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Korea: an Important Part of India's "Look East" Policy

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KOREA: AN IMPORTANT PART OF INDIA'S "LOOK EAST" POLICY

India's more active interest in The Republic of Korea¹ over the past several years is rooted in New Delhi's larger "Look East" policy adopted in the early 1990s following decades of limited engagement there. Trade and investment ties are by far the most important elements in this "Look East" policy, and this applies particularly to the growing Korean-Indian relationship, and bilateral trade between the two countries has increased significantly, at about 22 percent annually, over the past few years. While still a small percentage of each other's total export trade, there is considerable scope for the expansion. Korea, the world's 11th largest economy, possesses the advanced technology industries that the rapidly growing Indian economy will need to maintain its robust economic growth rate. The two countries are now in the process of strengthening the institutional mechanisms for increased trade and investment. The constraints on Indian trade with North Korea demonstrate the negative effects when such institutional mechanisms are missing. North Korea has the further liabilities of a banking system and a legal system inadequate for the requirements of international trade. North Korea's trade with India is less than a tenth the value of that of the Republic of Korea (7.3 billion dollars versus about 600 million dollars in 2006 - 2007).²

Strategic cooperation with Korea has been much less significant, though not entirely absent, given the common geostrategic interest in securing sea lanes through the Indian Ocean and its choke points that are used to transport each country's growing imports of oil and gas from the Persian Gulf states. At present, however, there is little Korean involvement in the security of these sea lanes. There is similarly almost no Indian involvement in the major security issues of East Asia, such as the Taiwan question or the North Korean nuclear weapons issue. Both countries have a common interest in North Korea abiding by international nuclear nonproliferation norms, though this issue also is a possible obstacle to Korean acceptance of the US proposal

¹ Will use Korea for all future references to the Republic of Korea.

² Government of India: Department of Commerce, Trade Statistics updated 3/12/07.

to make a nuclear capable India an exception to American and international protocols denying nuclear fuel and technology to any country, such as India, outside the Nuclear Nonproliferation Treaty.³ Still another potential basis of cooperation—or competition—is rooted in the scramble for access to overseas gas and oil fields by both Korea and India—and many other energy deficient countries such as China—as they seek reliable overseas sources to satisfy a growing dependence on imported gas and oil. India's dependence is approaching the level of Korea's as domestic energy production is expanding at only half the rate of the country's robust economic growth, second fastest in the world and only slightly behind that of China.

Soft diplomacy, drawing on the cultural/religious interaction over the past two thousand years after the introduction of Buddhism from India, could play a more important role in the relationship. Korean Buddhism has maintained continuous contact with the place of its origin that has recently intensified with the growth of religious tourism associated with sites linked to the life of the Buddha in the northern Indian state of Bihar and the nearby *terai* of Nepal. Hindu nationalism, now more pronounced in India, has historically viewed the Buddhist majority countries of East Asia as natural allies—and has enthusiastically backed the "Look East" policy as well as people-to-people programs aimed at forging closer links between India and countries to the east.

INDIA AND ASIA: OBSTACLE LIMIT EARLY ENGAGEMENT

India's first prime minister, Jawaharlal Nehru, serving 17 years in his post from independence in 1947 until his death in 1964, set the tone of Indian domestic and foreign policy that was to last until the early 1990s. He wanted an Asia free of colonial exploitation. To that end, he pushed the concept of nonalignment and worked

³ The US is not likely to offer Pakistan such an exception in any time soon because of the damage to its ability to safeguard its nuclear weapons capabilities by the diversion of nuclear-weapons knowledge to North Korea, Iran and Libya for almost two decades. This was carried out by Abdul Qadar Khan, a prominent scientist/administrator in Pakistan's nuclear weapons program until his activities were exposed by the US and others. President Musharraf in his book, *In Line of Fire* reports his suspicions about Khan's diversion efforts to North Korea as early as 1999. For a discussion of this diversion, see David E. Sanger, "In Book, Musharraf Expands on North Korean Nuclear Links," *New York Times* (September 26, 2006).

against the confrontational aspects of the US-Soviet competition at the heart of the Cold War. He feared that the Korean War could provide the basis for a revived colonialism in Asia and tasked his diplomats to push for a cease fire. He limited India's contribution to the UN forces to a medical unit. Nehru opposed General MacArthur's push north of the 38th parallel, fearing Chinese involvement which could precipitate a wider international conflict. After the cease-fire, however, he permitted two of his most prominent generals to command international forces charged with the custody of prisoners and their repatriation. Diplomatic ties with the Republic of Korea, however, only came late in 1962 and were limited to the consular level until December 1973, when the two countries established ambassadorial relations. To underscore its "nonaligned status" in the Cold War, India established diplomatic relations and then ambassadorial relations with North Korea almost simultaneously with that of the Republic of Korea. India maintains diplomatic relations with both Korean states concurrently. India and the Republic of Korea granted each other Most Favored Nation (MFN) status the next year. India's Soviet tilt in the 1970s and 1980s, however, generated suspicions of it by all the East Asian powers except newly united Vietnam, and inhibited closer ties with them until after the Cold War.

India's relative isolation from the rest of Asia prior to its "Look East" policy was not the intention of Prime Minister Nehru. Even before the country's independence, he had made moves to engage with other Asian nationalists and strongly supported the notion of Pan-Asian cooperation. After independence in 1947, he helped forge the "Bandung Spirit" in 1955, pre-cursor to the Nonaligned Movement. The spirit of Asian solidarity was perhaps best captured in the slogan of "Hindi-Chini bhai bhai" ("Indians and Chinese are brothers") that took hold in India during the early 1950s. However this policy of engagement with Asia quickly began to unravel in the late 1950s with the rising border tensions with China which culminated in India's military humiliation in the 1962 India-China war. That defeat, combined with the growing Cold War tensions in Asia, worked to limit India's engagement with Southeast and East Asia for three decades.⁴

⁴ An excellent analysis of India's early Pan Asian efforts in Chietigj Bajpae, "India Rediscovering East Asia" in *Power and Interest News Report* (December 3, 2007).

An inward focus replaced the early Pan-Asian foreign policy orientation. It was defined by a policy of economic self-sufficiency at home and strategic autonomy abroad. India feared that Soviet-US tensions would spill over into South Asia and prompt superpower involvement in ways that would complicate India's relations with its neighbors, especially Pakistan, which itself sought outside allies against its larger neighbor to the east. China's growing support for Pakistan contributed to India's closer alignment with the Soviet Union, starting in the late 1960s, which in turn generated suspicion of India throughout East Asia. The proxy war between the US and the USSR in Afghanistan after the Soviet invasion during the 1980s seemed to confirm Indian fears of the danger of superpower confrontation in the region.

Symptomatic of the anemic Indian ties with East and Southeast Asia was the fact that not a single full time correspondent from the vigorous and influential Indian print media was in the region until the late 1990s. They were in Europe, the USSR, and the US—the main sources of trade, the main areas of security interest, and the cultural and intellectual font for much of the post-independence political elite class. So when the recent "Look East" policy shift came, besides its economic component, it represented a more comprehensive move away from a Eurocentric cultural and media orientation. Indian media is now well represented throughout Asia; Singapore, India's most intimate friend in the region, has become an Indian media hub.

INDIA: NEW CIRCUMSTANCES LEAD TO NEW FOREIGN POLICY

The end of the Cold War, along with the Soviet withdrawal from Afghanistan in the late 1980s and the termination of US military assistance to Pakistan in the early 1990s, due to its nuclear weapons program, had a profound impact on India's foreign policy. No longer was there a basis for the strategic links to the USSR, a fact that registered quickly in China, which moved to improve relations with India. The US, in addition, came courting in the second Clinton administration (1996-2000) and India was pursued even more vigorously in the two presidential terms of George W. Bush (2000- 2004 and 2004-2008). The younger Bush has looked at a

rising India as a balance to rising China, a stabilizing factor in the critically important region stretching from east Africa around the Indian Ocean to Indonesia. The Bush approach has worked on the proposition that a strong India, whether linked to the US militarily or not, is a strategic asset. This policy assumption was most dramatically demonstrated by bipartisan action of the US Congress in late 2006—despite it being a significant departure from three decades of nuclear nonproliferation policy—to back legislation proposed by the Bush administration to make India an exception to American nuclear nonproliferation laws (and to encourage the international community to follow its lead in the 45 nation Nuclear Suppliers Group (NSG) of which the Republic of Korea is a member).

This proposed exception would give India access to nuclear fuel, to more sophisticated nuclear technology for civilian uses, and to a range of dual use technology denied to it for the past three decades because it remained outside the Nuclear Nonproliferation Treaty. India in return pledged to place all of its civilian nuclear facilities under international safeguards, and to construct a safeguarded facility to reprocess all nuclear fuel supplied from the outside.⁵ There was robust opposition from the intellectual nonproliferation community in the US, arguing that this departure from established policy significantly undermined the international nonproliferation regime at a time it was already being undermined by such countries as North Korea and Iran. Several states in the Nuclear Suppliers Group have similar concerns, including Korea. These arguments, however, have been overshadowed politically in the United States—and in other countries—by the broad acceptance of India as a strategic partner in Asia.⁶

⁵ The US legislation permitting the exception required several steps before the actual treaty of nuclear cooperation could be considered by the US Congress: (1) an India specific agreement with the IAEA; (2) a consensus approval by the Nuclear Suppliers Group (NSG); and (3) a negotiated agreement between India and the US on the specifics of cooperation, which was achieved in September 2007.

