its trade policy in 1999 giving a due place to regional economic integration and concluded its first FTA with Singapore. Other Asian countries also followed the trend. In particular, ASEAN facilitated the trend of regional economic integration by bringing all major Asian countries viz. Japan, China, India and South Korea together as dialogue partners. This has led to ASEAN+1 FTAs evolving between ASEAN countries and the dialogue partners besides a number of FTAs between the dialogue partners themselves such as those under negotiation between India and South Korea and India and Japan. South Asian Association for Regional Cooperation (SAARC) also adopted a SAFTA in 2004 which is being implemented from 2006 over a ten year period. India has been a part of this emerging trend of RTAs and FTAs in Asia. Besides being a part of SAFTA, India is evolving bilateral FTAs with a number of Asian countries. It considers these subregional and bilaterals as building blocs of a broader Asian economic integration and has a vision of an Asian Economic Community.

The East Asian cooperation resulting from the economic crisis of 1997 led to launch of several regional initiatives such as the Chiang-Mai Initiative which brought together ASEAN plus three (Japan, Korea and China). Another initiative of interest is the launch in December 2005 of the East Asia Summit (EAS) as an annual forum of dialogue on regional affairs bringing together leaders of ASEAN10, Japan, China, South Korea, India

and Australia and New Zealand. Bringing together leaders of the sixteen largest and most dynamic economies of Asia, EAS is likely to provide a forum to launch a broader Asian community. Asia has, therefore, finally woken up to the importance of regional economic integration for its development and to respond to the challenge thrown by the worldwide trends. The emerging Asian regionalism has also been accompanied by substantial industrial restructuring across the region. Gradual elimination of barriers to intra-regional trade has prompted region's businesses to rationalize their operations to exploit the locational advantages or synergies for mutual benefit.

Against that backdrop, this paper examines the India's RTAs policy in Asia and the emerging patterns of efficiency-seeking industrial restructuring unleashed by it. Section 2 provides a discussion of the analytical relationship between RTAs, patterns of trade, FDI resulting from the industrial restructuring. It also summarizes some examples of industrial restructuring of the type the EU's Single Market Plan has led to. Section 3 summarizes the India's RTA policy in Asia and indicators of its growing economic integration with East Asian countries. Section 4 highlights the emerging patterns of industrial restructuring resulting from India's RTA's policy. Section 5 concludes the paper with a few remarks on the importance of a broader framework for regional economic integration.

2. Foreign Direct Investment, RTAs and Patterns of Efficiency-Seeking Industrial Restructuring: A Conceptual Link

Foreign direct investment (FDI) has a close relationship with the process of regional economic integration. By extending the effective size of the market by linking the partner countries, RTAs strengthen the investment climate for investors from outside the region. The EU has increased its share in global FDI inflows following the formation of the Single market from nearly 30 per cent in 1980s to about 50 per cent in 1990s and has stayed there (Kumar 1994; UNCTAD 2006). More recent studies show that Mexico has seen a sharp rise in FDI inflows since becoming a part of NAFTA from US\$ 12 billion per year on average during 1991-93 to US\$ 54 billion during 2000-02 (Kose *et al.* 2004). A number of quantitative studies conducted in inter-country contexts have also found strong association

between membership in RTAs and FDI inflows (e.g. Kumar 2000; Medvedev 2006, among others). However, market extending effect is only one and a relatively minor effect of RTAs. It is argued here that a more important effect of RTAs is strengthening of overall competitiveness of the region forming it through extensive industrial restructuring or rationalization across the region. This process of efficiency-seeking industrial restructuring is accomplished by intra-regional FDI. It is not a coincidence that the new age RTAs or FTAs generally extend their scope beyond trade to include investment liberalization and facilitation.

The trend of 'new regionalism', as the phenomenon is described to distinguish it from the earlier wave of shallow regional economic cooperation, was clearly motivated by the desire to strengthen the competitiveness of their industries is evident from the case of the EU. The major motivation of formation of the Single Market was not promotion of intra-regional trade as is commonly understood. The intra-regional trade was already quite high in the EU before the Single Market Plan and MFN tariffs were quite low. The deeper regional economic integration was to facilitate restructuring or rationalization of industry across the region on the most efficient basis so as to exploit the economies of scale and specialization. The Cecchini Report commissioned by the European Commission which provided the basis for the White Paper on the Single European Market had empirically established that the European economies were losing substantially in welfare terms by not cooperating between themselves. The projected gains from industrial restructuring to exploit economies of scale and increased competition within the EU were estimated to be of the order of 3.7 per cent of GDP.

