

The Emerging Institutional Architecture of Trade in South Asia

Rahul Mukherji
Jawaharlal Nehru University
Institute of South Asian Studies

Contact: rahul.mukherji@gmail.com

December 2, 2005

Paper prepared for presentation at the conference, “Asia’s New Institutional Architecture: Managing Trade and Security Relations in A Post 9/11 World”, Berkeley APEC Study Center, University of California at Berkeley, California, December 9-10, 2005, with the sponsorship of the Center for Global Partnership. The author would like to acknowledge Vinod Aggarwal, Pradeep Chhibber, Indu Rayadurgam, Berkeley APEC Study Center, and the Institute of South Asian Studies for their valuable assistance.

I. INTRODUCTION

This paper argues that the political economy of South Asian trade within the region and with the rest of Asia is largely determined by two factors that may debilitate or strengthen its institutions of governance. The *first* is the nature of the security relationship. Do the countries feel threatened with respect to each other and wish to gain relatively with respect to each other? After all, relative gains in economic issue areas may be easily converted to military gains. The *second* important factor is the development paradigm adopted by the states concerned. Do states value global economic interdependence? States, which are keen on exploiting global economic integration, will push firms to realize economies of scale through trade. If relative gains concerns are muted and economies of scale are sought to be realized, then countries would continue to make reciprocal concessions so as to ensure that trade will continue to be an engine of growth.

Institutions, according to this view, stabilize norms such as reciprocity over repeated rounds of negotiations.¹ They do not necessarily reflect the distribution of economic power within a region. To give one example, the degree of institutionalization of the dispute settlement mechanism within the World Trade Organization (WTO) could be reflected in frequent rulings against powerful traders such as the US and the EU. Stronger institutions may even affect the interests of states. If the EU has economic benefits for its constituents then democracy as a precondition for membership could foster the spread of democratization in Europe. Institutions are good for the weaker states in the system because norms such as reciprocity and non-discrimination may be easier to adjust to than the erratic behavior of a hegemon based on short-term interests.

¹ On the notion of institutions built around reciprocity see Axelrod (1984) and Axelrod and Keohane (1993).

This paper will examine the impact of security relations and the development of a paradigm emphasizing interdependence on pre and post-Cold War trade relations among states of South Asia and between states of South and Southeast Asia. The paper is Indo-centric by virtue of the fact that India is the largest South Asian trader with the ability to pull the weight of South Asian trade in a particular direction.

II. TWO PROPOSITIONS ON TRADE

Proposition 1: The Nature of the Security Relationship Affects Trade

The realist logic of international economic relations is pessimistic about trade. States, according to this view, live in an environment of self-help in the absence of a supra-national sovereign. The relative economic gains of one state in relation to another can easily convert to relative military power. It is for this reason that the USA would not wish prosperity for the USSR during the Cold War.²

A second reason for trade pessimism is vulnerability. Economic gains from trade could also lead to economic dependence. Small country - large country trade is often characterized by a situation where a large country is far less dependent on the small country for its trade than the small country is on a large country.³ The USA depends far less on India than India does on the USA. The threat of trade withdrawal through sanctions is likely to hurt the smaller country more than a weaker country. India's sanctions on Nepal caused economic injury to Nepal in the mid-

² For a good account of the realist logic based on relative gains see, Waltz (1979) Chapter 7 and Grieco (1993), pp. 116-139.

³ Vulnerability would be less if the smaller country could easily substitute its trade with a larger country. Smaller countries should generally prefer multilateral frameworks to bilateral ones. On vulnerability see Hirschman, 1980; Waltz (1979), pp 143-146; Baldwin (1987), pp. 149-150, 148-182; and Mukherji (2005a), pp. 368-374.

1980s. One would expect therefore that India's relations with small countries could be characterized by the vulnerability consideration that often plagues relations between small and large countries.

There is evidence to suggest that the concern for relative gains and vulnerability is affected by the nature of the relationship between the countries involved in trade. It matters whether a country is perceived as being a friend or a foe. This could explain why relatively smaller countries like South Korea, Taiwan, Singapore and Japan could build their trade with the USA. Is it a coincidence that none of these countries were on the USSR side of the Cold War?

Why would the nature of the security relationship affect the trade relationship? Trade among allies, it has been argued, is a positive externality, while the same among adversaries is considered to be a negative externality. A positive externality is something that everyone gains from without having to pay for it.⁴ Often positive externalities are facilitated by government intervention. A negative externality, on the other hand, is a price that everybody pays without getting any benefit.⁵ It has been argued that trade among allies is a positive externality because it boosts the aggregate economic and military power of an alliance. The success of Japan or West Germany, according to this logic, was a source of strength for the Cold War alliance led by the US. The success of the Soviet Union or its allies, on the other hand, would be just the opposite. It would work as a negative externality for the US – led alliance. When China's relations warmed up with the US and in opposition to the USSR, so did its trade with the US.

The US alliance against communism succeeded in facilitating trade and economic integration within the alliance to the detriment of the Soviet bloc. By the early 1950s trade between the US and Eastern bloc had become negligible. Mansfield and Bronson found that

⁴ An example of a positive externality could be a road in a commercial area.

⁵ A negative externality could be pollution emitted by an industry, which everyone else in an area suffers from.

trade within allies who participated in preferential trading arrangements was 120% to 140% greater than the trade between non-allies.⁶

Rational choice models of cooperation in trade based on the prisoner's dilemma game predict cooperation based on absolute gains behavior. The norm of reciprocity, which is a fundamental building block of trade institutions, is possible only under absolute gains rather than relative gains scenarios. This implies that only when states worry about their own gains rather than their gains relative to other states, would reciprocity-type behavior produce cooperation under certain conditions. Such models would therefore predict lack of cooperation in trade under adversarial conditions.⁷

The two logics of cooperation mentioned above point to the nature of the security relations for building a level of trust for promoting cooperation in trade. First, relative gains concerns would debilitate trade as the gain for one party would be viewed as a loss for the adversary. Second, adversarial relations based on relative gains concerns should heighten the perception of vulnerability, and friendly security relations should mitigate both these problems as trade among allies could be viewed as positive security externality.

What is the impact of this strategic logic on trade relations within and outside South Asia? The paper will show that adversarial relations within South Asia were affected by the Cold War. Only India remained with the USSR till the end of the Cold War while Pakistan, Bangladesh and Sri Lanka got closer to the USA. In addition, India's quest for a secular state and Pakistan's claims about Kashmir on the basis of its majority Muslim population was a problem

⁶ On the relationship between externalities and trade, see Mansfield and Bronson (1997a), 94-107. See also Gowa (1994) and Mansfield and Bronson (1997b).

⁷ On rationality-based approaches see that are modeled after the Prisoner's Dilemma game see, Axelrod (1984) and Axelrod and Keohane (1993).

that was born with the partition of India. This problem continued to haunt Indo-Pakistan relations even after the Cold War when India's relations with the USA became more cordial.

This paper will demonstrate how the improvement of security relations between India and Sri Lanka facilitated the Indo-Lanka Free Trade Agreement (ILFTA). Second, while India's security and trade relations with Pakistan and Bangladesh saw only a marginal improvement after the Cold War, its security and trade relations with South East Asia improved remarkably. The difference between the two outcomes could be explained to some extent by fact that strategic differences within the subcontinent remained even after the Cold War but many differences between India and Southeast Asia were related largely to Cold War. India had been close to the USSR during the Cold War whereas the resurgent states in Southeast Asia were on the side of the USA.

Proposition 2: International Trade and Investment positively affects Growth

Economists from the days of Adam Smith and David Ricardo have argued that the gains from trade accrue from specialization. If each country produces what it does best, then in a world of free trade, consumers would gain from quality goods at the lowest prices. Labor abundant countries should produce labor intensive goods and services and capital abundant ones should concentrate on capital intensive lines of production. Parts of the global economy develop a diversity of advantages based on the availability of land, labor and capital. Kenichi Ohmae has described how capital flowed into various regions of the world economy to exploit comparative advantage. The radiating effects of investments from Hong Kong raised the level of living of Shenzhen residents to a per capita income level of about \$5500 in the mid 1990s when the same figure for the rest of China was just over \$300. Ohmae had predicted similar effects for Zuhai, Amoy, Guangzhou and Guangdong. Could Singapore become for India what Hong Kong is for

China? According to this argument, states must not interfere with capital flows and allow it the freedom it needs to exploit the productive potential of different parts of the globe.⁸

Almost all developing countries, which included South Asian countries, followed an inward oriented model of development based on a logic that was very different to the one mentioned above. Post-colonial states with comparative advantage in primary production worried about the global income and price inelasticity of demand for primary commodities. They thought that export earnings would not grow with increased production due to the above-mentioned global economic conditions. Therefore, manufacturing was stressed. But the infant manufacturing industries of the developing world would not be able to compete with the mature ones of the industrial countries. Manufacturing in the developing world had to be developed with help of a protected home economy. Protectionism was prescribed till such times that an industry matured by exploiting scale economies within a protected market.⁹

Most post-colonial Asian countries began in this way. The difference between India and many of the successful Asian economies was that India persisted with import substitution for a longer duration than many other Asian countries. If India was pessimistic about the prospects of trade till the late 1980s, why would it need reciprocity-based arrangements that would help promote its exports? The end of the Cold War curiously enough was also the end of import-substitution in India.

India's economic liberalization beyond 1991 and the consequent need for trade partners created the opportunities for trade promotion in South and Southeast Asia. It can be argued that given a favorable security environment, India's preferential trade with Sri Lanka, Thailand and

⁸ On the interdependence model see, Ohmae (2004) and Bhagwati (2004).

⁹ For the relationship between import substitution and late development, see Hirschman (1958) and Gerschenkron (1962). This literature is reviewed in Krueger (1997).