⁶ Whether that is the case inside India is still open to question. The agreement, while demonstrably favorable to India, giving it an opportunity to escape its international pariah status on the nuclear front, has been delayed by opposition to it by Indian communists. They are the supporters of Prime Minister Manmohan Singh's minority governing coalition in Parliament. But the communists view the agreement as an American tactic to dominate Indian foreign policy decisions across the board. As of this writing, it is uncertain if the Indian government will be able to complete the deal before the American presidential campaign season of 2008 effectively closes off US consideration.

INDIA LOOKS EAST FOR ECONOMIC GROWTH

At the 2005 East Asia summit, Indian Prime Minister Manmohan Singh announced specifically that the "Look East" foreign policy dictated Indian participation. He declared that policy was an important part of a larger outward looking approach to world affairs, representing "a strategic shift in India's vision of the world." He should know. Manmohan Singh was in on "Look East" creation some fifteen years earlier when he served as the powerful Finance Minister under Prime Minister Narasimha Rao (1991–1996). This new foreign policy of that government—and its successors—was largely shaped by economic concerns, specifically the desire for a higher annual GDP growth rate. The country's earlier rather poor performance (about 3 percent per annum since independence in 1947—and sarcastically referred to some as the "Hindu rate of growth") were viewed as far too low to satisfy the growing demands of vast numbers of newly politicized groups in the rapidly expanding population. The country's political class at that time determined that higher growth rates required acquiring foreign markets, high technology, investments and additional sources of oil and gas. All this meant scrapping much of India's socialist economic orientation and what had been a half century of looking inward toward the South Asian subcontinent. Inspiration for resulting reforms was the success of the East Asian economies, including that of the Korea. Indian planners were well aware of the policy process used to transform Korea from a developing country in the 1950s to a high income country starting in the 1970s with a substantial per capita income.

Among his first acts back in the early 1990's as Finance Minister, Manmohan Singh abolished the pervasive licensing system that had placed severe constraints on Indian industry. The reform permitted private investment in the bloated inefficient world of public enterprises, lowered tariffs and opened the country incrementally to foreign direct investment. Successive Indian governments have stuck to the market reforms at home because the economic results have been positive, producing sufficient political support domestically to sustain a new foreign policy orientation, in turn promoting faster economic growth at home. Major successes

include:

- (1) The average annual increase in the GDP between 1994-2005 was double the earlier annual average growth rate of about 3.5 percent. This translates into doubling the size of the Indian economy in just 11 years. Then, in the past few years, India's annual economic growth rate has edged upwards to over 9 percent, the government now aims for a 10 percent GDP growth rate on a consistent basis, though that is doubtful without much faster improvement in the country's creaky infrastructure.
- (2) Indian hard currency holdings moved from less than a billion dollars in 1990 to over 220 billion dollars today, a twenty percent jump from last year alone and still growing (though only one seventh the size of China's economy).
- (3) With the liberalization of trade policy, overall volume has tripled since 1990. The rate of trade expansion with Southeast Asia and East Asia has been even higher, averaging over 30 percent growth per year over the past few years. Partly this trade surge is due to the slashing of customs tariff rates from peak levels of 150 percent in 1991-1992 to 15 percent in 2005-2006; import licensing was dismantled and quantitative restrictions in imports have been phased out.

Since the adoption of market reforms, India has displayed a remarkable ability to withstand external economic shocks despite the increased outward orientation. This played out most dramatically when India remained relatively unaffected by the East Asian financial crisis of 1997. A major reason may be that the main drivers of Indian growth are still linked to domestic consumption, and the predominant source of investment is from domestic resources, not foreign direct investment. This phenomenon is likely to continue. Even with expanded trade and foreign investment, compared with other countries to the East, India is likely to remain relatively insulated from international economic shocks.

THE ECONOMIC DIMENSION OF "LOOK EAST"

India's market reforms were adopted just as the Cold War was coming to an end, a development that enhanced Indian security significantly while providing it space for a more innovative foreign policy. And this new "Look East" had the great advantage of focusing on improved relations with countries that could help achieve a faster growth rate.

The result, therefore, was a foreign policy helping India achieve a considerably more robust growth rate—well beyond the 3.0–3.5 annual GDP rate that characterized the Indian economy after 1947. As sources of investment, trade, and technology, India now cultivates countries like Korea, Japan, Malaysia, Thailand, Indonesia and Singapore, which had earlier been wary of its Soviet tilt during most of the Cold War. Improved relations on the foreign policy front, with these countries—and with their ally the United States—in turn, has significantly enhanced room for diplomatic maneuver as India devises ways to handle a rising China with strong links to its historic regional adversary Pakistan.

Korea and Singapore among these Asian states seemed best to understand the new economic compulsions driving Indian foreign policy in the 1990s. They moved quickly to expand economic cooperation. These two emerged as significant investors at a time when most foreign investors were still wary of getting involved. Investment from Korea, for example, expanded from a meager 2.5 million dollars in 1991, the year initiating Indian market reforms, to over 3 billion dollars of approved investment by 2004; Korea has become the fifth largest investor in India, after the US, Mauritius, the UK, and Japan.⁷ Major Korean business groups like LG, Samsung, and Hyundai have not only established their presence in the Indian market, but are also in the initial stages of diversifying their Indian investment portfolios. The main areas attracting Korean FDI are the transportation industry (some one-third of all investment to date), oil refineries, electrical equipment,

⁷ Economy Watch on line 10/19/07. Actual investment inflows from Korea are only about 800 hundred million dollars as of 2005, with the remainder representing investments approved, but funds not yet expended. This figure however, does include a multi-billion dollar iron ore refinery project in Orissa.

chemicals. The next big phase is likely to be metal refineries, taking advantage of India's huge reserves of key metals. Another likely area for investment is infrastructure; India is on the verge of letting contracts worth tens of billions of dollars for highways, railroads, seaports, airports and electrical generating/transmission facilities. Korean construction companies, with an established international record of excellence, is in excellent position to take competitive advantage of this infrastructure boom just over the horizon. For instance, these companies, in collaboration with Indian counterpart companies, have already won contracts on India's ambitious National Highway Development project.

The "Look East" policy was conceived as an incremental program focusing primarily on strengthening trade and security ties with Southeast Asia primarily. Over the past several years, however, its scope has been expanded to place greater emphasis on the East Asian states of China, Japan and Korea. In the crucial first stage, its chief goal was to establish Indian bone fides as a worthy trading partner. That meant getting over a bad brand name and suspicions generated by its earlier pro-Soviet tilt. Even its friends had begun to believe that the cantankerous Indian democracy doomed the country to poor governance and economic stagnation. Years of autarky had generated low growth rates, a reputation for shoddy products, among the highest tariff rates in the world and a heavily bureaucratic system generally unfriendly toward business of any kind. This was not Company India and the business-oriented Southeast Asian leadership was highly skeptical. Despite the efforts to change in the early 1990s, the Chinese remained somewhat contemptuous of India, and Japan had a minimal presence and interest. Korea, on the other hand, took notice and began to invest in a significant way.

In sum, however, India's "Look East" policy was not met with instant success. Just as it was launched in earnest, two events blocked significant forward movement. The first was the economic meltdown in the Southeast Asian states in the late 1990s. Second was the widespread negative reaction to India's nuclear weapons explosions in May 1998, which provoked the US to impose sanctions and elicited tough criticism from China, Japan, Korea, Australia and many other Asian states. Indian trade to the east in the late 1990s

remained rather static at between six to seven billion dollars per year, a large part of that with the steadfast friend, Singapore. India even then looked to Singapore to play a role for it in marketing and investing, similar to that of Hong Kong with China. Reflecting the importance of Singapore, India for the past two decades has sent its brightest and best diplomats to this important city-state.

The Japanese reluctance to take advantage of India's new opening underscores the obstacles India faced in opening to the east. Because of its long-standing autarkic economic policies, India missed out on the surge in Japanese foreign direct investment in the early 1990s; the skeptical Japanese waited to see if economic reforms would stick. The nuclear tests in May 1998 did not help and nuclear-sensitive Japan was one of India's harshest critics of these tests. Between 1993–2003, India attracted on average only about 200 million dollars a year of Japan's 50 billion dollars a year in FDI. In 2006-2007, this foreign investment was still only about 52 million dollars, significantly less than Korea in that year.

Japan's disinterest, however, may be undergoing a dramatic change. The Japanese now appear to be laying the groundwork for a significant deepening of ties with India, both economic and security. Three Japanese prime ministers have visited India since 2000 and India is the only country with which Japan has agreed to have annual talks at the prime ministerial level. Prime Minister Abe in his August 2007 visit stated in an address to parliament that he saw India as part of a "broader Asia" that spans "the entirety of the Pacific Ocean, incorporating the U.S. and Australia." He further noted that these states are "like-minded countries" that "share fundamental values such as freedom, democracy and respect for basic human rights as well as strategic interests." This engagement will likely be grounded in stronger economic ties. There is talk of Japan's supplying one-third the funding of a proposed one-hundred billion dollar 1000-mile Delhi-Mumbai freight/ industrial corridor. Not only would such huge investment provide an outlet for Japan's substantial capital resources, it would enhance the possibility of a strong India with close ties to Japan—thereby serving Japanese strategic interests in balancing the rise of China in Asia. That objective is remarkably similar to that of the

United States in deepening ties to India.