The efficiency-seeking industrial restructuring is facilitated by liberalization of trade and investment regimes as a part of regional trading arrangements that enables free movement of goods across borders facilitating internal restructuring by removing the need to maintain horizontal national operations for multinational enterprises (MNEs). Therefore, MNEs restructure their operations by assigning the responsibility for serving specific regional or even global markets in particular product lines to certain affiliates. This strategy is sometimes called product mandating and results from the

efficiency seeking restructuring or specialization within the MNE. The formation of Single European Market has led to a substantial restructuring of industry to seek efficiency. The restructuring takes the form of specific subsidiaries receiving their parent's mandate for specific goods or services for the given markets. The product mandates are given for the entire regional market in the specific product lines. For instance, Unilever decided to make all its dishwasher powder meant for European market at its Lyons (France) plant and all its toilet soap for Europe at Port Sunlight (UK) in preference to smaller plants catering to each individual market in the entire range of products [see Kumar, 1994, for illustrations].

The Single Market Plan of the European Union, has prompted extensive industrial restructuring, not only the European MNEs, but also the American and Japanese MNEs operating in the EU to restructure their operations on a pan-European basis. For instance, IBM has reorganized its operations in pan-European basis with IBM UK looking after PCs; IBM Germany, mainframe computers and manufacturing industry; IBM France, telecommunications; and IBM Italy, mid-range machines. Thus, this type of restructuring enables the enterprise to exploit the economies of scale and specialization. The location for specific product mandates is chosen on the basis of the advantages a particular country has for the particular activity. These could include factor availability and their prices, agglomeration economies and other locational advantages (see Kumar 1994; 2001a, for a detailed analysis and case studies; and Dunning, 1998). Quantitative studies conducted in the inter-country contexts have also found strong evidence of the role of RTAs in shaping the patterns of export-oriented investments made by US and Japanese MNEs across countries to exploit the potential of efficiency-seeking industrial restructuring (Kumar 1998b, 2002).

The studies on the existing RTAs have shown that in the deeper type of integration pursued by them the biggest beneficiaries are the relatively poorer or lesser developed economies because of migration of industry to them which helped their economy converge with those of more developed ones. It is evident that the poorest economies of EU, viz. Spain, Portugal, Greece and Ireland, have rapidly converged with more developed economies of the region such as Germany, France or the UK. The other benefits of RTAs are

political coherence arising from the growing interdependence and hence reduction in the conflicts.

3. India's Regional Economic Integration Policy

India has always actively participated in the schemes of regional economic integration. India has been a founder member of the Bangkok Agreement that happens to be one of the first preferential trade agreement having been signed in 1975 combining some of the Asian countries including China, Korea, Sri Lanka, Bangladesh and Lao PDR. India has also been an active member of the Asian Clearing Union since its inception in the mid-1970s. It has been participating in South Asian Association for Regional Cooperation formed in 1985. In recent years, especially over the past decade, India's efforts towards regional economic integration have acquired considerable momentum as summarized below.

Within the South Asia Sub-region, India has concluded two free trade agreements (FTAs) - the India-Sri Lanka Free Trade Agreement (signed in 1998 and effective from 2000) and the South Asian Free Trade Area (signed in 2004 and effective from 2006). Aside from these recent and broader initiatives, India has had long-standing arrangements in the sub-continent, such as India's bilateral treaties of trade and transit and FTAs with Nepal and Bhutan and exchange of trade preferences with South Asian countries under four rounds of South Asian Preferential Trade Agreement (SAPTA) since 1995. A preferential trade agreement was also signed between India and Afghanistan in March 2003. The initial evidence on the India-Sri Lanka free trade agreement (ISLFTA), which was signed in 1998 and been in operation since 2000, appears positive with respect to increasing trade and investment flows (Kelegama and Mukherji, 2007) and is now moving towards a further deepening within the framework of a comprehensive economic partnership, covering trade in goods, services, investment and economic cooperation.