Singapore, reflected India's desire to compete with the world economy. Even if multilateral trade liberalization remained the ultimate objective, trade liberalization with respect to South and Southeast Asia has two positive effects. First, this could help India access markets in the region at a time when the rest of the world was regionalizing rapidly. Second, it would put pressure on Indian producers to become competitive. The Indian state would also be pushed to provide the infrastructural pre-requisites for competitiveness.

III. THE TRADITIONAL COLD WAR EQUILIBRIUM

This section will describe the level of adversarial relations and interdependence considerations among the states of South Asia during the Cold War. It will also report the developments in India-Southeast Asia relations during the Cold War period. Firstly, India - Pakistan relations were aggravated both by the dynamics of partition. Second, India was on the Soviet side of the Cold War and Pakistan was closer to the USA. Most of Southeast Asia that pushed trade as an engine of growth depended on the US. The Cold War generated hostility between India and the states of Southeast Asia. Second, India continued with its policy of import substituting industrialization during the Cold War. Consequently, its need for trade with South Asian countries was not much in evidence. The result was that trade relations between India, Pakistan, Bangladesh and Sri Lanka suffered. India's trade with Southeast Asia, while it was more robust than its trade within South Asia, was also affected by the Cold War.

The Inefficacy of the South Asian Association for Regional Cooperation (SAARC)

India – Pakistan relations are central to understanding the inefficacy of the South Asian Association for Regional Cooperation (SAARC) during and beyond the Cold War years. SAARC was born due to the efforts of the smaller countries of South Asia such as Bangladesh,

Nepal and Sri Lanka. Discussions in various international gatherings from 1977 led to the first Foreign Secretary level meeting in 1981 and the first meeting of the Heads of State in 1985. SAARC had the unenviable distinction of overseeing a reduction in Intra-South Asian trade. Intra-regional trade as a proportion of total trade within the region came down from 3.2% in 1980 to 2.4% in 1990.¹⁰

Adversarial Relations in South Asia. Two of South Asia's most powerful countries were locked in a conflict that began with the partition of India in 1947. The conflict endured during the Cold War and was reinforced by it. Pakistan was born at the time of India's independence as a separate state, which would secure the interests of the Muslims living within the Indian subcontinent. It had two parts, a Western part and an Eastern part, which is now Bangladesh. At the time of partition there was much dissatisfaction within Pakistan about the fact that Muslim majority state of Kashmir had gone to India. India, on the other hand, had held that it would be a secular nation where people of all religions could leave peaceably. The location of a Muslim majority Indian state adjoining Pakistan further complicated matters.

Pakistan did not rest easy with the fact that Muslim majority Kashmir went to India. The first conflict occurred in the immediate aftermath of Hyderabad's accession to India in 1947. The first war brought a part of the Kashmir valley under the administration of Pakistan. The second war over Kashmir in 1965 was a miscalculation of India's defense readiness. The war produced no territorial gain for Pakistan. The third India-Pakistan war of 1971 was a setback for Pakistan. The war, which began in East Pakistan and subsequently spread to West Pakistan, led to the creation of Bangladesh. Pakistan did not rest easy with this result because it went against the

¹⁰ See Dash (1996), p. 202.

ethos of Pakistan's nationhood. East Pakistan was a predominantly Muslim region that had succeeded in securing independence from the West. Bengali nationalism had won a victory over a brand of nationalism that the West tried to impose on the East.

Kashmir became dearer to Pakistan after the second partition in South Asia. This was also the first disintegration of a state in South Asia after World War II. If Pakistan could rest Muslim majority Kashmir from India then this would reinforce Pakistan's claim as the state representing the Muslims of South Asia. India's secular credentials, on the other hand, were strengthened by the fact that there were more Muslims residing in India than in Pakistan. India needed Kashmir also because it was feared that the disintegration of one part would encourage fissiparous tendencies in other parts of India.¹¹

The Indo-Pakistan conflict over Kashmir was further complicated by the Cold War. Given the US support for Pakistan and its close ties with China, India could not have won the 1971 war without Soviet support. India signed a Treaty of Friendship and Cooperation with the USSR that brought the security concerns of India and the USSR very close to each other. This was a significant blow to India's stature as a non-aligned country. Subsequently India, which was known for its independent foreign policy, looked the other side when the USSR invaded Afghanistan (1980). India's relations with the Soviet Union supported government in Afghanistan were good. Pakistan, on the other hand, became a frontline state after 1980 and gained enormously from US aid in return for helping the US fight its war with the Soviet Union over Afghanistan. Pakistan's status as a frontline state brought it both military and development assistance from the US. Pakistan's economy grew every time the US needed it for security reasons.

¹¹ One of the best accounts of the reasons behind the Indo-Pakistan conflicts is Ganguly (1986). See also, Ganguly and Kraig (2005). For a compelling argument on the problem in Kashmir, see Ganguly (1999).

Relative gains behavior was characteristic of India – Pakistan relations during the Cold War years. This would not augur well for South Asian cooperation in trade. I have argued above that relative gains concerns would have a negative impact on the evolution of reciprocity, which is essential for constructing the institutions governing trade in any part of the world.

India's Tryst with Import Substituting Industrialization (ISI). Given India's size, which is larger than the size of all the other South Asian countries together, India's trade strategy during the Cold War years could have had a liberalizing effect.¹² India adopted an import substituting model of development, which persisted till the balance of payments crisis of 1991. India's model of ISI was based on import, production and foreign exchange controls and selective finance that aided the domestic industrialist in the public and private sector to sell within the large and protected home market.¹³

These policies systematically biased production towards the home market and raised the costs of exports. The lack of competition reduced India's competitiveness and created much comfort for the Indian industrial sector that was faced with low levels of productivity. According to an influential study on comparative productivity, India, South Korea and Taiwan were at comparable levels of productivity in relation to the US in 1963. By 1993, South Korean and Taiwan had registered levels of productivity closer to the US, while India's productivity had remained around the same level.¹⁴

¹² In 2001, India accounted for 80% of the regions exports and 6% of its imports.

¹³ On India's import substitution model see, Bhagwati and Desai (1970) and Chackravarty (1987), especially chapter 2.

¹⁴ On Indian productivity, see Ahluwalia (1991) and Timmer and Szirmai (2000), pp. 371-392.

The import substituting model, which came to be challenged from the mid-1980s, had a powerful political economy supporting it, which could not be overcome during the Cold War years. Organized business wanted freedom to play within the protected Indian market but did not want to risk foreign markets and higher profits. Organized labor, which was less than 10% of India's work force was happy with job security and labor laws that protected them while the majority of the workers lived under despicable conditions of poverty and uncertainty.¹⁵ India's low levels of productivity were sustained by an underperforming industrial sector and job security for a minority of the labor force, which was protected by labor laws. Inviting competition from other countries within or outside the region needed the support of a political economy that could adjust to competition.

The Government's reports from the late 1970s had acknowledged the problem of low levels of productivity, the dearth of development finance, and the need for export promotion. Indira Gandhi's second tenure (1980-83) had taken note of these problems.¹⁶ Rajiv Gandhi had tried to initiate economic liberalization since 1984. But substantial promotion of competitiveness and exports could not be achieved in the 1980s. Even Rajiv Gandhi's comfortable majority in the Parliament could not overcome the political impediments in the way of India's tryst with globalization. India remained one of the most autarkic economies in the world at a time when China was aggressively embracing global economic integration and the Soviet model was crumbling.¹⁷

¹⁵ On India's inflexible labor laws, see Zagha (1999).

¹⁶ On Mrs. Gandhi's second tenure, and a critical look at past policy, see Dhar (1988) and Sengupta (2001).

¹⁷ On the political economy of import substitution opposing trade orientation in the 1980s, see Kohli (1990), Chapter

Trade liberalization within South Asia would require its largest trader to make asymmetrical concessions with the expectation of some concessions in return. This was not possible in the context of import substitution in India. Vested interests gaining from the protected Indian market would successfully oppose any policy that promoted competition from outside.

Result: No Institutions Governing Trade in South Asia. The combination of adversarial relations between India and Pakistan and India's trade pessimism, due to its inward oriented strategy of development, debilitated South Asian trade. The political dynamics leading to the evolution of the SAARC witnessed a situation where proposals that were endorsed by Bangladesh, Maldives, Bhutan and Nepal were met with skepticism from India and Pakistan. India feared that this was the small countries strategy of ganging up against it. Pakistan, on the other hand, feared that SAARC might reinforce Indian hegemony in the region. It took five years from the first Foreign Secretary level conference in 1980 for the for the first Heads of State meeting to occur in Dhaka in 1985. Bilateral and contentious decisions could not be discussed within the SAARC forum and all decisions would be taken by consensus.¹⁸

TABLE 1

INTRA REGIONAL TRADE AS A PROPORTION OF TOTAL REGIONAL TRADE

	1980	1990
South Asia(SAARC Countries)	3.2%	2.4%
East Asia	25.6%	29.3%
European Community	41.6%	47.1%
North American Free Trade Agreement	21.4%	24.6%

Source: Milner 1999, p.599 and Dash 1996, p.202.

¹⁸ On the history of the SAARC, see Muni et al. (1984); Dash (1996), pp. 186-189.

The results were spectacular owing to the absence of an institution that could facilitate trade within South Asia. This was despite the fact that India had a preferential trade agreement with Nepal and free trade agreement with Bhutan, neither of which had any relationship with the overall process of South Asian trade integration. The South Asian Integrated Program of Action covering seven areas could not achieve much. On the eve of the end of the Cold War in 1990, South Asia's intra-regional trade was 2.4% when the same figures for EU, NAFTA and East Asia were 47.1%, 24.6% and 29.3%, respectively (See Table 1). By contrast, intra-Association of Southeast Asian Nations (ASEAN) exports as a proportion ASEAN's total exports which was 4.4% in 1960 had grown to 18.6% in 1990. Both relative gains concerns and the lack of perceived benefit from trade debilitated South Asia's trade during the Cold War.