Japan's virtual silence on the US effort to make a nuclear India an exception to international safeguards protocols is a reflection of the changes in Japanese strategic thinking since the nuclear tests in 1998. Another sign of change, Japan took the lead on the margins of the May 2007 ASEAN Regional Forum in Manila to propose to the US and Australia that India become the fourth member of what had been up to then a trilateral security dialogue encompassing the three powers, a dialogue that was initiated in the wake of the cooperative naval efforts associated with the December 2004 tsunami. India has yet to respond to this offer, and the Australians have not shown much enthusiasm for it either. Nonetheless, India's evolving security involvement with these three industrial democracies was underscored in the September 5-9, 2007 naval exercises they all conducted together—adding also Singapore as the fifth partner. These were India's largest ever multilateral naval exercises conducted in a vast area stretching from India's eastern coast further east still to the mouth of the Straits of Malacca off Indonesia. As a further sign of the expanding security relationship, India and Japan signed a defense and security agreement during the August 2007 visit of Japanese Prime Minister Shinzo Abe to India shortly before these exercises. Abe publicly called for a four-way "arc of freedom and prosperity" uniting Australia, India, Japan and the US."⁸ The new agreement envisages the exchange of military personnel, increased cooperation between the coastguards and an enhanced focus on the protection of sea lanes from transnational crimes like piracy and terrorism.⁹

"LOOK EAST" GAINS MOMENTUM

Phase II of the "Look East" policy starting in the late 1990s has witnessed a major expansion of the relationship between India and the states of Southeast and East Asia, both in trade and security linkages. The first

⁸ For a review of Japan's growing interest in India, see *Jane's Defense Weekly*, September 5, 2007.

⁹ Abe had put improved relations with India near the top of his foreign policy agenda. It is not certain if his successor will place the same significance on enhanced security ties with India.

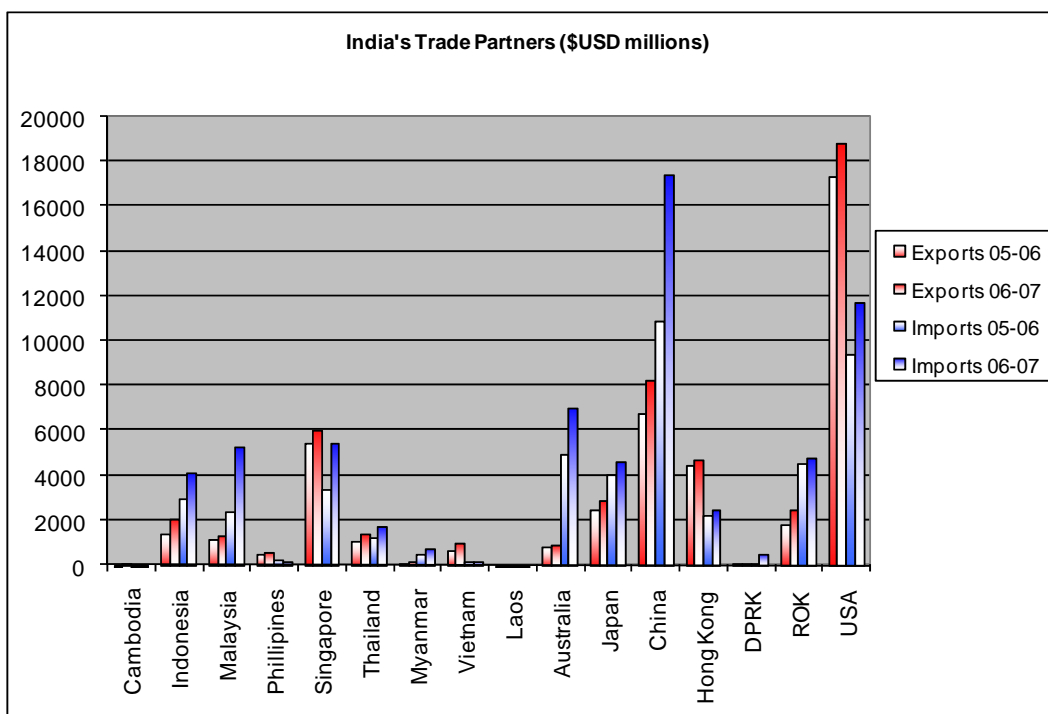
ASEAN business summit was held in New Delhi in 2002. At an India-ASEAN summit at Bali in October 2003, India and the ASEAN states signed three agreements that envisaged a significant deepening of India's involvement in the region. This time there were no reservations as there had been when India joined ARF seven years earlier.

- (1) The first agreement was a Framework Agreement on Comprehensive Economic Cooperation which envisaged a free trade zone between India and the ASEAN states by the year 2013. India committed itself to align its peak tariff to East Asian levels by 2005 (read China). This agreement was complemented soon after by bilateral trade agreements with Thailand and Singapore. Talks are now going on for similar agreements with Malaysia and Indonesia. On top of that is the recent formation of a regional grouping with the acronym of BIMSTEC (composed of India, Thailand, Myanmar, Bangladesh, Sri Lanka), which also aims at mutual reduction of tariffs.
- (2) The second agreement was the Treaty of Amity and Cooperation.
- (3) The third was designed to establish collaborative mechanisms to combat terrorism. There has been substantial movement on this front, especially between Indonesia and India, two states facing major terrorist challenges.

The next year, India took the initial step in promoting regional energy cooperation by convening the first roundtable of Asian ministers on regional cooperation on oil and gas, which brought together the four prime Asian oil consuming countries (China, India, Japan and South Korea) and the major oil/gas producers from the Middle East. These consumers, besides being major importers from the Persian Gulf states, are engaged in a scramble in this region and elsewhere for monopoly access to new fields. So far there has been limited cooperation among them on the oil front.

India is now engaged in talks to create an India-ASEAN Free Trade Agreement and some reports

predict it may be signed in mid-2008. Indian Prime Minister Manmohan Singh been personally involved in resolving the various outstanding issues that have delayed finalizing the agreement since the negotiations started in 2005, especially regarding lowering Indian tariffs on agricultural products.¹⁰ Prompting the Manmohan Singh Government to push for such a trade relationship with ASEAN is the surge of Indian trade with ASEAN over the past few years. India's fastest growing trade partners are in fact the ASEAN states and the East Asian states, including Korea.



Source: Government of India: Ministry of Commerce (Trade Statistics), updated 3/12/2007

A major objective of all of these regional agreements/discussions is to expand trade volume and consequent a sense of collective interest.¹¹ That intent has produced success. In the past six years, trade between India and the ASEAN states has jumped from about ten billion dollars in 2000-2001 to about 28 billion dollars in fiscal year 2006-2007, about 40 percent of that (or about 11.5 billion dollars) with Singapore,

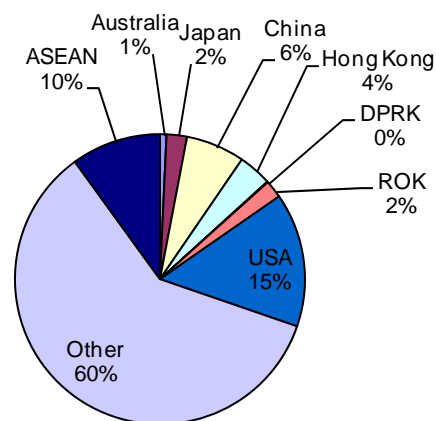
¹⁰ For discussion of these talks, see "India-ASEAN FTA likely to be finalized by May 2008" in *The Economic Times* (November 22, 2007).

¹¹ Figures in this section from Government of India, Ministry of Commerce, Trade Statistics updated 3/12/07.

India's largest trading partner in the region (last year alone about 30 percent trade growth). Malaysia, at \$6.6 billion is India's second largest trading partner, and Indonesia is a close third. Still, total regional trade with India is still well below the Chinese trade volume with Southeast Asia last year (about 160 billion dollars),¹² though the gap is narrowing. There are some high growth areas where India has an advantage over China; they are for example, business process outsourcing and other forms of information technology, biotechnology, pharmaceuticals and petrochemicals. India also has the advantage of English language proficiency, plus a thriving business class that is beginning to invest heavily in the region to take advantage of increased marketing possibilities. Economic forecasters predict that trade between India and the ASEAN states will double from present level of almost 30 billion dollars to above 60 billion dollars by 2010, if present rates of growth continue.