India's regional economic integration initiatives outside the South Asian sub-region have been driven by the 'Look East Policy' adopted by the country in 1991, to strengthen economic relationships with the East Asian countries. The policy was initially aimed primarily at improving political, strategic and economic relationships with ASEAN but has since been

extended to reinforce economic relationships with China, Republic of Korea and Japan. As part of the Look East Policy, India became a Sectoral Dialogue Partner of ASEAN in 1992 and Full Dialogue Partner in 1996. In November 2002, the India-ASEAN partnership was upgraded to a Summit-level dialogue and has seen a substantial transformation of economic relations since then. The Framework Agreement on Comprehensive Economic Cooperation between India and ASEAN incorporating FTA was signed at the Bali Summit in 2003. At the Laos Summit in 2004, they signed a long-term Partnership for Peace, Progress and Shared Prosperity based on the work done by the think-tanks of ASEAN and India.¹ The India-ASEAN FTA currently under negotiation is expected to be implemented in a phased manner from 2007. The India-ASEAN FTA Framework Agreement is complemented by a Comprehensive Economic Cooperation Agreement (CECA) signed between India and Singapore in 2005, and the India-Thailand bilateral Free Trade Framework Agreement Early Harvest Scheme under which preferential concessions have been exchanged on a specified set of commodities applicable since September 2004. India is also a part of BIMSTEC (Bay of Bengal Initiative for Multisectoral Techno-Economic Cooperation) which combines seven South and Southeast Asian countries and which is also moving towards a FTA with a Framework Agreement signed in 2004 (see RIS 2004c). India also has a programme of sub-regional cooperation Mekong-Ganga Cooperation (MGC), combining Cambodia, Laos, Myanmar, Vietnam, Thailand and India focusing on infrastructure development.

In the recent years India has strived to strengthen her economic linkages with the Northeast Asian countries, viz. China, Japan, and Republic of Korea. Joint study groups were set up with each of these countries to examine the feasibility of free trade arrangements or comprehensive economic partnership arrangements. A comprehensive economic cooperation arrangement between India and Republic of Korea is currently in the process of negotiation while negotiations of India-Japan comprehensive economic cooperation arrangement are being launched. India and China are also examining the possibility of negotiating a preferential trading arrangement. India's economic integration with the East Asian countries (viz. ASEAN and Northeast Asian countries) is reflected in terms of rapid

emergence of these countries as India's largest trading partners ahead of North America and the EU as demonstrated in Tables 1 accounting for over 26 per cent of India's trade in 2006 compared just 17 per cent in 2000.²

India sees this growing engagement with East Asian countries as building blocs of a broader Asian grouping and has articulated a vision of an Asian Economic Community as an 'arc of advantage' peace and shared prosperity in Asia bringing together different sub-regions of Asia in a phased manner.³ The formation of an Asian Economic Community could thus be viewed as

Table 1: Rise of East Asian Countries as India's Trade Partners

(Values in Million US Dollar)

India's Export To:	2000	2004	2005	2006
ASEAN	2749	7452	8695	10390
Japan	1767	1911	2903	3743
China	758	4178	8891	9518
Korea	457	913	1044	2008
Australia	405	661	928	961
New Zealand	64	88	95	148
East Asian Countries	6200	15203	22556	26768
World	42626	75385	100092	120289
Share of East Asia	14.55	20.17	22.54	22.25
India's Imports From:				
ASEAN	4382	8463	14628	20650
Japan	2016	2921	3876	4935
China	1449	6073	9831	16047
Korea	989	3103	3545	5110
Australia	1068	3333	5793	7413
New Zealand	84	100	105	240
East Asian Countries	9988	23993	37778	54395
World	50336	99835	139405	189438
Share of East Asia	19.84	24.03	27.1	28.71
India's Total Trade with:				
ASEAN	7131	15915	23323	31040
Japan	3783	4832	6779	8677
China	2207	10252	18722	25565
Korea	1446	4016	4589	7118
Australia	1473	3994	6721	8374
New Zealand	147	188	199	388
East Asian Countries	16187	39197	60333	81162
World	92962	175221	239497	309727
Share of East Asia	17.41	22.37	25.19	26.2

Source: RIS based on IMF, *Direction of Trade Statistics (2007)*, CD-ROM.

the culmination of India's Look East policy. India also participated in the first East Asia Summit launched as a forum for dialogue on regional cooperation in Asia along with ASEAN member countries, Japan, China, South Korea, Australia and New Zealand.