India's Look East Policy during the Cold War

India's strategic look east policy was affected by the Cold War. India tried unsuccessfully to keep the Cold War out of Asia. The strategy was to make friends with China on the basis of the shared panchashila norms of mutual coexistence.¹⁹ If India and China could live peaceably and assure others of their peaceful intentions, other countries in the region would not need to engage a super power for protecting themselves. This strategy failed in the years beyond the Bandung summit of 1954, which was also the last Afro-Asian conference in a long time. Indira Gandhi's close association with the USSR, especially after the Indo-Soviet Treaty of Friendship and Cooperation in 1971, inevitably drove it farther from ASEAN countries, which saw themselves as a club against communism. Neither could Rajiv Gandhi do much reduce the fears within the

¹⁹ The Panchashila or the five principles of peaceful coexistence were: mutual respect for sovereignty and territorial integrity; non-aggression; non-interference in the domestic affairs of other states; mutual help, and pacific coexistence.

ASEAN countries about India's tilt towards the Soviet Union. This section will focus its attention on how the Cold War in the 1980s drove a wedge between India and Southeast Asia. The post-Cold War equilibrium will demonstrate rather sharply how the end of Cold War and the advent of India's economic liberalization program transformed security and trade relations between India and Southeast Asia.

Security Considerations. The idea of Panchashila could only sell for a short while beyond the Afro-Asian conference in Bandung in April 1954, thanks to the valiant efforts of Jawaharlal Nehru. Nehru had convinced Cambodia that neither China nor Vietnam posed a threat despite arguments to the contrary by Secretary Dulles, just weeks before the conference. But this achievement would be short-lived as India's relations with China deteriorated. Panchashila could not avert a war between the two neighbors. India wanted to stay with the imperial demarcation of the boundary famously called the McMahon line. China disagreed and thought that the borders needed to be renegotiated. India's acceptance of Tibet as a part of China was not considered adequate for resolving Sino-Indian differences over the border. Nehru's misunderstanding of China's position and his inability to mentally accept the threat from China led to a war in 1962 for which India was rather ill-prepared.²⁰

The Cold War came to Southeast Asia soon enough. Soeharto replaced Sukarno after a bloody regime change in Indonesia and pledged allegiance with the US. The pro-US group in Southeast Asia comprised of Indonesia, Thailand, Philippines and Singapore and consolidated themselves against communism by proposing the Zone of Peace Freedom and Neutrality (1971) and the Treaty of Amity and Cooperation (1976).

²⁰ On India's regional engagement with Southeast and East Asia in the 1950s and 1960s, see Sisir Gupta (1964) and Sardesai (1968).

The India - Southeast Asia strategic rift clearly became a Cold War rift in the 1980s when Indira Gandhi recognized the Vietnam backed Heng Samrin regime in Cambodia. This was a Soviet backed regime. When Rajiv Gandhi became Prime Minister ASEAN countries were optimistic about India's support. They appreciated Rajiv's pro-liberal bent towards economic policy, his open mind about the US, and India's long standing relations with Vietnam. They thought that Rajiv Gandhi was uniquely placed to resolve the problem in Kampuchea. ASEAN countries had hoped that India would be able to convince Vietnam to withdraw from Kampuchea. But Vietnam would not tolerate a Chinese sponsored regime in Cambodia. ASEAN countries, on the other hand, were happier with Chinese presence rather than Soviet domination. China was more tolerable for ASEAN countries after its relations with the USA had warmed up since the mid-1970s.

India was unable to play a significant role towards satisfying the concerns of ASEAN countries. India tilted more towards the Soviet Union and Vietnam rather than the ASEAN countries. Like Vietnam, India had feared Chinese dominance in Southeast Asia. The state visits of the Indian Minister Natwar Singh and the Soviet Foreign Minister Shevardnadze gave the impression that India was working closely with the USSR on this issue. The Non-Aligned Movement sponsored moves on reconciliation were viewed with skepticism and Jakarta began its own peace initiative. Indonesia was upset when India did not support its chairmanship of the Non-Aligned Movement after the Summit in New Delhi. It was especially keen to chair the movement because it was the only founding member that had not chaired the movement.

Southeast Asia worried about the rise of India's power both inside and beyond South Asia during the Cold War. The presence of the Indian Peace Keeping Force in Sri Lanka, India's economic sanctions on Nepal, and the dispatch of troops to the Maldives to save the regime from an armed coup were viewed as India's worrisome hegemonic intentions. Last but not least,

Southeast Asian countries began viewing the growth of the Indian Navy in the Indian Ocean with some worry. Most worrisome for ASEAN countries was the birth of India's blue water navy that was building the capacity to secure its interests in Southeast Asia. India had a Soviet built nuclear powered submarine and an aircraft carrier. Indonesia even accused India of letting the Soviets use its naval bases. Singapore's Prime Minister Goh Chok Tong worried about the US's withdrawal from its bases in the Philippines.²¹

India-Southeast Asia Trade Relations during the Cold War. Both the Cold War and India's import substitution policies affected India's trade with ASEAN countries. Import substitution made India commercially less attractive over time. The Cold War made ASEAN countries worry about its strategic intentions. This included its trade with Singapore, which emerged as India's pre-eminent trading partner within the ASEAN countries. India's problems with ASEAN countries were not comparable to its problems with Pakistan. This could be one reason why India's trade with ASEAN countries was relatively more robust than its trade with its South Asian countries over the 1980s.

The impact of the Cold War on Indo-ASEAN relations can be judged from ASEAN's orientation towards India before and after the Vietnam backed government of Heng Samrin came to Kampuchea. India's stalled talks with ASEAN countries resumed after the Bali Summit of 1976. India was trying hard for a dialogue partnership with ASEAN, which had come to symbolize the facilitation of economic relations with ASEAN countries. Dialogues had been initiated with EEC since 1972, with Australia since 1974, with New Zealand since 1975, and with Japan, US and Canada since 1977. ASEAN allowed the dialogue process to lapse till the

²¹ On the relations between India and ASEAN during this period, see Sridharan (1995) and Sridharan (1996), Chapter 7.

new Janata Government came to power in India in 1977. This was the first non-Congress government in independent India. ASEAN kept the consultations moving but was skeptical about India in the light of the Soviet invasion of Afghanistan.

The climate for working with India towards a dialogue partnership changed completely when Indira Gandhi recognized the Heng Samrin regime in Kampuchea. Lee Kuan Yew visited India in 1978 and tried to convince the leadership about the dangers of states interfering in the internal politics of other states. The Janata Government had desisted from recognizing the regime. All this changed in 1980 when official recognition was accorded to the regime. According to one Indian official:

The climate has become polluted: few new joint ventures have gotten off the ground in Malaysia in the past three or four years.

No real reason is given for the rejection of a competitive offer. But if our technology was good enough till 1979, we have to look for something else that's gone wrong.²²

While India was sidelined, dialogues continued with other countries. ASEAN officials expressed the view that India's position on Kampuchea had affected its commercial relations with Southeast Asia. Joint bilateral meetings between Indian and Malaysian officials spent a disproportionate amount of time on Kampuchea. Mahathir Mohammed, one of the proponents of South-South solidarity stated unambiguously that India's position on Kampuchea had affected its relations with Malaysia.

India's declining competitiveness due to its policy of import substitution also hurt its interests in Southeast Asia. ASEAN countries accessed capital and technology from advanced industrial countries, most notably Japan. The idea of an Asian Clearing Union did not appear attractive in the presence of an Asian Development Bank. India's restrictive investment laws

²² See Sridharan (1996), p. 200.

ensured that there would be little room for ASEAN investments in India. Intra-industry trade in the presence of less restrictive investment laws could have been trade promoting factor in Indo-ASEAN trade.²³

TABLE 2
INDIA'S TRADE WITH ASEAN COUNTRIES

	1975	1980	1985	1990
Exports to ASEAN as a Percentage of India's Global Exports	2.6	3.6	3.4	4.2
Imports from ASEAN as a percentage of Global Imports	0.86	5.9	6.4	6.2

Source: Sridharan 1996, p.208

As ASEAN globalized faster than India, it became more important for India's trade than was India for the trade of ASEAN countries. India's imports from ASEAN, which were 0.86% of its total imports in 1975, rose to 6.2% in 1990. Its exports to ASEAN countries, which were 2.6% of its global exports in 1975, were about 4.2% of its exports in 1990. Nevertheless, India's trade with ASEAN countries was more robust than its trade South Asian countries.

TABLE 3
INDIA'S MERCHANDISE TRADE WITH SINGAPORE IN RELATION TO ITS WORLD TRADE WITH ASIA (%)

	Singapore/World	Singapore/Asia
1980	2.59	15.49
1985	2.67	12.49
1990	2.39	12.03

Source: Asher and Rajan 1995, p.176

²³ On the politics of Indo-ASEAN economic relations from the late 1970s up to the early 1990s, see Sridharan (1996), Chapter 8.

Singapore was consistently India's most important trading country over the 1980s followed by Malaysia. India's economic policies with respect to trade, investment and technology were too restrictive for Singapore's liking. India's importance in Singapore's trade declined over the years. India's trade with Singapore as a proportion of Singapore's trade with the rest of the world declined from 2.59% to 2.30% over the 1980s. India position came down ever more dramatically if we compared Singapore's trade with India in relation to its trade with Asia. The figure declined from 15.49% to 12.03%.

III. THE POST COLD WAR EQUILIBRIUM

This section will begin by discussing changes in the two master variables – changes in Indo-US relations, and India's tryst with globalization. Changes in Indo-US relations did not have much of an impact on the adversarial nature of Indo-Pakistan relations, but it did have a positive effect on India's Look East policy. Second, India's acceptance of trade as an engine of growth increased its need for cooperation within and beyond the region. Its quest for markets fostered the evolution of reciprocity in India-Sri Lanka, India-Thailand and India-Singapore trade relations. India was moving towards an economic partnership with ASEAN and economic cooperation with China. A discussion on the master variables will help to comprehend the dynamics of the lackluster performance of India's trade relations with Pakistan and Bangladesh, and the transformation in relations between India and Southeast Asia.