With the other major states of East Asia—and Australia—the growth of Indian trade has been even faster, increasing from 10 billion dollars in 2001-2002 to almost 50 billion dollars in 2006-2007. The expansion of trade with China over this time period has been dramatic, expanding from 3 billion dollars (or about the amount with Japan in 2001-2002) to over 33 billion dollars in 2006-2007 (if Hong Kong figures are included). In 2006-2007, China-India trade (about 10 percent of India's total trade that year) slightly exceeded that between the US and India. So, for the first time in decades, the US no longer occupies the top trading position with India. If the yearly expansion rate of India-China trade maintains the rate of recent years (about 30 percent annually), the gap will grow significantly wider in China's favor. For Japan, the increase in trade with India over the same period has only doubled—from 3.5 billion to 7.5 billion

Indian Export Destinations 06-07



¹² Figures drawn from "China, ASEAN Trade, Economic Ties Enter New Phase," *China View* www.chinaview.com, 2007-10-28.

dollars, though, as pointed out above, this could change dramatically as Japanese companies, with encouragement from Tokyo, appear poised to increase significantly both their investment and trade, especially in infrastructure projects. Major Japanese contractors are thus likely to be major competitors with Korean construction companies.

Trade with Korea has similarly gathered momentum. Bilateral trade has quadrupled from a relatively small base of 1.5 billion dollars in 1997-1998 to over 7 billion dollars in year 2006-2007, of which some 70 percent in the most recent year are Korean exports to India, reflecting a consistent trade balance in Korea's favor. Trade in the past few years has been growing at about 22 percent.¹³ Korean exports are a diversified basket of goods, consisting mainly of electronics (39 percent), machinery (14 percent) and transport equipment (9 percent), while India's exports in this trade have been dominated by raw materials and minerals. The major items exported from India include cotton fabric, iron ore, and semi-finished iron and steel. Korean exports to India increased by some 37 percent in 2006-2007 over the previous fiscal year, while Indian exports to Korea grew by a much more modest 15 percent, a major decline from the previous year's 40 percent jump in Indian exports to Korea. In fiscal year 2006-2007, the dollar value of Korean exports to India was 4.8 billion dollars (of total Korean exports world-wide worth 309.4 billion dollars) and the dollar value of Indian exports to Korea was 2.5 billion dollars (of a total Indian export value of 184.4 billion dollars). Since the two economies inherently complement each other, the potential exists for significantly increased trade. India's cost effective human resources could complement the growing labor scarcity and rising wages in Korea. Korean companies are already looking at India as an ideal location for global out-sourcing. Hyundai India, for example, is a regional manufacturing hub for its parent company in Korea. Other opportunities for expanding business

¹³ The most comprehensive study of trade between India and Korea is the study of the Joint India-Korea Study Group, which was mandated by the Prime Minister of India and the President of the Republic of Korea, under the aegis of the Comprehensive Economic Partnership Agreement (CEPA) between the two countries. The figures, which only go to 2004-2005, are slightly out of date, though the analytical section is still relevant. The Study Group submitted its report in February 2006 on occasion of the visit of Indian President Abdul Kalam to Japan. The two countries at that time mandated a Joint Task Force (JTF) to develop a Comprehensive Economic Partnership Agreement (CEPA) aimed at increasing volume of trade. As of this writing, six meetings of the JTF have been held.

linkages exist in engineering, design engineering, and construction services. As the Indian economy continues to expand at 8 to 9 percent per year, there will be a continuing demand for the high technology products from Korea. In services, Korea has a competitive edge in hardware while India has the advantage of cutting-edge software. As India expands its navy, the technologically advanced Korean shipbuilding industry stands out as a potential supplier. India has already expressed interest in this Korean technology, particularly as a source to replace the now out-of-date warships from the Soviet Union/Russia.

India's liberal market reforms have had a similar positive impact in attracting direct investments from Korea. This increase comes at a time of a dramatic and sudden increase in overall FDI into India from about 4.7 billion dollars in 2005-2006 to 15.7 billion dollars in 2006-2007, with the Government of India aiming for 25 billion dollars of FDI in 2007-2008. When most other potential investors in the early years of India's market reforms were skeptical of whether the sluggish Indian political system would really permit a dynamic economy to flourish, Korean investors seemed more willing to take a risk. They gambled that the economy would take off and that India's autarkic system would be transformed. Others took almost a decade before deciding market reforms were here to stay.

An important sign of Korea's growing interest in India's vast metal resources is the pending 12 billion dollar investment by the Korean steel company POSCO close to one of India's largest reserves of iron ore adjacent to the Bay of Bengal. This integrated project would include the construction of a 12 million ton integrated Greenfield steel project, a township for workers, and transportation facilities to a dedicated port on the Bay of Bengal. Domestic opposition to this huge project, the largest single investment to date in India, has delayed construction though the company cleared a major hurdle on August 7, 2007 with environmental clearance from Indian authorities. Since the signing of a MOU between the state of Orissa and POSCO in mid-2005, POSCO has engaged in patient commercial diplomacy. It has scaled back the land usage from 5000 to 4000 acres in response to protests over the displacement of farmers; it has promised jobs and training to

displaced farmers and their children; it is offering investment in general educational projects in the area. This is beginning to pay off. POSCO has recently granted contracts to over a dozen Indian firms for feasibility studies on the various parts of the steel project. Its magnitude will almost certainly serve as a positive sign to still other Korean (and other) investors interested in developing India's huge metal reserves.

Yet, complications involved in getting the POSCO project off the ground underscore the problems of dealing with the robust Indian democracy. Formerly disadvantaged groups are demanding dignity and an improved style of living. And they are voting and expressing their views in a variety of ways. Farmers and forest workers refuse to be denied their livelihood without compensation and some reasonable means of alternate employment. The days of meekly following orders from above are over as these newly assertive groups use the Indian political system to protect their interests. This development underlines the uniqueness of India in the world of democratic politics—a higher percentage of voters from groups at the lower end of the socio-economic spectrum than those at the top actually participate in elections. That phenomenon suggests these groups have confidence that the system will work to their benefit. But the process makes for much debate, many protests and the necessity of compromise. POSCO confronted this Indian reality, and seems to have adjusted well—and quickly—to making necessary adjustments. Indeed, they seem to have been more sensitive to Indian political and cultural sensitivities than many European and American investors, perhaps because of a common Asian cultural context. By contrast, a case study of how not/not to go about responding to these social-political problems of displacement was the two-billion dollar American-funded Enron power project in the 1990s. At that time this was the largest single foreign investment in India. Enron's inability to deal with or understand local grievances created major delays in construction. Ultimately, it was a key factor in the decision to sell the complete project to Indian investors before any electricity was generated.

The POSCO project is significant not only because of its vast size, but also because it reflects the likely future trend in Korean investing—as well as trade—with India. India possesses a cornucopia of metals.

Production costs are relatively low and the resources are relatively close to coastal areas for easy sea transport. Anticipating a continued expansion of trade, Indian Prime Minister Manmohan Singh and President Roh Moo-hyun met in New Delhi on October 6, 2004, to authorize establishment of a Joint Study Group for comprehensive study of their bilateral economic linkages. The Study Group was mandated to examine the feasibility of a comprehensive economic partnership agreement.¹⁴ Following up on this start, India External Affairs Minister Pranab Mukherjee and his Korean counterpart Song Min-soon decided in mid-September meeting in Seoul that the two countries would conclude the CEPA agreement by the end of 2007. They also agreed to draw up a Double Taxation Avoidance agreement in 2008.

“LOOK EAST” AND SECURITY

While the “Look East” policy has a preeminently economic focus, there is also a security element. Three broad security objectives seem to guide India's policy toward its neighbors to the Southeast and East: (1) to cooperate against threats of piracy and terrorism on the major Indian Ocean sea lanes and its choke points, (2) to seek better relations with regional states—and the US—to maintain a balance of power in Asia and thus better protect the homeland from external threats; and (3) to receive international recognition as the pre-eminent power in South Asia. Its challenge is to achieve these security objectives, first, without antagonizing the Chinese (who might fear Indian participating in an effort to surround it) or, second, the countries of Southeast Asia (who are jealous of their national sovereignty and will oppose any regional security measures not having them as active partners) or finally, Korea (which would be suspicious of strengthened Indian security ties with Japan).

At least with the countries of Southeast Asia, India has some advantages to build upon in forging stronger links. It is geographically contiguous with them. It has a business elite proficient in the English

¹⁴ The Indian press reports in late 2007 that Korea is reluctant to open up its services industry through a CEPA agreement with India.

language. There is a large Indian Diaspora in Southeast Asia, many prominent in business and now solidifying economic ties to India. Moreover, India does not evoke in that region a sense of threat, as does China. Witness consequent efforts of these states to include India in regional forums to balance China's growing influence in Southeast Asia. As a first step, India worked hard to get into ASEAN. With the assistance of traditional friend, Singapore, India became a sectoral partner in 1992, a full dialogue partner in 1995, a member of the ASEAN Regional Forum (ARF) in 1996 and a summit level partner (along with China and Japan) in 2002. The three largely Muslim-majority states—Indonesia, Malaysia and Brunei—initially had serious reservations on India in ARF because they did not want to let down Muslim majority Pakistan, which was also seeking Dialogue Partner status and entry in the ARF. Their reserve about India has softened subsequently.