4. India's RTAs and Patterns of Industrial Restructuring in Asia

India's emerging RTAs policy in Asia, has already led to some patterns of industrial restructuring as summarized below.

4.1. India-Sri Lanka Free Trade Agreement and Industrial Restructuring

India-Sri Lanka Free Trade Agreement was the first among the new age preferential trade arrangements that India signed. Signed in 1998, initially it attracted a lot of resistance from different pressure groups such as domestic tea industry, copra industry, garments industries, among others. However, safeguards in the form of tariff rate quotas were built in the Agreement. The Agreement which became effective from April 2000 has led to a healthy expansion of mutual trade in a more balanced manner. The Indo-Sri Lanka bilateral FTA, even within a short period of about 5 years of implementation since April 2000 has led to a lot of industrial restructuring besides expanding India-Sri Lanka bilateral trade by 300 per cent. This is reflected in significant flows of investments from India to Sri Lanka, including export-oriented investments by Indian companies in Sri Lanka. A typical example is an investment made by an Indian tyres company, CEAT to set up a large export-oriented tyres plant in Sri Lanka to cater to its growing markets in Pakistan, Middle East and other countries taking advantage of abundant supply of natural rubber in the country. As a result of the growing trend of investments made by Indian companies to exploit the potential of the India-Sri Lanka FTA, India has emerged as the third largest source of FDI in Sri Lanka. UNCTAD's *World Investment Report 2003* has highlighted how Sri Lanka attracted Indian investments of US\$ 145 million in a very short period making India as the third largest source of investments for the island. Because of the investments in building supply capabilities in Sri Lanka facilitated by the India-Sri Lanka FTA, the trade deficit of Sri Lanka has come down to less than half. This success has prompted Sri Lanka to seek to expand the scope of the India-Sri Lanka FTA to cover investments and services in a comprehensive economic partnership agreement (CEPA) (see RIS 2004a).

4.2. India-Nepal Bilateral Free Trade Arrangement and Industrial Restructuring

The Indo-Nepal economic relations are governed by the bilateral Treaties of Trade and Transit and Agreement for Cooperation to Control Unauthorised Trade first signed in 1950s. Treaty of Transit and Trade with Nepal was amended in 1996 that allows exports of goods manufactured in Nepal to India free of customs duty and quantitative restrictions, except for alcohol, tobacco and cosmetics. It was renewed in 2002. This free trade regime has facilitated restructuring of production by certain companies by shifting production bases in Nepal for serving the North Indian market as well as for third country exports. As per a report, Indian companies run 72 of 214 foreign ventures in Nepal accounting for 53 per cent of the capital of all foreign ventures (FNCCI, 2000).

These ventures include some interesting instances of efficiency seeking restructuring of production location have come to light. For instance, Colgate-Palmolive India Ltd. (a subsidiary of Colgate-Palmolive, Inc.) has set up a venture with authorized capital of Rs 540 million in Nepal for production of 12000 tonnes of toothpaste per annum and tooth powder to feed their markets for the product in North India. As a result tooth paste exports from Nepal to India have grown from US\$ 11 million in 1997-98 to about US\$ 61 million in 1998/9, making tooth paste one of the most important item of Nepal's exports to India (FNCCI 2000). Other companies likely Hindustan Lever have followed suit. Dabur India, a domestic Indian group has invested in a fruit processing plant to produce and package fruit juices for the Indian market. Dabur's principal focus is ayurvedic and herbal medicinal preparations. It has also started using its Nepal venture for these preparations. Dabur Nepal was apparently contributing as much as 15 per cent of Nepal's exports to India (Mukherji, 1998). Presently all the fruit juices sold in North India are packaged at its Nepal plant. Kodak Nepal, a venture of Kodak India and Eastman Kodak, USA was planning to service the North Indian market from its Nepalese base (*Financial Times*, 26 August 1999). Subsequently, however, this process of industrial restructuring between India and Nepal was disrupted because of the political turmoil in the country. It is expected that with the peace returning to Nepal with the revival of the democratic process, the process will be restored again. The

free trading regime between the two countries has also encouraged Indian companies to shift production in other industries such as in garment and textiles to take advantage of Nepal's unutilized MFA quotas. As many as 14 of 72 ventures operated by Indian companies in Nepal are engaged in textiles and ready made garments industry. Besides there is growing trade between India and Nepal in hydroelectric power.