The Variables

The Impact of Unipolarity on Indo-US Relations. The end of the Cold War meant an end of Soviet security guarantees for India at a time when China's transfer of missile and nuclear

technology to Pakistan was a cause for worry for India. India could engage the US in a manner that was not possible as long as the USSR remained a Cold War adversary. The result has been that India's strategy of engaging the US has met a positive US response. Both India and the US have engaged China commercially but wish to guard against the possibility of the need to balance China's rising power. India-Pakistan discord, which was quite independent of the Cold War dynamic, persists. But the US is playing a positive role in bringing the two together. This is quite different from a Cold War situation where the two super powers used the discord to their advantage. What is worrisome for India is China's ability to help Pakistan balance India, and the US's need for Pakistan as frontline state in its fight against terror.

India-US relations are at an all time high point. The relations have survived India's nuclear tests, which led to the imposition of sanctions on India. The relations had warmed up towards the end of the Clinton Presidency and the trend has consolidated itself during the Bush regime. On the Indian side both the Congress Party-led United Progressive Alliance and the Bharatiya Janata Party-led National Democratic Alliance, representing the two sides of the political spectrum in India, have not wavered from India's commitment to relations with the US. These relations endure despite significant differences between India and the US over the US's approach to Iraq, India's relations with Iran, and India's relations with the military regime in Myanmar. Most significantly, India does not raise a hue and cry, as it used to in the past, over US arms sales to Pakistan, or its designation as a major non-NATO ally.

What are the contours of the changed strategic relationship? The joint naval exercises aided excellent coordination between India and the US over Tsunami relief. There was little domestic opposition to the presence of the US ships in the close vicinity of India. The Indian establishment had hated the presence of US ships ever since it had sent its 7th Fleet at the time of the Indo-Pakistan War of 1971. US troops have trained with the Indian Army at the Jungle

Warfare School in Vairengte (Mizoram) and at the high altitude warfare school in Ladakh. The Indian and the US Air Force have had regular combat practice.

India has been looking for sophisticated dual use technology from the US for many years. Events over the last couple of years have culminated in the Prime Minister's visit and a "new framework" for the relationship signed by Defense Minister Pranab Mukherjee in July 2005. This agreement is likely to lead to a greater role for India's Defense Ministry in coordinating India-US relations. The US has pushed the idea of legitimizing and aiding India's civilian nuclear energy program and offering state of the art aircraft like P3C Orion anti-submarine aircraft and the latest version of the F-16s.

The US is pushing for friendlier relations between India and Pakistan. It has aided the de-escalation of hostilities between India and Pakistan in the aftermath of the terrorist attack on the Indian Parliament in December 2001. General Musharraf has banned terror groups operating in Kashmir after the US applied some pressure. The US has encouraged the two states to participate in a composite dialogue.²⁴

India's Tryst with Globalization. India tryst with global economic integration began in a surefooted way from 1991 in the aftermath of a balance of a payments crisis. This led to trade and investment liberalization, devaluation and export promotion by reinforcing the economy in the direction of competitiveness. The economic liberalization program built over years of dismay with past policy needed an external Gulf War driven shock to overcome the vested interests who would not easily allow the old order to come crumbling down. I have argued elsewhere that

²⁴ On the post-Cold War trends in Indo-US relations, see Gordon (1995); Ganguly (2005); Bajpai (2005); and Frankel (2005).

ideational changes driven by policy puzzles created in the 1980s were at least as important as the external shock and the consequent dependence on the IMF.

The policy-makers had one opportunity in 1966 to change policy in a trade and investment friendly direction. At that time, donor advice owing to the balance of payments crisis was a bitter pill that was swallowed momentarily and India reverted to its most severe version of autarky between 1969 and 1974. In 1981, India had used resources from the IMF to build its public sector assets. In 1991, on the other hand, the policy-makers surprised even the IMF by their willingness to reform. India's reforms were gradual and steady and like its relations with the US were able to survive both a two Congress and one BJP government.²⁵

What were dimensions of the globalization program? The Rupee was successfully devalued and a market driven exchange-rate regime was set in operation. The overvalued exports had hurt India's exports. The Rupee became fully convertible on the current account by 1994. The weighted average duty came down from 72.5% in the 1980s to 29% in 2002/03. Quotas were abolished ahead of the WTO stipulated date. Industrial licensing was abolished. The stock market was reformed and portfolio investment was welcomed. The foreign direct investment regime was liberalized considerably. As a consequence, India's dependence on trade, which was 15.1% of the GDP in the 1980s, went up to 24.8% in 2000. India's trade grew rapidly between 1991 and 2001. In areas such as information technology, outsourcing of services, and gems and jewelry. Indian products won world-wide acclaim. India's share in global exports, while still low in terms of its potential, had grown from .52% in 1990 to about .8% in recent times. The post-

²⁵ On the 1966 crisis, see Mukherji (2000). On 1981, see Ruggie (1983). On 1991, see Mukherji (2005b).

reforms growth rates at 6% per annum have positioned India as one among the four major emerging economies with a significant role in this century.²⁶

Cases

The Failure of the SAARC Trade Agenda. Differences over Kashmir continued to haunt Indo-Pakistan relations, despite the end of the Cold War. The relationship between the two major powers in South Asia successfully kept the South Asian trade agenda from taking off in a meaningful way. India would come to dominate an integrated South Asian region, and consequently increase Pakistan's vulnerability. Second, the need for South Asian regional integration for Pakistan became less consequential every time Pakistan became a frontline state and gained from the US's generous financial assistance. Pakistan's economic growth shot up above the 5% level beyond 2002, after a period of slow rates of growth in the 1990s. The US's war on terror had an impact on the Pakistan economy, which was similar to the Afghanistan war.

Pakistan continued to aid people it deemed to be freedom fighters in Kashmir. Pakistan's Kargil misadventure of 1999, which was an intrusion into the Indian territory in Kashmir, came soon after Prime Minister Vajpayee's trip to Lahore. Similarly, the terrorist attack on the Indian Parliament in December 2002 increased the level of conflict between the two countries. India did not rule out a conventional war under the nuclear umbrella and Pakistan kept open the option of striking India first with nuclear weapons. In recent years, an average of 300 civilians died every month due to terrorist attacks or clashes between the terrorists and the paramilitary forces.

Two recent developments highlight the relative gains dynamic within the region. In the aftermath of the recent earthquake in Pakistan neither could Pakistan accept Indian aid in Kashmir in the first couple of weeks nor could it allow the use of Indian military helicopters, at a

²⁶ See Mukherji (2005b), pp. 24-25. This is not to suggest that economic reforms were devoid of political problems such as the growing fiscal deficit, inflexible labor laws and poor infrastructure in many areas.

time when people were dying due to the paucity of helicopters in Kashmir. Helicopters had become essential for accessing remote parts of the Himalayas. In the SAARC summit of November 2005, little progress could be achieved towards regional integration owing to what the Pakistan Prime Minister Shaukat Aziz termed the “trust deficit”. In a telling statement, Aziz linked free trade between India and Pakistan to progress in Kashmir.

TABLE 4
PAKISTAN’S TRADE WITH INDIA

	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Exports % of global exports	42 0.5%	41 0.4%	36 0.4%	89 1.03%	175 2.2%	54 0.6%	55 .5%	49 .53%	71 0.63%	94 .76%
Imports % of global imports	64 0.6%	95 0.8%	197 1.6%	153 1.5%	146 1.5%	127 1.2%	235 2.1%	187 1.8%	167 1.3%	382 2.4%

Source: Zaidi (2005)

The economic relationship between India and Pakistan clearly reflected the security relationship. Pakistan has not reciprocated the most favored nation status offered to it by India. At partition in 1948/49, 56% of India’s total exports went to India and 32% of its imports came from India. The volume of trade virtually dried up after the 1965 war. In 1997/98, 1.5% of Pakistan’s imports came from India and 1% of its exports went to India. The same figures for 2003/04 were 0.76% and 2.4%, respectively. Sino-Pakistan trade, on the other hand, was over a billion dollars, reflecting a strategic relationship between the two countries. There was a growing trade imbalance in India’s favor, despite the fact that Pakistan had not offered the most favored nation status to India. Moreover, Pakistan’s trade with respect to India was much less significant

for India than it was for Pakistan. Pakistan's fear about vulnerability, under a situation of adversarial relations, was consistent with our expectations.²⁷

Research on the impact of concessions under the South Asian Preferential Trading Arrangement (SAPTA) revealed that preferential trading since the mid-1990s has not produced significant results, even though the trade is now greater than it was in the 1990s. South Asian trade as a proportion of its global trade had grown from 2.4% in 1990 to a figure between 4% and 5% of South Asia's trade. India has made the greatest number of concessions but significant tariff lines have not been liberalized. To give one example, Bangladesh's preferential imports from India increased rapidly between 1997/98 and 2001/02, but declined thereafter. India was probably willing to offer more significant concessions to Bangladesh at the sub-regional than at the regional level. Trade with Nepal, Bhutan and Sri Lanka did not get affected significantly by SAPTA concessions because of the sub-regional preferential arrangement already in place.²⁸

The Indo-Lanka Free Trade Agreement. The evolution of friendly relations and interdependence concerns, contributed to the successful implementation of the Indo-Lanka Free Trade Agreement. The treaty was signed in 1998 and became operational in 2000. This section will describe how the improvement in security relations and interdependence concerns aided this process. Sri Lanka-India trade was ridden with vulnerability concerns before 1998. These vulnerability concerns had halted the progress of Joint Commissions since 1968. There had been fears that Sri Lanka would be flooded with Indian products.

The end of the Cold War may have helped. Sri Lanka was considered too pro-West during the Jayawardane presidency. The most significant factor that pushed the countries

²⁷ On the Indo-Pakistan trade relationship see, Ziadi (2005) and Nabi and Nasim (2001).