Regarding East Asia, India so far is a very marginal player in major diplomatic initiatives. For instance, it has no voice in the negotiations with North Korea. It does have observer status in the Shanghai Cooperation Organization (SCO), an organization set up by China and Russia to work out ways to handle their relations with the Central Asian republics. Yet the role it plays in SCO deliberations is marginal, with relatively low-ranking officials being sent to SCO meetings. India had representation at the East Asia Summit held December 2005, convened to consider the creation of an East Asia Community (EAC) similar to the European Community. But this contentious meeting, with China and Japan struggling for preeminence in the projected EAC, proved symptomatic of the national rivalries that have blocked the emergence of effective multilateral institutions in Asia. In fact, concerns about a rising China led other participants to push for the inclusion of India and Australia in the Summit as a balance to China, a move China unsuccessfully opposed on grounds that neither is an East Asian power.¹⁵

India's growing presence in the countries of Southeast Asia—and to a much less extent in East Asia—is paralleled by an increasing presence of these countries in South Asia, though not always in ways

¹⁵ For an excellent discussion of the rivalries that got in the way of any effective action, see Mohan Malik, "China and the East Asia Summit: More Discord than Accord" in *Asia-Pacific Center for Security Studies*, February 2006).

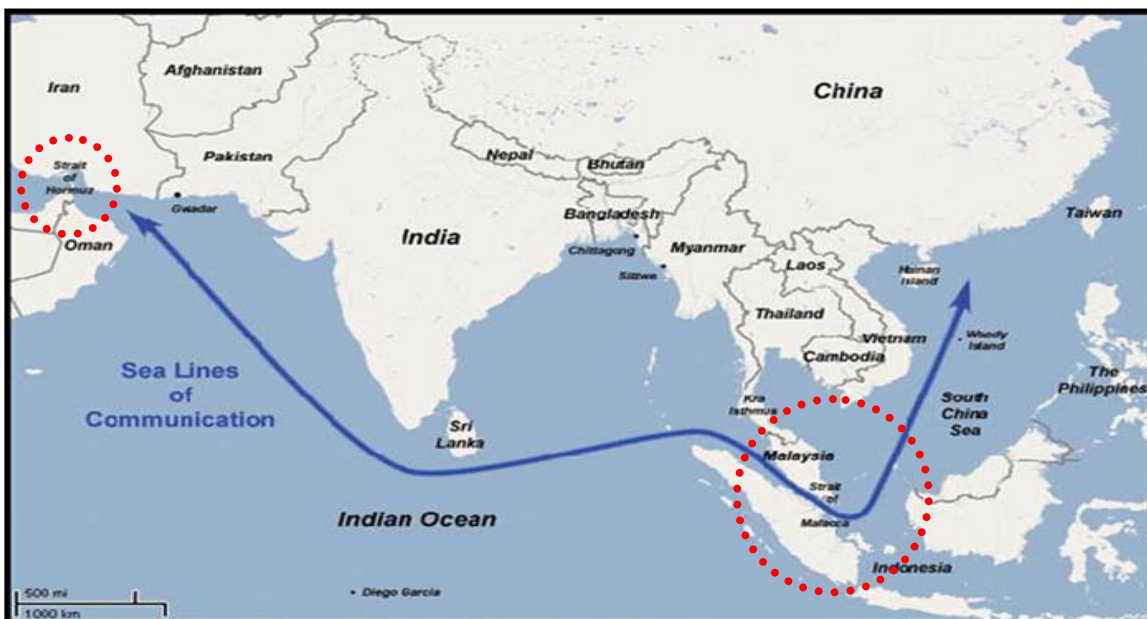
comfortable to the Indians, especially China. China has long standing economic and security ties to Pakistan, at least partly intended to keep India off balance. China's economic influence has grown dramatically in the past decade; it is now not only India's largest trading partner (if Hong Kong figures are included), but it is also approaching this same preeminence in trade throughout South Asia—a development of some concern to India. Moreover, the Chinese have constructed naval facilities in Pakistan and Myanmar causing worries in India, even though these facilities do not yet involve deployment of any Chinese security assets.

India's wariness of China is also reinforced by the glacial pace of progress on China-India border disputes. For years, there have been largely inconclusive talks, interspersed with occasional public comments by Chinese officials that large parts of northeastern India are legitimately Chinese. The China factor has also become a source of competitive wrangling among South Asian states in the only viable regional association in South Asia, the South Asia Association of Regional Cooperation (SAARC). In a series of diplomatic trade-offs involving Indian support for Afghanistan joining SAARC in 2005, Pakistan pushed successfully for observer status for China. Japan was added as an observer, perhaps in recognition of its being the region's largest source of aid. The next year, observer status was granted to Korea, the US and the European Union, and the observers attended the first SAARC meeting in April 2007 at Delhi.¹⁶

The most promising area of security cooperation between India and other Asia states, including Korea, is sea lane protection, which is of strategic importance to both Southeast and East Asian states, as well as major industrial powers of the West. There is at present only minimal multilateral efforts aimed at protecting the sea lanes of the Indian Ocean and the South China Sea and the choke points linking these two bodies of water. Starting in the mid 1990s, India in a very low-key manner began joint exercises with some Southeast Asian states. It now has such exercises on an annual basis with virtually all the regional states. With by far the largest Indian Ocean navy of any littoral state, it has taken the lead in these multi-nation exercises. In early

¹⁶ See a comprehensive discussion of the diplomatic maneuverings inside SAARC in *Power and Interest News Report*, December 11, 2007.

2007, India organized its most ambitious naval exercises to date, involving eight Southeast and South Asian states—with observers from Australia, a country which had once viewed Indian naval expansion with alarm. This change in Australian attitude almost certainly has something to do with the rise of China. The multi-national exercises took place off the Andaman Islands, often described as India’s permanent aircraft carrier dominating the entrance to the 500-mile long strategic Straits of Malacca. India established its fourth Naval Command at Port Blair on the southern end of the Andamans in late 2001 specifically as a forward base 1200 miles east of the mainland to monitor and counter threats in the Bay of Bengal and adjoining waters. Attached to this naval base are an infantry brigade and a reconnaissance helicopter unit, soon to be augmented by a



Indian Ocean shipping routes connecting the Persian Gulf to East Asia through the Strait of Malacca (potential choke points highlighted in red dots).

fighter squadron.

Indian protection of these Indian Ocean sea lanes is a function of its geographic position. It is a peninsular that thrusts down some 1500 miles into the very middle of the ocean. The various European colonial powers in the 17th century clearly recognized the strategic importance of controlling the South Asian subcontinent as a way to dominate Asia. As the indigenous Mughal Empire disintegrated, the British with their

more capable navy came out on top of the scramble for power in the late 18th century. Subsequently, the British controlled their vast Asian empire from bases in India, insuring no other power could challenge them on the high seas. They were also careful to establish effective control over all Indian Ocean choke points to guarantee their naval dominance.

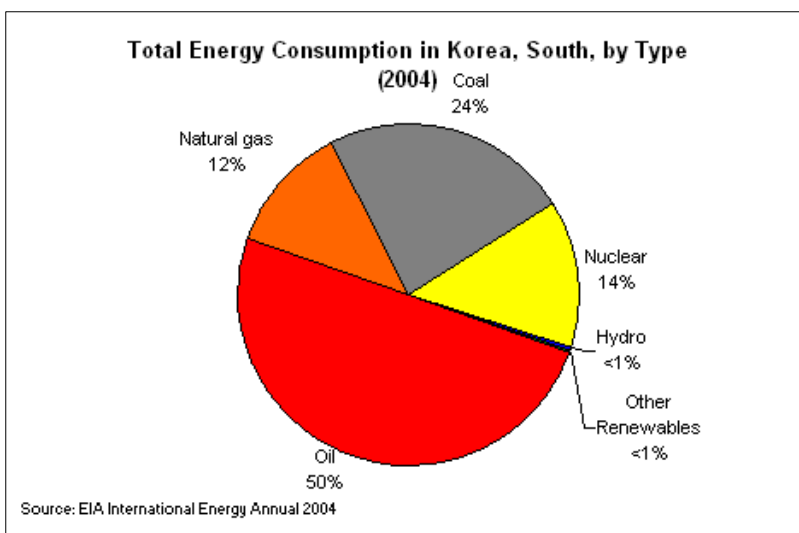
Several compelling reasons now dictate India's taking a more active role in securing the sea lanes of the Indian Ocean and its choke points.¹⁷ (1) About 70 percent of India's oil today is imported from the Persian Gulf. This dependence is likely to grow as Indian energy production falls behind its rate of economic growth. Any stoppage of energy imports thus would have a crippling impact on the national economy. (2) Almost 95 percent of India's overseas trade moves by sea. This trade is expected to grow from the present 300 plus billion dollars to about a trillion dollars in 2020, projected to constitute some 40 of the country's GDP at that time. (3) The Persian Gulf area contains a large Indian Diaspora, and yearly remittances from the approximately four million workers now exceed 12 billion dollars. The Indian public is also sensitive to the well-being of this Diaspora, as demonstrated by popular support for the massive air evacuation of Indian citizens during the first Gulf War and more recently the evacuation carried out by the Indian Navy during the strife in Lebanon. (4) This region harbors Islamic militants with an anti-India agenda, one reason Indians have generally supported the US-led global war on terrorism.¹⁸