The above examples are but illustrative of the potential of restructuring that exists of the efficiency-seeking restructuring in South Asia facilitated by the rather limited regional economic integration that has been undertaken in South Asia. The scale of efficiency seeking restructuring that could be provoked and facilitated by a full fledged regional economic integration covering a free trade area complemented by a customs union and free mobility of capital may be beyond comprehension. Such a restructuring could allow the fullest exploitation of the synergy and location specific advantages of each of the countries in the region. This in turn will boost the international competitiveness of the region not only for its goods and services but also as a host of FDI.

4.3. India-Singapore CECA and Industrial Restructuring

India-Singapore Comprehensive Economic Cooperation Agreement (CECA) was signed in 2005. So it may be too early to expect industrial restructuring to become a major trend. However, one can see a growing interaction and integration happening stimulated by the CECA. Following the signing of CECA, the financial institutions of the two countries have come interacting. Singapore investment company Temasek has become an important investor in India. Over 2000 Indian companies have reportedly set up bases in Singapore to expand into East Asian region. Some large IT companies like TCS and Satyam have made Singapore as their regional headquarter. However, the emerging pattern of industrial restructuring is best illustrated by the acquisition of NatSteel, Singapore by Tata Steel of India recently and the emerging pattern of supply chain integration. Apparently Tata Steel and NatSteel plants in different Southeast Asian countries would be covered by a scheme of regional production network which would involve pallets going from India to the NatSteel plants and special steels to come from NatSteel's Southeast Asia plants to India. This

way the synergy or the locational advantages of India emanating from the iron ore deposits will be available to the NatSteel plants and their specialization for some special steels to Tata Steel, will be exploited for mutual advantage.

4.4. Indo-Thai FTA and Emerging Patterns of Industrial Restructuring

A framework agreement of the India-Thailand FTA was signed in 2004 following which an early harvest programme (EHP) became operational covering a certain list of products. However, even such a partial implementation of a bilateral FTA has led to substantial industrial restructuring in the operations of Japanese and South Korean MNEs that operate in both Thailand and India. For instance, Toyota is restructuring its operations in Thailand and India under which some models of vehicles will be sourced from Thailand for Indian market and gearboxes are exported to Thailand from India. A similar restructuring is on in Sony's operations in India and Thailand. On the other hand Hyundai is making India a regional and global hub for compact cars and will source them from India. Other MNEs like Honda which have built up sizeable capacities in India for two-wheeler production might use it as a regional base for them while sourcing some models of cars from Thailand. Indian companies are also developing their regional production networks across the two countries. Tata Steel, for instance, has acquired Millennium Steel based in Thailand and is integrating that in the regional production network that it is developing by integrating operations of NatSteel, Singapore and itself as indicated above.

4.5. India-Korea Comprehensive Economic Cooperation Agreement and Industrial Restructuring

The Bangkok Agreement provided a framework for preferential trading arrangement between India and South Korea. The two countries established a Joint Study Group (JSG) to examine the feasibility of a comprehensive economic cooperation agreement (CECA) in 2004 after the visit of President Roh to India. Currently the two countries are negotiating a CECA as recommended by the JSG. However, in anticipation of the CECA coming into being, some movement towards industrial restructuring has already begun. Tata Motors of India acquired Daewoo Motors of Korea in 2005 and has begun a regional production networking strategy involving the smaller and

medium capacity vehicles made at Indian plants and sold through Daewoo outlets and brands while heavy trucks made at Daewoo plant will be sold by Tata outlets in India and other countries under Tata brands. In addition, other South Korean MNEs are also extending their regional production networks to India for instance Samsung using India as a base for R&D, product development and software development and Hyundai using India as a regional and global production base for compact cars.