²⁸ On the most recent economic analysis of SAPTA, see I. N. Mukherji (2005).

towards friendlier relations was the assassination of Rajiv Gandhi and India's withdrawal of support from the Liberation Tigers of Tamil Eelam (LTTE). The LTTE had been responsible for the assassination. Indo-Lanka relations improved dramatically after Narasimha Rao came to power. India's role during J.N. Dixit's tenure as High Commissioner at a time when the Indian Peace Keeping Force (IPKF) was trying to settle the ethnic problem between the Tamil's and Sinhala's had been considered hegemonic. The IPKF withdrawal signaled the removal of the major irritant in Indo-Lanka security relations. The departure of the IPKF was followed by an unprecedented level of activity within the Joint Commissions. The subsequent High Commissioner's were viewed as being more sympathetic to the point of Sri Lankan view.²⁹

The removal of the security irritant was accompanied by India's quest to increase its trade. The US's trade sanctions in the aftermath of the Indian nuclear tests may have increased India's resolve to have a successful sub-regional trade agreement with Sri Lanka. The High Commissioner's who followed J N Dixit during the Prime Minister-ship of I K Gujral and Atal Bihari Vajpayee projected a new face of India. Shiv Shankar Menon's tenure as High Commissioner was regarded by many as being especially helpful for getting the agreement in place. They demanded reciprocity but were viewed as being sympathetic to Sri Lanka's cause.

The most important reason for the Free Trade Agreement was India's successful strategy of globalization. Aided by an excellent study of the World Institute of Development Economics Research (WIDER) and ably complemented by technocratic activism of the Presidential Advisor Lal Jayawardane, Sri Lanka found good reason to lock a willing India into a trade relationship. The success of India's economic liberalization program saw India surpassing Japan as Sri Lanka's leading exporter in 1996. India supplied 10.4% of Sri Lanka's imports compared with

²⁹ Personal interview with Saman Kelegama, April 9, 2003. Kelegama is the Director of the Institute of Policy Studies, Colombo. See also Kelegama (1999), pp. 91-92.

9.2% coming from Japan. Exports included cotton, iron and steel, vehicles and transport equipment, paper, pharmaceuticals and Bombay onions. An Indian Honda motor cycle available at Rupees 78,000/- was considered preferable to the one being imported from Japan for Rupees 149,000/-. In 1997, out of a total trade of \$ 560 million Sri Lanka's exports to India were a paltry \$ 42.7 million. Sri Lanka's exports to India as a share of its total exports declined from 1.1% in 1990 to 1.0% in 1996.³⁰

TABLE 5
SRI LANKA-INDIA TRADE

Year	Imports (Rs in Million)	Exports (Rs in Million)	Import/Export
1998	35,837.7	2,279.4	16.1
1999	36,012.9	3,320.3	11.1
2000	45,477.1	4,217.3	11.1
2001	53,750.0	6,265.7	8.61
2002	79,847.1	16,152.9	5.1

Source: Kelegama (2003), p.3153

There was much opposition to the agreement from small industrialists, farmers and the trade unions in Sri Lanka. An agreement could be reached after a number of asymmetrical and favorable concessions were made by India. India gave a zero duty concessions on 1000 items compared with Sri Lanka's 300. India's negative list covered 24% of the goods while Sri Lanka's covered 49% of its products. The adjustment period for India was three years while that

³⁰ See WIDER (1991); WIDER (1993); Jayawardane (2001); Kelegama (1999). The technocratic activism was explained to me by Lal Jayawardane in a personal interview in Colombo in April 2003. He was the most powerful technocratic force within Sri Lanka that pushed this agreement.

for Sri Lanka was eight years. The Sri Lankan negative list was not only long it also ably protected competing producers.³¹

The results of these asymmetrical concessions were favorable for Sri Lanka. Between 1998 and 2002, the ratio of Sri Lanka's imports from India and its exports to India declined from 16:1 to 5:1 (Table 5). The preferential exports of Sri Lanka had grown by 620% in 2002.³² India and Sri Lanka were negotiating a Comprehensive Economic Partnership Agreement that would cover services as well.

The Indo-Lanka Free Trade Agreement could be viewed as an evolving institution based on reciprocity where a larger country was willing to accommodate the interests of a smaller partner for mutual benefit. It was when security considerations became less salient and interdependence considerations became more important that this agreement became a possibility.

India's Look East Policy

Security Considerations

India's security relations with Southeast Asia improved radically after the end of the Cold War. Southeast Asia viewed India's military potential with unease as long as it was with the Soviet side. Southeast Asia's principal problem with respect to India, which was its support for Vietnam, was solved after Vietnam joined the ASEAN. India's increasing naval power was now viewed in favorable terms. Thai pilots trained in India for flying Sea Harriers. Vietnam would

³¹ The opposition to the Indo-Lanka Agreement is clear from Sri Lanka newspaper articles of 1998 and 1999. Only big business supported the agreement. On this, I benefited from interviews with Saman Kelegama, Lal Jayawardane, Jayanta Kelegama, Ken Balendra, Stanley Jayawardane, and Patrick Amarsinghe in April 2003.

³² Kelegama, (July 26, 2003), pp. 3153-3154.

take India's help to upgrade its Mig-21 aircrafts. Indian help was sought for training pilots and for securing spare parts for the Malaysian Mig-29s.

Singapore's defense relations with India have been special. Singapore held joint Air Force exercises with India. India practiced F-16 combat with Singaporean F-16s before it had the same experience with the US. It had access to naval facilities in Cochin and India's missile testing range at Chandipur. The Defense Cooperation Agreement between Singapore and India signed in 2003 was significant. Senior Minister Goh Chok Tong appreciated the balancing role that India could play and expressed his willingness to set up a one billion dollar fund for development projects.

The Indian and ASEAN navies found common purpose in fighting terrorism and piracy in the straits of Malacca, which were among the least secure sea lanes in the world. They are increasingly taking the lives of more crew members of ships. These sea lanes are very critical for India's growing trade with ASEAN and other countries of East Asia. Indian and ASEAN navies began conducting naval exercises from 1991. The Navies of the Bay of Bengal from Bangladesh, India, Sri Lanka, Indonesia, Malaysia, Singapore and Thailand have been coming together in a joint exercise aptly called Milan (or coming together). The India-Singapore Agreement in 2003 produced the first exercise on Singaporean waters. The two navies have held joint naval exercises for the last eleven years. They recently concluded an exercise termed SIMBEX in the South China Sea. A bilateral agreement with Indonesia resulted in an exercise with Indonesia in 2004. Malaysia and Thailand are also negotiating similar agreements.³³

India's relations with China have been improving since 1988. China did not support Pakistan for its incursion into Indian territory in Kargil in 1999. This was despite the fact that China did not

³³ Information gathered from various news databases. See also, Sakhuja (2005), p. 3; Naidu (September 2004).

appreciate the Indian nuclear tests of 1998. The visits of Defense Minister George Fernandez followed by Prime Minister Atal Bihari Vajpayee's were a new turning point. The Vajpayee visit brought home the possibility of better commercial ties and greater understanding on the border issue. China and India have common interests in opposing US unilateralism and in promoting a fairer trade environment for developing countries. Chinese maps have begun to show Sikkim as a part of India. India has held naval exercises with China.

India's approach to China seems to be one of strategic engagement. India continues to worry about China's help to Pakistan in nuclear and missile technology, and the strategic benefits from the construction of the Gwadar Port. These ties were strengthened during Premier Wen Jiabao's China visit in April 2005. The Joint Statement by the Premier and the Indian Prime Minister was conspicuous due to the lack of agreement on two areas of India's concern, namely China's support for India's membership to the Security Council and India's desire for membership to the Shanghai Cooperation Council. India worries about China's military and commercial presence in Burma, and the rising dominance of China in the commercial activities of Asia. Fundamental differences over the border need to be resolved. In the area of energy security there appears to be more competition than collaboration, as was evidenced in the recent PetroKazakh case. Though this is not stated explicitly, India will increasingly depend on the US for helping it balance the rise of China in the region. This is a relationship that has elements of both cooperation and conflict. Given the end of the Cold War, the two countries are able to focus on areas of economic cooperation.

India's growing security convergence with Southeast Asia and its need for a commercial presence has produced two successful free trade agreements. The first was the one with Thailand in 2003 and the second was the more significant Comprehensive Economic Partnership Agreement with Singapore in 2005. It is not coincidental that India's most significant economic

agreement was with Singapore, which has historically had the deepest defense and commercial ties. Both India and Southeast Asia worried about China's dominance in Asian trade and investment. ASEAN had invested about \$ 20 billion in China till the year 2000, with very little inward foreign investment going to China. The gap between the foreign investment going to China and the cumulative investment to the six countries of the ASEAN has been growing since 1999. In 2003, whereas the ASEAN 6 received just over \$15 billion in investment, the same figure for China was about \$55 billion. Moreover, there was much competition between the manufacturing advantages of the ASEAN 6 countries and that of China. Last but not least, China's global trade dominance is a cause for worry for the ASEAN countries. China's share in the world's merchandise exports and imports was almost half the ASEAN's share in 1998. By 2003, China had overtaken the ASEAN 6.