The Cold War blocked India from assuming the role of the departing British in the Indian Ocean, but, with the end of the Cold War, India has expanded its naval capabilities and quietly sought through naval exercises with the navies of other littoral states to accustom them to the notion of a militarily capable India able to work in partnership with the littoral states to protect their common interests. India also has the

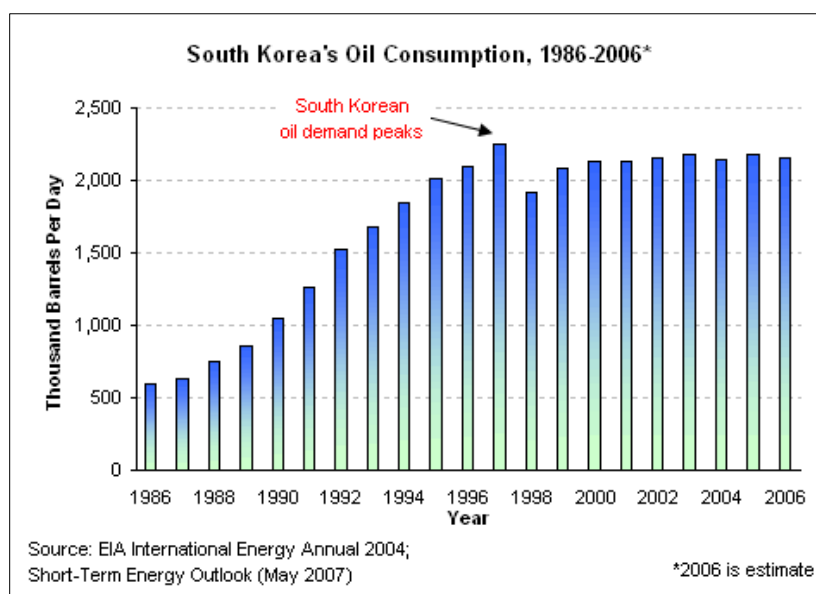
¹⁷ For an excellent description of the importance of the sea lanes for Indian security and its economy—and from which much of the data in this discussion comes is Vice Admiral P.S. Das (rtd), "India's Maritime Concerns and Strategies", *USI Journal* (July-September 2006), vol. cxxxvi, no. 565.

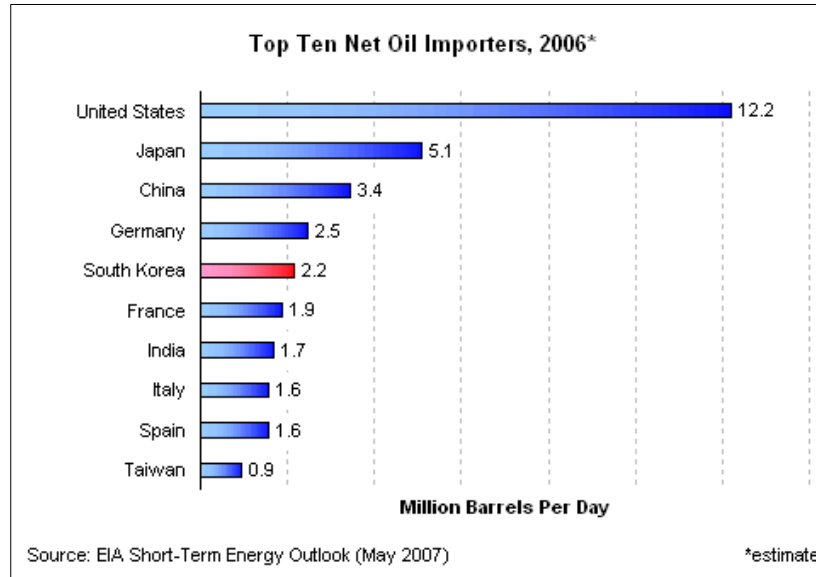
¹⁸ Indian backing of the global war on terrorism is not total; it has refused to accept that the Iraq engagement is part of the war on terrorism and it has refused to send troops there.

advantage of being a relatively stable power—and a functioning democracy—and its political class is coming round to accept the proposition that India for its own economic and strategic interests needs to be involved in protecting the sea lanes and perhaps even involved in security management along the littoral of a vast politically unstable area.

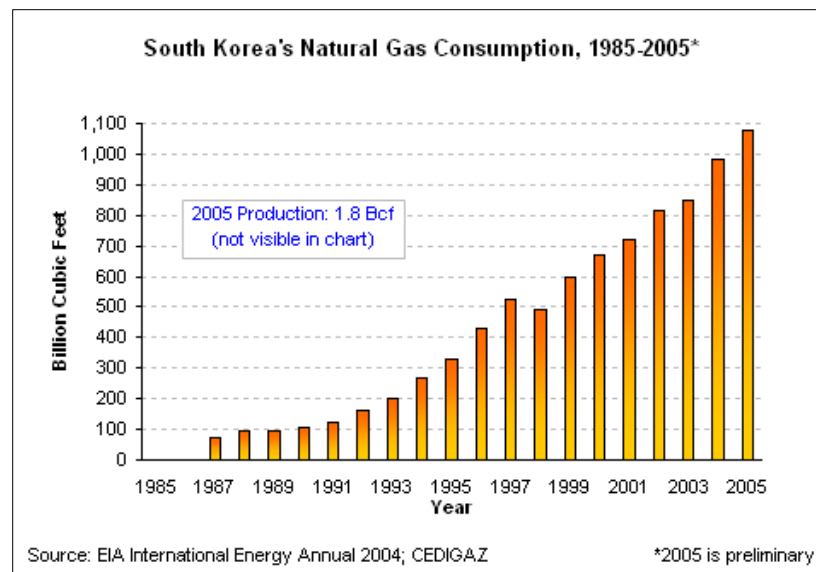


Compelling reasons exist for the energy deficient countries of East Asia, which includes Korea, to be as concerned as India with the security of Indian Ocean sea lanes across the Indian Ocean and its vital access straits—as well as with the geopolitics of the arc stretching from east Africa around to Indonesia. These sea

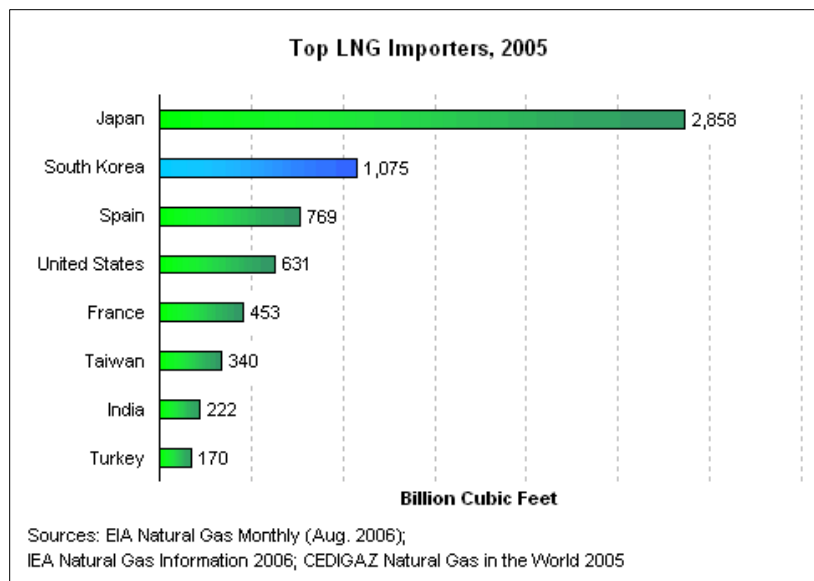




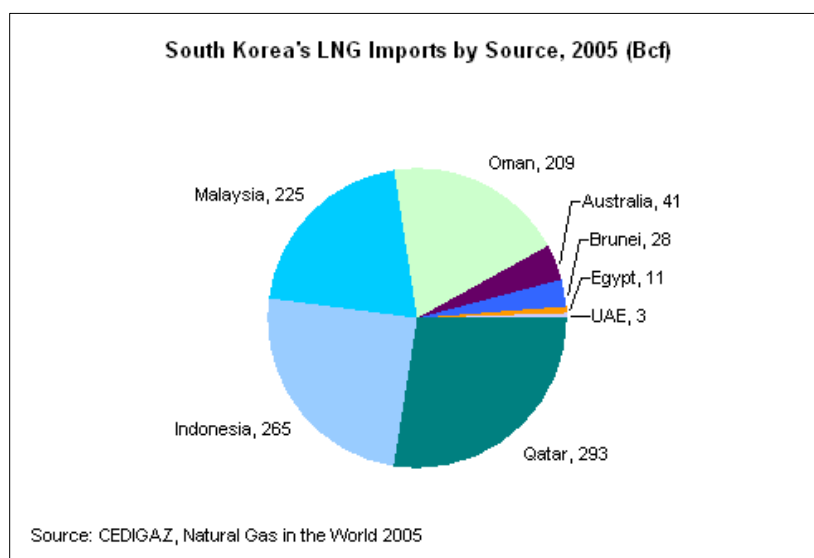
lanes carry most of the world's oil and gas traffic, most of it from Persian Gulf countries. The economies of the energy deficient countries of East Asia depend on an unimpeded flow of this critical commodity. Japan, for example, imports nearly 70 percent of its energy from Persian Gulf states. China is also increasingly dependent on energy imports from this region; it has already overtaken Japan in energy imports from the Persian Gulf. Similarly, almost two-thirds of Korea's energy consumption comes from oil and LNG, almost entirely from imports.¹⁹ Korea is the world's fifth largest net importer of oil (after the US, Japan, China, and Germany),



¹⁹ For an excellent discussion of the rivalries that got in the way of any effective action, see Mohan Malik, "China and the East Asia Summit: More Discord than Accord" in *Asia-Pacific Center for Security Studies*, February 2006).



importing some 2.2 million barrels/day. It is also the world's second largest importer of LNG, after Japan. The Persian Gulf is the source of some two-thirds of the imported oil and about one half of the LNG. Almost all of it comes by tanker through the Indian Ocean and the Straits of Malacca to the South China Sea. Korea's dependency on the Gulf states is likely to grow, despite efforts to diversify. The Persian Gulf contains well over 65 percent of the world's known reserves of oil and over a third of known gas reserves. This figure is likely to go up with increased off shore gas and oil exploration, such as the vast Pars Gas Field off the southern



coast of Iran.