4.6. India-China Preferential Trading Arrangement and Industrial Restructuring

The Bangkok Agreement also provides a framework for preferential trade between the two countries. A Joint Task Force is currently examining the feasibility of an India-China RTA. Even before such a more liberal and upgraded framework comes into being, the bilateral trade has boomed over the past five–six years making China the second largest trade partner of India with nearly US\$ 26 billion two way trade in 2006. Some patterns of industrial restructuring are already evident with Chinese companies such as Huawei doing software development and R&D activity in Bangalore, India, where it employs several hundred engineers, or ZTE. Indian companies are setting up some low cost manufacturing bases in China, such as Bajaj Electricals and Ajanta Clocks. Some Indian companies are restructuring supply chain management by integrating their China operations in their overall strategy. For instance, Videocon has taken over the Thomson's CPT plants in China as a part of acquisition of Thomson's CPT business worldwide. It is now integrating Thomson's plants into its CPT and CTV business in India. More such patterns of restructuring will be taking shape in due course as Indian and Chinese enterprises begin knowing each other's strengths.

5. Concluding Remarks

To sum up the foregoing discussion, it has been argued that by enabling businesses to import and export freely from regional partners, regional economic integration facilitates restructuring of industry on more efficient lines. This restructuring enables fuller exploitation of the locational advantages or synergies between the member countries of the regional trading bloc besides facilitating businesses reaping the economies of scale

and specialization. The Single Market Plan of the European Union has unleashed such a pattern of industrial restructuring not only European corporations but also the operations of foreign multinationals operating in the EU. Such restructuring also facilitates creation of supply capabilities in relatively poorer countries thus facilitating a convergence of levels of development.

In recent times, Asian countries have also started to attach a far greater importance to regional economic integration in their trade policy after decades of faithful adherence to multilateralism. A large number of free trade arrangements are taking shape in Asia at the sub-regional levels in Southeast Asia (ASEAN) and South Asia (SAARC) or between the sub-regional groupings and their dialogue partners and between the dialogue partners. There is also a discussion on building on these attempts and evolve broader grouping.

India is attaching a high priority to regional economic integration in its trade policy and is currently evolving RTAs with partners in South Asia, ASEAN, and with Northeast Asian countries at sub-regional and bilateral levels. It tends to view these attempts as building blocs of a broader Asian Economic Community which could become an arc of advantage, peace and shared prosperity in Asia.

These attempts at strengthening regional economic cooperation in Asia under the Look East Policy have not only helped in deepening the economic integration of Indian economy with East Asian countries as reflected in terms of trade and investments but are beginning to unleash a trend of efficiency-seeking restructuring between India and her Asian trade partners. The paper has documented evidence on early emerging patterns of this trend. The trend may become more entrenched as the several initiatives for comprehensive economic cooperation arrangements (CECAs) and FTAs with Asian countries currently underway get operational and enabling hassle free and duty free trade. Given that such FTAs/ CECAs are being signed between ASEAN and other dialogue partners as well, viz. Japan, China, South Korea and Australia-New Zealand too, it is imperative that these are coalesced into a single broader framework so that a seamless market begins

to take shape in Asia combining all the major economies. Such an arrangement will create a third pole of the world economy and bring about substantial efficiency and welfare gains for Asia and the rest of the world (see Kumar 2005). The launch of East Asia Summit (EAS) bringing together leaders of ASEAN and its six dialogue partners, viz. Japan, China, Korea, India, Australia and New Zealand, provides an important forum for initiatives towards creating an East Asian economic space. The recently concluded Second EAS has agreed to launch a feasibility study of a Comprehensive Economic Partnership of East Asia (CEPEA).

By providing a framework for removing trade barriers for intra-regional trade, CEPEA has the potential of unleashing a process of efficiency-seeking restructuring across countries in Asia and facilitating exploitation of their locational advantages or synergies for mutual benefit!

Endnotes

- ¹ See RIS (2004b).
- ² See Asher and Sen (2005) and Kumar (2005) for a more detailed analysis of the India-East Asia economic integration.
- ³ See Prime Minister Dr Manmohan Singh's speech at the Third ASEAN-India Business Summit, 21 October 2004. Also see RIS (2003).

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