India's share of world trade was no where close to China's. China's share of the world's merchandise exports grew from 2.4% to 5.8% between 1993 and 2003. In 2003 the same figure for India was less than 1%. Second, India and the ASEAN economies seemed to be more complementary as India's advantage was in services rather than manufacturing. India's consistent growth rates and policy of economic liberalization made it an important emerging economy in the region. India and the ASEAN countries considered engagement with China but had a strategic objective in diversifying their economic interdependence, especially in light of closing security ties. ASEAN would like to work with two important partners rather than one.³⁴

The Indo-ASEAN economic relationship was driven by the strategic and economic considerations of policy-makers. Singapore and Malaysia were the first two countries that Finance Minister Manmohan Singh visited in the immediate aftermath of balance of payments

³⁴ On the relative geo-economic weights of India and China in Southeast Asia and the world economy, see Sally and Sen (2005), pp. 92-115.

crisis of 1991. In his historic lecture at the Institute of South East Asian Studies, Singapore, Prime Minister Narasimha Rao outlined a role for the non-resident Indian. India received the status of a sectoral dialogue partner in 1992 and full dialogue partnership in 1995. Singapore had played an important role as evidenced by Prime Minister Goh Chok Tong's visit in 1994. He had called for an "India fever" in Singapore after his assessment of its economic liberalization program. A dialogue partnership that had eluded India during the Cold War became possible within half a decade into the post-Cold War era.³⁵

The Indo-Thai Free Trade Agreement was the clearest example of political strategy rather than careful trade policy driving India's Look East policy. Table 6 shows that India's trade with Thailand grew rapidly between 1995 and 2002 with a balance of trade in India's favor. Such figures would have quickly led the Indian Government to conclude that Thailand would be an easy country to trade with. An Indo-Thai Free Trade Agreement was signed in October 2003 with 82 items earmarked for duty reduction within the early harvest scheme. Within months Thailand's trade surplus was 400:1, with Thailand's clear comparative advantage emerging in auto components and consumer durables. Subsequently, a study by the Indian Credit Rating Agency (ICRA) found that Thailand had comparative advantage in these areas owing largely to the duty structure in India. The result was that truck makers like Ashok Leland were trying to set up factories in Thailand. Industrialists hurt by the agreement worried that the government, even if it needed to conduct trade agreements for strategic and political reasons, should have conducted consultations with business. The Indo-Thai trade is faced with issues concerning rules

³⁵ See Sridharan (2001), pp. 65-89 and Kaul (2001), pp. 43-88.

of origin. India wants restrictive rules that ensure that products manufactured in other countries do not receive easy access to India via Thailand.³⁶

TABLE 6
INDIA'S EXPORTS FROM AND IMPORTS TO ASEAN COUNTRIES

	1991/92		1995/96		2001/02	
	Exports to	Imports from	Exports to	Imports from	Exports to	Imports from
ASEAN- 6	1022 (5.7%)	1274.6 (6.5%)	2702.8 (8.5%)	2688.0 (7.3%)	3383.6 (7.7%)	3991.57* (7.8%)
Singapore	390.1 (2.2%)	696.3 (3.6%)	903.0 (2.8%)	1115.2 (3.0%)	970.1 (2.2%)	1298.9 (2.5%)
Indonesia	149.5 (0.8%)	67.4 (0.3%)	663.4 (2.1%)	461.8 (1.3%)	539.3 (1.2%)	1039.2 (2.0%)
Malaysia	203.9 (1.1%)	392.0 (2.0%)	393.8 (1.2%)	904.1 (2.5%)	773.6 (1.8%)	1137.3 (2.2%)
Philippines	64.7 (0.4%)	31.5 (0.2%)	144.5 (0.5%)	21.5 (0.1%)	248.0 (0.6%)	91.6 (0.2%)
Thailand	200.1 (1.1%)	48.9 (0.2%)	473.6 (1.5%)	170.0 (0.5%)	634.7 (1.5%)	424.5 (0.8%)
Vietnam	13.0 (0.1%)	38.5 (0.2%)	124.6 (0.4%)	15.5 (0.04%)	217.9 (0.5%)	NA

*Data only for ASEAN 5. Vietnam data not included.

The figures in the brackets represent the India's imports and exports with ASEAN countries as a % of its total imports and exports.

Source: Sen, Asher and Rajan (2004), pp 3299-3300

The Comprehensive Economic Cooperation Agreement (CECA) between India was signed on June 29, 2005. Singapore and India have security ties. Singapore, with a trade of \$ 6.4

³⁶ Personal interview with Mr. Alok Prasad, High Commissioner – Indian High Commission in Singapore in October 2005. Data gathered from various news databases.

billion with India, has been India's largest trading partner within the ASEAN. The two economies share complimentary characteristics, except in few areas such as chemicals and plastics. India wished a presence in Southeast Asia and Singapore wished to diversify its economic portfolio, which would get increasingly dependent on China. These strategic considerations made it relatively easy for the Indian Government to convince industry of the benefits of this agreement.

Singapore is the gateway Indian IT firms for positioning themselves in Asia. Indian foreign investment in the ASEAN region between 1995 and 2000 was \$ 225.28 million. The same figure inward foreign investment into India from the ASEAN region \$ 1.42 billion. The CECA would build on intra-industry links arising out of foreign investment within the two countries. This aspiration resulted in an agreement on the avoidance of double taxation. The agreement on services tried to harmonize the professional standards of the two countries and provide for pre-establishment national treatment.³⁷ India committed nine service sectors in return for the twelve that Singapore committed. Three Singapore banks would be allowed in India, a feature of the agreement that was not supported by the Reserve Bank of India. India would allow Singapore foreign institutional investors (e.g. Temasek) 20% equity in Indian firms, which is 10% higher than what is allowed by other countries. India hopes to build its service portfolio in Asia via the CECA route, aided by this agreement.

Asymmetrical concessions from Singapore signifying a strategic intent were key to the success of this agreement. Singapore has made significantly more tariff concessions than India. Singapore has allowed duty free entry for almost all products. India has allowed duty free entry

³⁷ National treatment is the equivalent in service trade of the non-discrimination rule in goods trade. It simply means that foreign firms will be treated like national firms in relation to the regulatory framework of the country.

in about 4% of India's tariff lines covering electronics, instrumentation, pharmaceutical and the publishing sectors. India would open up 75% of its tariff lines by 2009.³⁸

Second, Singapore is the only country that has agreed to India's version of the rules of origin criterion. This is significant because negotiation over the BIMSTEC³⁹ Free Trade Agreement and the ASEAN – India Free Trade Agreement are stuck over this issue. India wanted value addition up to 40% in the product being exported and there needed to be a change in tariff heading under the Harmonized System code for a product to be considered as one originating in Singapore.⁴⁰ The Indian Commerce Secretary complimented the manner in which the agreement was negotiated by Singapore, and agreed that this agreement would aid India in negotiating other such agreements.⁴¹

Singapore played a crucial role in getting India invited to the ASEAN plus four Asia summit that would include China, South Korea, Japan, India and the ASEAN countries in December 2005. An ASEAN-India FTA may take some time to materialize as it was bogged down by debates over the appropriate rules of origin, required to protect Indian industry. What is interesting, however, is the cooperation that has already begun to evolve in this region. In November 2005, the Indonesian president Susilo Bambang Yudhoyono offered India visa on arrival talked about cooperation in defense and the training of diplomats. Given the goodwill

³⁸ These views are based on personal interviews with Edmund Chia, First Secretary – Singapore High Commission in India in June 2005, and another with Lim Shung Yar Lim and Selwyn Sean Scharnhorst, Assistant Director and Senior Assistant Directors, respectively, at the Ministry of Trade and Industry – Singapore. See also, Mohan and Beng (2003).

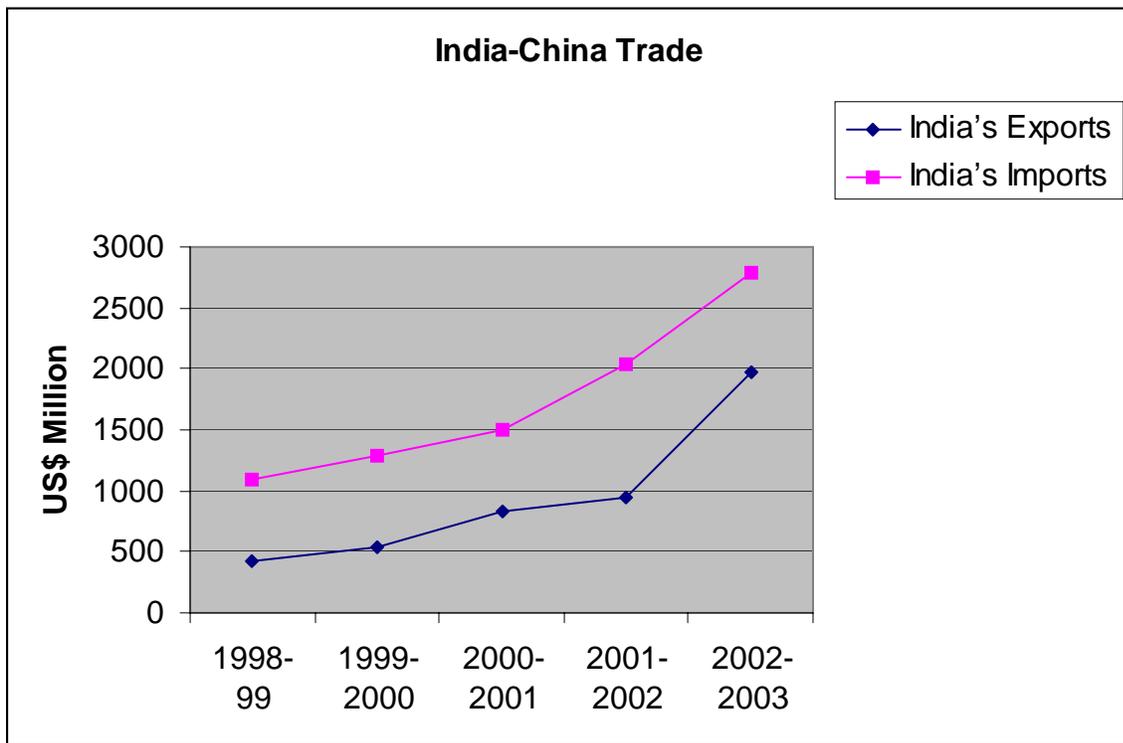
³⁹ BIMSTEC stands for Bangladesh, India, Myanmar, Nepal, Sri Lanka, Thailand Economic Cooperation.

⁴⁰ I am grateful to Aparna Shivpuri Singh for pointing this out to me.