This deepening dependence on Gulf oil and gas raises important security issues because of escalating political, social and ethnic tensions within and around the unstable Persian Gulf area. The oil and gas traffic moreover must pass through several vulnerable maritime choke points, such as the Hormuz Strait, the Gulf of Aden, the Suez Canal, the Straits of Malacca, subject to attack by both rogue states and non-state actors. A blockage of any of these choke points, especially the Straits of Malacca, would create a world economic crisis. Problems of drug trafficking, piracy, and terrorism constitute major non-state threats to maritime security. Only a short list of recent maritime terrorist attacks Al-Qaeda has taken credit for underscores the magnitude of the problem: the attack on the USS *Cole* off Aden, the attack on a French oil tanker in the same area, and on tankers off Basra on the Persian Gulf. The radical Abu-Sayyaf group claims credit for attacking shipping in the waters of the Philippine archipelago. Although Indonesia has acted against the radical Jemaah Islamiah, there is evidence that new and more violent off-shoots have formed. In Thailand, the Muslim insurgency in the south (which also has strong ethnic Malay overtones) has gained strength and may be developing cooperative links with other radical groups in the region and beyond.

The escalating violence from both terrorism and piracy against shipping in the Straits of Malacca prompted the Lloyd's insurance arm to classify the straits as a war zone from mid-2005-2006.²⁰ Almost a third of attacks in the waters off Southeast Asia are against bulk carriers. These tankers are attractive targets as they travel at limited speed and are easily boarded. On March 12, 2005, for example, 35 pirates who abducted the captain and chief engineer for ransom, seized a fully loaded oil tanker en route from Samarinda to Belawan in Indonesia. Indian strategists often mention India's capability by pointing to their navy's role in foiling a November 1999 attempt to seize the MV *Alonova Rainbow*, a Panamanian registered cargo vessel owned by a Japanese company en route from Indonesia to Japan. The Piracy Reporting Center of the International

²⁰ Perhaps the most comprehensive review of various kinds of terrorism and the incidents of terrorists in an unclassified form is the online Terrorism Knowledge Base, a data base which is continuously updated.

Maritime Bureau announced the capture of the vessel, prompted by Indian maritime surveillance. An Indian warship stopped the vessel, boarded it and apprehended the hijackers.

The most vulnerable—and most significant economically—of these choke points is the Malacca Straits. Each year, some 70,000 merchant vessels transporting over 20 percent of the world's seaborne trade and some one third of the world's crude oil shipments, pass through this narrow 550 mile channel between Indonesia and Malaysia. That includes almost all of East Asia's imports from the Persian Gulf. As oil prices and shipping costs have moved upward, international concern has also escalated about potential for an interruption of traffic. The ultimate terrorist act, taking a leaf from the terrorists of the 9/11 attack in the US, would be the sinking of hijacked ships in busy channels or at the entrances of major ports. Such an interruption and prolonged standstill in the Malacca Straits would force shipping to be re-routed through the Sunda and Lombok Straits to the South, adding 1.5 sailing days, slowing freight, further straining an already stretched tanker capacity. It would also result in significantly higher insurance rates for shipping using the Straits and surrounding waters.

International efforts have been launched to address the various security threats to the Malacca Straits. In 2007, the International Maritime Bureau (IMB) launched a 24 hour global hotline for maritime security information, particularly information linked to maritime terrorism, piracy and organized crime. The Japan International Cooperation Agency funds Japanese Coast Guard seminars to train maritime officials in Southeast Asia. Japan has also funded efforts of the International Maritime Organization (IMO) to track and study piracy incidents and Japan's Ship and Ocean Foundation has provided seed money for the IMO-sanctioned Anti-Piracy Center in Kuala Lumpur. Proposals by the US to deploy Special Forces to counter terrorism and sea piracy in the Straits under a Regional Maritime Initiative were rejected by Indonesia and Malaysia, fearful that such deployments would compromise sovereignty. Nonetheless, the US has assumed primary leadership to keep the sea lanes of communication (SLOCs) open through the Straits and surrounding waters. To further these objectives, there is a bilateral US agreement with Singapore which allows US

warships to use Singapore's facilities for repair, refueling and replenishment. There is a similar agreement with Malaysia. Korea, despite its growing dependence on shipping through the Indian Ocean and the Straits, has so far been minimally involved in these cooperative security measures.

India has recently taken a more assertive role on Malacca Straits' security because it, like the US, has the naval capacity to do so. It has close at hand the naval and air facilities on the Andaman Islands situated at the mouth of the western approaches to the Straits. India for example backed a security initiative that would require "compulsory pilotage" of the channel against piracy and terrorism, but this lost momentum due to opposition from Malaysia and Indonesia, again for concerns of national sovereignty. India and Indonesia do have a bilateral agreement ("IndoIndon") calling for joint patrolling of the western approaches to the Malacca Straits. The Indian Navy, moreover, conducts regular joint naval exercises with Singapore, Indonesia and Thailand as well as multilateral exercises with regional states (more on that later). It has also conducted joint exercises with the US at the western approaches to the Straits.

India has a relatively narrow set of security concerns with Korea. Therefore, the level and interest in a bilateral institutional framework is considerably less than with the countries of Southeast Asia or even Japan. The engagement with East Asia is generally still peripheral to the region's large security issues, such as Taiwan or the North Korean nuclear capabilities. India is not a member of the Six-Party talks with North Korea, though it has a stake in a positive resolution of the issue. There was a Pakistan-North Korean trade-off involving Pakistani assistance to North Korea's nuclear weapons program in return for North Korea's assistance to Pakistan's missile program aimed against India. Similarly, the Republic of Korea's involvement in key security issues in the Indian Ocean littoral or even in South Asia are very limited. However, protection of the sea lanes from the oil/gas rich Persian Gulf states is likely to form a basis for greater strategic cooperation in the future. Indeed, India and Korea are only now in the early phase of a strategic understanding, starting with the visit of President Roh Moo-hyun to India in 2004 and Indian President APJ Abdul Kalam's

reciprocal visit to Korea in early 2006. The first ever bilaterals held by their defense ministers were held in May 2007 and the sea lane issue was a major concern. Indian Defense Minister A.K. Antony proposed to his Korean counterpart, Kim Jang-soo, that the two countries hold joint naval exercises with anti-piracy and anti-terrorism objectives. They also discussed Coast Guard cooperation. These proposed naval exercises and Coast Guard cooperation fit a pattern of recent Indian joint exercises throughout the Indian Ocean littoral, including Vietnam, Japan and even China.

In addition to naval exercises, the Korean Defense Minister reportedly asked India to add a military attaché to its embassy staff in Seoul, as well as formation of regular military consultation bodies, mainly to identify likely Korean military items for export to India. This still modest India-Korea military supply relationship could mark the beginning of a closer strategic relationship between two democracies with very similar strategic visions. Total Korean defense exports reached a record of 1.1 billion dollars in the first nine months of 2007, and considering the substantial increase in the allocation of funds for research and development, it is possible that Korea could achieve its goals of becoming among the ten top weapons exporters, with India becoming a major customer.²¹

India for its part has increased spending to upgrade its security forces, including a major expansion of its navy. Despite a push for indigenous production, India is still forced to rely heavily on imported equipment. At present, Korea does not have a strong presence in the international arms market; however, sales to India would give that a significant boost. With increased arms trade in mind, the two countries held their first India-Korea Defense Committee meeting in March 2007 at Seoul. Korea proposed joint projects for manufacture of a range of equipment, including 5000-ton class frigates and mine sweepers, armored vehicles and K-9 self-propelled guns. Underscoring the serious prospects for such military sales, the two sides signed a MOU on

²¹ See analysis of Korea's efforts to expand its defense exports in online report, "S. Korea's Defense Exports Reach \$1.1. Billion," DefenseNews.com, 11/05/07.

insuring the quality of the defense products that would be jointly manufactured in India and Korea. The two sides also agreed to joint maritime rescue and anti-terrorism exercises.²²

There is thus a potential Indian market for Korean arms exports. India's defense spending has been on an upward trajectory for the past several years, including a dramatic increase in the import of sophisticated military hardware. Its proposed defense budget for 2007-2008 was about 22 billion dollars, an increase of about 8 percent over the previous year; and this does not count the Defense Civil Estimates (a large part of which are pensions) which would add between 3- 4 billion dollars to the defense budget. While defense spending as a percentage of GDP has been declining for several years at 2.1 percent of the expected GDP for 2007-2008, the absolute amount has increased due to a robust Indian economy. Much of this funding is for military imports, expected to reach some 30 billion dollars over the next five years, according to India's Associated Chambers of Commerce and Industry in a study of the subject. In the past three years, India has spent almost 11 billion dollars on radar equipment (largely from Israel, a growing supplier of sophisticated equipment), submarines and helicopters (from France), and tanks (from Russia)—all making India the largest importer of military equipment in the developing world. It is expected that the US and Israel will soon overtake traditional suppliers like Russia, the UK and Sweden. The Indian Defense Minister recently reported that defense procurements from Israel amounted to about 5 billion dollars for the 2002-2007 period. The one country likely to lose out is Russia, whose sales have been averaging about 1.5 billion dollars a year for the past several years. India's two biggest purchases in the recent past have been the Israeli Phalcon radars in 2004 for 1.1 billion dollars and six French Scorpene diesel attack submarines for 3.5 billion dollars in 2005. The rapidly growing role of the US reflects a dramatic turnabout in the US-Indian relationship. Less than a decade ago, the US supplied virtually no military items, partly due to Indian suspicions of the US as a reliable supplier and partly due to deliberate US policy against stoking an arms race between India and Pakistan. India is now

²² See an analysis of this meeting in Sandep Kumar Mishra "Korea-India Defense Committee Meet and Implications" in online Korea.net, March 11, 2007; also see online "India, South Korea agree to cooperate" in BBC Monitoring South Asia, May 30, 2007.

set to purchase six Lockheed Martin C-130 aircraft and accessories worth more than 1 billion dollars, representing the first big entry of US arms into the Indian arsenal. India in addition received twelve Weapon-locating Radars from Raytheon in 2007 at a cost of 200 million dollars. Even with the US entry, no decline is expected in the sales from Israel since the two arms sellers have complementary roles: the US tends to sell complete major systems (e.g., fighter jets and naval ships), while Israel specializes in compatible ancillaries to these systems.

The growing relationship between India and the United States can only work to enhance the status of India in an area concerned at the apparently declining US security role there. These ties also provide leverage to India as it seeks to enhance its security status with other countries, including China, worried about the extent of US-India security ties. The naval dimension of new India-US cooperative efforts was dramatically demonstrated in the four-country tsunami relief efforts at the beginning of 2005, involving the navies of the US, Japan, Australia and India. Not surprisingly, the Indian navy played a particularly prominent role, since it is the largest indigenous navy in the Indian Ocean having blue water capability and now engaged in substantial expansion. Recently, shipbuilding facilities have been upgraded to handle new orders for nineteen warships. As a precursor to this naval cooperation, Indian-US naval patrols were held for several months during 2002 in the Straits of Malacca—their goals being rescue operations, counter terrorism and anti-piracy aimed at keeping open these vital straits at the eastern reaches of the Indian Ocean.

9/11 has prompted the international community to adopt several physical security measures applicable to the Indian Ocean relating to maritime and WMD terrorism. Among the most ambitious are the International Ship and Port Facility Security Code, the Container Security Initiative and the Proliferation Security Initiative. What is lacking so far is coordinated intelligence and available assets that can respond quickly to discovered threats. India, as noted above, has expanded its capabilities at Port Blair since 9/11 and also the capabilities of its National Security Guard, a specialized counter terrorism force created in the mid-1980s to terminate

terrorist situations. Most of the effort has been directed to security in the waters off Sri Lanka and the Malacca Straits. This eastward geographic orientation has generated some criticism in India, since terrorist organizations with a maritime terrorism capability against Indian interests operate in land areas and seas to the west.

The growing naval cooperation of India and the US must be handled carefully by both to avoid antagonizing China as well as Southeast Asian countries who are jealous of their sovereign rights over nearby waters. The Chinese criticism of the quadrilateral security concept including India, the US, Japan and Australia and the September 2007 naval maneuvers in the Bay of Bengal involving these countries had undertones of its older fears of containment by hostile powers. Almost certainly with China in mind, the Indians have not responded to the Japanese proposal to join the trilateral security talks. Reacting to the US-India nuclear deal, the Chinese Foreign Ministry spokesman Qin Gang, for example, remarked in early 2007 that the nuclear cooperation between the US and India must conform to the global nonproliferation regime.²³ The tone of this critical media treatment regarding the proposed nuclear deal was set earlier when Renmin Ribao warned of "a domino effect of nuclear proliferation, once turned into reality, will definitely lead to global nuclear proliferation and competition."²⁴ The Indians have been careful to avoid entering any security arrangements with explicit aim of containing China, partly because of important rising trade interests and partly because China can engage in its own form of containment with India's suspicious South Asian neighbors, especially Pakistan. On the other hand, China must be careful not to drive a rising India closer to the US, and will likely counter US moves to draw India closer to itself, as did President Hu Jintao in his November 2006 visit to India when he spoke in favor of Indian-Chinese civilian nuclear cooperation.²⁵

Korea for its part has two sets of security interests that the growing US-India security relationship challenges. One is the linkage of India with the strong American ally Japan, in a growing quadrilateral security

²³ Xinhua, March 3, 2007.

²⁴ Renmin Ribao, October 26, 2005.

²⁵ See <http://proliferationpress.wordpress.com> ("China's Take on the US-India Deal," posted August 29, 2007).

arrangement in Asia; the other is implicit American acceptance of India's nuclear weapons status at a time when delicate six-party negotiations to end North Korea's nuclear weapons capabilities are being conducted. The Bush Administration's decision to treat India as a world power, therefore, is a double edged sword. On the one hand, there is the legitimate interest of all states concerned in protecting sea lanes and choke points; on the other hand, India and the U.S. could be pursuing larger strategic objectives not all other countries in the region would accept as compatible with their own interests. The agreements signed in July 2005 and March 2006 at summit meetings between Prime Minister Manmohan Singh and President Bush, for example, pledged the US to make India a special case among countries that have not signed the NPT treaty. In effect, the agreements said that the Indian nuclear arsenal is not a threat to the US—and by extension—perhaps Nuclear India is a good thing. A strong India serves the US interest in a balance of power in Asia, a goal that coincides with Indian interests as well. While US and Indian security interests are not congruent throughout the Indian Ocean area (e.g., Iran is a good example), the two have few significant disagreements in East and Southeast Asia. That is not necessarily the case for other states of this region, and hence their reluctance to enter multilateral agreements possibly undermining their national sovereignty. Korea's distinctly cool response to making India an exception to international nuclear safeguards is yet another example of divergent security interests in the region.

CONCLUSION

Access to oil and gas will be the great geostrategic and economic issues of the 21st century. Korea and India, in common with other large energy-deficient countries like that of Japan and China, are increasingly dependent on outside energy and on the Persian Gulf. This can result in either cooperation or competition among the concerned states, and there are examples of both. One critical area that requires much greater cooperation is sea lane security, both through the Indian Ocean, its choke points and on through to the South China Sea.

There are presently very few effective multilateral arrangements that address the security issues of the sea lanes and choke points of the Indian Ocean and the South China Sea. There are in fact few multilateral institutions in Asia, and those that do exist, like SAARC, ASEAN, APEC (which denied membership to India in the 1990s), and the SCO, have a rather thin record of achievement—especially involving security issues. Partly, this is due to regional antagonism—such as between Japan and China or India and Pakistan. Most consequential agreements address issues of trade and are bilateral. Yet, to be effective, the protection of sea lanes that carry vital oil/gas to energy deficient South and East Asia must be a multilateral engagement. So far, there is very little cooperation. Still, concerned states, including Korea, are discussing ways to collaborate in this vital endeavor. The trilateral security talks involving Japan, Australia, the US and perhaps India at some future date could provide the foundation for a multilateral security arrangement on the sea lanes, but these countries are a far way from operationalizing a security arrangement now. This relative lack of existing security mechanisms provides an opportunity for Korea and India to take creative steps on an issue that is of critical importance to their respective economies. The alternative is unilateral action, which no one seems to want. Even worse would be a laissez faire approach, which is an invitation to chaos on the high seas. So far, Korea has played a marginal role in sea lane security, but the rising threats of terrorism and piracy to its own shipping interests provide a justification for greater multilateral involvement, particularly as it develops a blue water naval capacity. India would almost certainly welcome Korea as a partner in maritime security as Korea, in contrast to China, is not perceived as threatening the interests of either India or other Indian Ocean littoral states—or the United States.

At least in the near term, however, trade and investment will continue to be the major bond between India and Korea. The chances of increased economic interaction are high: an economically robust India has enormous infrastructure and development needs that Korea is well placed to meet. Korea is capital and technology rich, has a certain cultural affinity with India and is a fellow Asian democracy. In turn, these

growing economic ties could pave the way for increased India-Korea cooperation regarding the India Ocean sea lanes and its choke points, obviously in the security interests of both states.