⁴¹ Interview with S.N. Menon, Commerce Secretary, Government of India in New Delhi in July 2005, in the immediate aftermath of the signing of CECA. Data was obtained from various news sources.

generated by these offers, a CECA type agreement was to be given a serious consideration. Malaysia has been awarded about 21% of the contracts within India's National Highway Development Program as well as a project to construct the Hyderabad airport. Japan is keen to take its trade and investment relationship with India forward as both has grown rather sluggishly since 1991.

FIGURE 1
GROWTH IN INDIA-CHINA TRADE



India's trade with China has grown rapidly after the Vajpayee visit of 2003. A Free Trade Agreement was proposed during the Wen Jiabao state visit in April 2004. India pushed it on a slower track than the BIMTEC FTA and the ASEAN FTA. Trade has nevertheless grown significantly even though India has not granted China any special status. Trade has grown

significantly from \$3 billion in 2000 to over \$13 billion in 2004, with a 1.78 billion surplus in favor of India.⁴²

There seems to have been more progress on the BIMSTEC FTA than the India- ASEAN FTA. The negative lists have been shared. There is expectation that the agreement may take off by July 2006. India, Sri Lanka and Thailand have committed themselves to greater duty concessions than the less developed countries like Bangladesh and Nepal. The concerned parties are trying hard to work out a consensus on rules of origin.

What is significant about BIMSTEC is that it seeks to create a preferential trading region that gives India access to the markets towards its East, so that it can become a player over a larger economic space than is possible within SAARC. Second, BIMSTEC isolates Nepal and Sri Lanka, two countries with preferential trade ties with India. To these two countries is added Bangladesh, which has not shown much interest in a bilateral FTA. For Bangladesh, the concerns of vulnerability may be less when it is in partnership with five countries other than India. The success of this FTA will create a South Asia plus Southeast Asia economic space vital for the promotion of India's trade. Myanmar has said that agreement on the BIMSTEC FTA will help it get India closer to the ASEAN.

The above analysis suggests the emergence of the norm of reciprocity, which is evolving through varied preferential trading agreements that India is negotiating. The success of the Indo-Lanka, Indo-Thai and Indo-Singapore Agreements, and negotiations with respect to the ASEAN-India FTA and the BIMSTEC-FTA highlight the possibilities for the emergence of reciprocity when security concerns are diminished and interdependence concerns become more salient.

⁴² Acharya (May 14 2005).

IV. SCENARIO ANALYSIS

What is the emerging scenario for the regional architecture of trade in South Asia? South Asian trade will be debilitated for some time owing to Indo-Pakistan relations, despite the end of the Cold War. Pakistan's offer of a most-favored nation status to India will be ridden by concerns of vulnerability as long as the Kashmir issue remains unresolved. The US sponsored reconciliation has not produced any substantial solution to an essentially bilateral problem. Second, economic gains from its status as a frontline state will make it easier for Pakistan to afford disintegration.

The economic costs for Pakistan's economic isolation from India will begin to tell in the long-run. This could be due to withdrawal of US support. More importantly, the benefits owing to the economic integration of the rest of South Asia will begin to weigh heavily on Pakistan. India, Nepal and Sri Lanka are not affected by the SAARC process owing to sub-regional cooperation. Bangladesh is more willing to participate in a larger BIMTEC-FTA, even though it feels vulnerable in a bilateral setting with India. Aided by sub-regional bilateral agreements between India and Nepal, India and Sri Lanka, and India and Thailand, the BIMTEC-FTA could be a possibility by the end of 2006. Second, India is also proposing an agreement with the Middle East. As India's economy becomes more attractive to its trade partners, Pakistan will be the only country that would be out of an economic space that could span from Singapore up to the Middle East. If the economic argument becomes compelling, Pakistan will respond, as is already evident from its growing trade with India, albeit a miniscule proportion of its total trade at the present time. The end of the Cold War will only have a positive effect on the security relations, which will aid the process. Resolution of the political differences between these two countries could usher a new era in intra-regional trade within South Asia, in the longer run.

The BIMSTEC-FTA will probably be easier to negotiate than the Indo-ASEAN-FTA. This is because India is liberalizing both regionally and multilaterally in a gradual manner, given

the structural constraints to its competitiveness like poor infrastructure and inflexible labor laws. Years of import substitution have created interests pitted against competitiveness that will take some time to adjust. India's strategy would be to work with easier agreements with traders who are less competitive before embarking markets that are more competitive. There will be some caution against haste, especially after the results of the Indo-Thailand FTA. Competition from the BIMSTEC will be easier to adjust to than competition from ASEAN. At the same time, India would like to take competition in doses so that its industry and policy adjust and become more competitive. The trade-friendly technocracy in India realizes that there is no substitute for competition aided by good policy, if India has to become an important trader.

The India-Singapore FTA succeeded because of the convergence of post-Cold War geo-strategic and geo-economic interests. Singapore's interest in India over the years allowed it to negotiate an asymmetrical agreement. The success of the agreements being negotiated between India and ASEAN or India and Malaysia will depend on the extent to which these countries will be sympathetic to India's special concerns, highlighted so clearly in the differences over the rules of origin. If partners wish pure reciprocity, it may take some time for the Indian economy to take on such competition.

An India-China FTA may take an even longer time to materialize, even though trade was becoming more normal between the two countries. India took a go slow approach on this issue during Premier Wen Jiabao's visit in April 2005. The divergence of strategic interest has created fears about Indian vulnerability with respect to China in the same manner as Pakistan is concerned about its vulnerability with respect to India. China is Pakistan's major trading partner and its all-weather friend. The Pakistan factor may become less salient for Indo-China trade relations if China helped India gain entry into the Shanghai Cooperation Council, or, pushed its case hard for a membership in the Security Council. On the positive side, the two countries are

normalizing relations and are willing to find profit from normal economic relations. India's fears about getting flooded with goods from China have also been proved wrong.

In sum, this paper takes the view that the sub-region within South Asia and Southeast Asia, which would include India, Sri Lanka, Nepal, Bangladesh, Bhutan, Myanmar and Thailand, is likely to create a preferential economic space, building on the previous FTAs. Both the BIMSTEC-FTA and the Indo-Singapore FTA will help South Asia come closer to Southeast Asia. Over time, this will result in an Indo-ASEAN FTA, which could bring most of South Asia closer to the Southeast Asia. These developments will help towards the normalization of Sino-Indian trade relations as India becomes more confident about competition. The assumption is that Sino-Indian relations will move along a cooperative path. Pakistan, in the long run, will find a compelling reason not to stay out of a normal economic relationship with India, if this region evolves as a contiguous economic space spanning possibly up to the Middle East.

V. CONCLUSION

The emerging regional architecture of trade in South Asia was beginning to involve countries other than Pakistan in reciprocal relationships, which were exploiting the advantages of geography in South and Southeast Asia. Reciprocity was almost never symmetrical in trade relations in South Asia. The more competitive countries often offered the greatest concessions. But they demanded reciprocal concessions, nevertheless. Reciprocity was largely affected by two factors in South Asian trade relations. First, reciprocity was likely to evolve when the security relations were good and when the economic gains of one country were not viewed as a loss for the other. Second, and a factor not adequately discussed in the literature on regionalism in trade, is the degree of need for regional economic integration, based on strategies that emphasized the need for trade rather than autarky. Focus on regionalism in the post-colonial countries of South

Asia, which were populated with countries that embraced the autarkic route to development, brought out the importance of this variable.

**FIGURE 2:
FACTORS AFFECTING SOUTH ASIA’S ASIAN TRADE**

	<u>Security Relations</u>	
	<i>Moderate</i>	<i>Bad</i>
<i>High</i>	India-ASEAN PCW India-Lanka PCW CECA with Singapore	India-China PCW India-Pakistan PCW SAARC 1990s
<hr/>		
<u>Interdependence</u>		
<u>Concerns</u>		
<i>Low</i>	India-S E Asia 1948-1965	India-ASEAN 1975-1989 India-China Relations 1962-1988 SAARC 1985-90 India- Pakistan Relations 1947 – 1980s

PCW = Post-Cold War

CECA is the Comprehensive Economic Cooperation Agreement signed between India and Singapore on June 29, 2005.

SAARC is the South Asian Association for Regional Cooperation.

ASEAN is the Association of South East Asian Nations.

Figure 2 provides a typology based on varying levels of interdependence concerns and security relations. Adversarial orientation that characterized Indo-Pakistan security relations debilitated their trade relations, despite their efforts to embrace trade as a route to development. Low levels of trade characteristic of the Cold War era were only marginally affected by the end of Cold War, which could not resolve the political differences between the two countries. Just the opposite could be said of Indo-Lanka, Indo-Singapore, Indo-Thailand trade relations. In all

these cases, a drastic improvement of security relations due to the end of Cold War or other reasons, contributed handsomely to bilateral trade when the concerned countries became keen to exploit global economic integration.

A moderate improvement in relations in the presence of trade orientation facilitated the growth of trade between India and China. One could expect improved trade relations, if the countries resolved their political differences. If the concerned countries have only a low or a moderate level of desire for exploiting trade as a vehicle of development, then good security relations notwithstanding, one would expect low levels of interdependence. Could this have been true of the import substituting era of the 1950s and the early 1960s when India had excellent relations with most countries in Southeast Asia?

This paper has argued for the appropriateness of a political economy approach for understanding the emerging architecture of trade in South Asian. Trade based on reciprocity is likely to evolve under cordial security relations. Second, concerns about vulnerability were likely to be less when the security relations were good. Last but not least, economics mattered! Regional trade was not likely to grow if autarkic developmental models captured the technocratic imagination within a region.

Bibliography

- Acharya, Alka. 14 May 2005. "Rectifying Relationships: Wen Jiabao's South Asian Tour," *Economic and Political Weekly*.
- Acharya, Alka. 2 April 2005. "India-China Relations: Beyond the Bilateral." *Economic and Political Weekly*.
- Ahluwalia, Isher J. 1991. *Productivity and Growth in Indian Manufacturing*. New Delhi: Oxford University Press.
- Asher, Mukul G, and Ramkishen S Rajan. 1995. "Singapore-India Economic Relations: Exploring Strategies for Mutual Benefit." In *Singapore-India Relations: A Primer*. Singapore: Singapore University Press.
- Axelrod, Robert. 1984. *The Evolution of Cooperation*. New York: Basic Books.
- Axelrod, Robert, and Robert Keohane. 1993. "Achieving Cooperation under Anarchy." In *Neorealism and Neoliberalism: The Contemporary Debate*, edited by David A Baldwin. New York: Columbia University Press.
- Baldwin, David. 1987. *Paradoxes of Power*. New York: Basil Blackwell.
- Bhagwati, Jagdish N and Padma Desai. 1970. *India's Planning For Industrialization*. Bombay: Oxford University Press.
- Bhagwati, Jagdish. 2004. *In Defense of Globalization*. New York: Cambridge University Press.
- Bajpai, Kanti. 6 August 2005. "Where are India and the US Heading?" *Economic and Political Weekly*.
- Chakravarty, Sukhamoy. 1987. *Development Planning*. Oxford: Clarendon Press.
- Choudhry, Saud A, and Mohammad Imran. 2003. "The New Regionalism in India's Export Trade," In *Economic Institutions in India*, edited by Parthasarathi Banerjee and Frank-Jurgen Richter. Moundmills, Basingstoke, Hampshire: Palgrave Macmillan.
- Dhar, P. N. 1988. "The Indian Economy," In *The Indian Economy*, edited by Robert E. B. Lucas and Gustave F. Papanek. New Delhi: Oxford University Press.
- Dash, Kishore C. 1996. "The Political Economy of Regional Cooperation in South Asia," *Pacific Affairs* 69 (2): 185-209.
- Frankel, Francine. 16 November 2005. "India's Potential Importance for Vital US Geopolitical Objectives: A Hedge Against a Rising China?" Statement before the International Relations Committee of the House of Representatives.

Ganguly, Sumit, *The Origins of War in South Asia*. Boulder: Westview, 1986.

Ganguly, Sumit. 1999. *The Crisis in Kashmir: Portents of War, Hopes of Peace*. Washington and Cambridge: Wilson Centre Press and Cambridge University Press.

Ganguly, Sumit. January 2002. "Assessing India's Response to the Rise of China." In *The Rise of China in Asia*, edited by Carolyn W Pumphrey. Carlisle Barracks, Pennsylvania. See www.carlisle.army.mil

Ganguly, Sumit. March 2005. "America and India at a Turning Point," *Current History*: 120-124.

Ganguly, Sumit and Michael R Kraig. 2005. "The 2001-2002 Indo-Pakistani Crisis: Exposing the Limits of Coercive Diplomacy." *Security Studies* 14, (2).

Gerschenkron, Alexander. 1962. *Economic Backwardness in Historical Perspective*, Cambridge: Harvard University Press.

Gordon, Sandy (1995). "South Asia after the Cold War." *Asian Survey* 35, (10): 879-895.

Gowa, Joanne. 1994. *Allies, Adversaries and Free Trade*. Princeton: Princeton University Press.

Grieco, Joseph M. 1999. "Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal Institutionalism." In *Neorealism and Neoliberalism: The Contemporary Debate*, edited by David A. Baldwin. New York: Columbia University Press.

Gupta, Sisir. 1964. *India and Regional Integration in Asia*. Bombay: Asian Publishing House.

Hirschman, Albert O. 1958. *A Strategy of Economic Development*. New Haven: Yale University Press.

Hirschman, Albert O. 1980. *National Power and the Structure of Foreign Trade*. Berkeley: University of California Press.

Jayawardane, Lal. 26 26 2001. "The Significance of the Indo-Lanka Free Trade Agreement," *Daily News*: 26.

Kaul, Man Mohini. 2001. "ASEAN-India Relations During the Cold War." In *India and ASEAN: The Politics of India's Look East Policy*, edited by Federic Garare and Amitabh Matto. New Delhi: Manohar Publishers.

Kohli, Atul 1990. *Democracy and Discontent*. New York: Cambridge University Press.

Mansfield, Edward D. and Rachel Bronson. 1997. "Alliances, Preferential Trading Arrangements, and International Trade," *American Political Science Review* 91 (1): 94-107.

Mansfield, Edward D and Rachel Bronson. 1997. "The Political Economy of Major-Power Trade Flows." In *The Political Economy of Regionalism*, edited by Edward D Mansfield and Helen V Milner. New York: Columbia University Press.

Mansfield, Edward D. and Helen V Milner. 1999. "The New Wave of Regionalism." *International Organization* 53 (3): 589-627.

Kelegama, Saman. 1999. "Indo-Sri Lanka Trade and the Bilateral Free Trade Agreement: A Sri Lankan Perspective," *Asia Pacific Development Journal* 6 (2): 87-106.

Kelegama, Saman. 26 July 2003. "Sri Lankan Exports to India." *Economic and Political Weekly*: 3153-3154.

Krueger, Anne O. 1997. "Trade Policy and Economic Development." Working Paper 5896. Cambridge, Mass: National Bureau of Economic Research.

Mehta, Rajesh. 2002. "Establishment of Free Trade Agreement Among BIMST-EC Countries." RIS Discussion Paper 23/2004. New Delhi: Research and Information System for the Non-Aligned and Other Developing Countries.

Mohan, Rakesh, and Lim Chin Beng. 2003. *Joint Study Group Report on India-Singapore Comprehensive Economic Cooperation Agreement*. New Delhi and Singapore: Government of India and the Government of Singapore.

Mukherji, Indra N. 2004. "Towards a Free Trade Area in South Asia: Charting a Feasible Course for Trade Liberalisation with Reference to India's Role," RIS Discussion Paper 86/04. New Delhi: Research and Information System for the Non-Aligned and Developing Countries.

Mukherji, Rahul. 2000. "India's Aborted Liberalization – 1966," *Pacific Affairs* 73 (3): 375-392.

Mukherji, Rahul. 2005. "Economic Sanctions as a Foreign Policy Tool." In *International Relations Theory in India*, edited by Kanti Bajpai and Siddharth Mallavarapu. New Delhi: Orient Longman.

Mukherji, Rahul. 2005. "Economic Transition in a Plural Polity: India," Working Paper 05. Singapore: Institute of South Asian Studies.

Muni, S D and Anuradha Muni. 1984. *Regional Cooperation in South Asia*. New Delhi: National Publishing House.

Narayan, S. October 2005. "Economic Impact of Terrorism On The Southeast Asian Region," Institute of South Asian Studies Insights 08. Singapore: Institute of South Asian Studies.

Nabi, Ijaz and Anjum Nasim. 2001. "Trading with the enemy: A case for liberalizing Pakistan-India trade." In *Regionalism and Globalization*, edited by Sajal Lahiri. London: Routledge.

Ohmae, Kenichi. 2004. "The Rise Of The Region State." In *Regions and Regionalism in Europe*, edited by Michael Keating. Cheltenham, UK: Edward Elgar, 2004.

Ruggie, John G. 1983. "Political Structure and Change in the International Economic Order." In *Antinomies of Interdependence*, edited by John G Ruggie. New York: Columbia University Press.

Sakhuja, Vijay. August 2005. "Cooperative Security in the Straits of Malacca," ORF Issue Brief 2. New Delhi: Observer Research Foundation.

Sally, Razeen and Rahul Sen. 2005. "Whither Trade Policies in Southeast Asia?" *ASEAN Economic Bulletin* 22 (1): 92-115.

SarDesai, D R. 1968. *Indian Foreign Policy in Cambodia, Laos and Vietnam*. Berkeley: University of California Press.

Schaffer, Howard and Teresita Scahffer. 1998. "Better neighbors." *SAIS Review* 18, (1).

Sen, Rahul and Mukul G Asher and Ramkishen Rajan. 17 July 2004. "ASEAN-India Economic Relations: Current Status and Future Prospects," *Economic and Political Weekly*, pp. 3297-3308.

Sengupta, Arjun K. 2001. *Reforms, Equity and the IMF*. New Delhi: Har Anand.

Sridharan, Kripa. 1995. "Singapore-India Relations in the Post-Cold War Period: A Singapore Perspective." In *Singapore India Relations: A Primer*, edited by Yong Mun Cheong and V V Bhanaji Rao. Singapore: Singapore University Press.

Sridharan, Kripa. 1996. *The ASEAN in India's Foreign Policy*. Aldershot, UK: Dartmouth Publishing.

Sridharan, Kripa. 2001. "Regional Perceptions of India." In *India and ASEAN*, edited by Frederic Grare and Amitabh Mattoo. New Delhi: Manohar Publishers.

Timmer, Marcel P and Adam Szirmai. 2000. "Comparative productivity performance in manufacturing: the structural bonus hypothesis re-examined," *Structural Change and Economic Dynamics* 11 (4): 371-392.

World Institute for Development Economics Research (WIDER). 1991. *Indo-Sri Lanka Economic Cooperation*. WIDER Group Series No. 8. Helsinki.

WIDER. 1993. *Indo-Sri Lanka Economic Cooperation*. 1993. WIDER Group Series No. 9. Helsinki.

Waltz, Kenneth N. 1979. *Theory of International Politics*, 1st edition. New York, McGraw Hill Publishing.

Zagha, Roberto. 1999. "Labor in India's Economic Reforms." In *India in the Era of Economic Reforms*, edited by Jeffrey Sachs, Nirupam Bajpai and Ashutosh Varshney. New Delhi: Oxford University Press.

Ziadi, Akbar. February 27, 2005. "International Relations Theory and the Political Economy of Trade: India and Pakistan," Unpublished manuscript, University of Pennsylvania Institute for the Advanced Study of India, New Delhi.