

## **India's Role in Southeast Asia: The Logic and Limits of Cooperation with the United States and Japan**

Sadanand Dhume

In recent years, public perception of India has undergone a remarkable transformation. Not long ago, India was better known as a destination for missionaries seeking souls to save than for CEOs hoping to shore up the bottom line. Where American ships once headed to India, their holds bulging with donated wheat for the starving, Indian firms now beat a path to list on NASDAQ and the New York Stock Exchange. A country that once brought to mind snake charmers and mendicants now traffics in Miss World titlists and Booker Prize nominees. If the old India was symbolized by Calcutta, a byword for sloth and squalor, then the new brings to mind Bangalore, shorthand for high technology, entrepreneurship and the possibilities of Thomas Friedman's ever-flattening world.

Against this backdrop, a rising India will naturally expect to play a larger role in Asia, including in Southeast Asia. For the U.S.-Japan alliance that has presided over the region's political stability and economic growth this is a potentially positive development. An economically vibrant India can be a beacon to Asian countries that may otherwise seek to emulate an authoritarian China's obvious success. A pluralistic land, home to the world's second largest Muslim population, offers an example to other democracies struggling to integrate their own Muslims, and a rebuke to those who argue that democracy and Islam are incompatible. India's million man army, the world's fourth largest, and its blue water navy make it a potential force for stability, and a sentinel on the trade route between East Asia and the Middle East.

Nonetheless, it's important not to exaggerate India's influence in Southeast Asia. For the foreseeable future India will try to assert itself overseas while it also wrestles with massive problems both domestically (poverty, illiteracy, shoddy administration, ramshackle infrastructure) and regionally (instability in Pakistan, Afghanistan, Bangladesh and Nepal). This means India's footprint in Southeast Asia – economic, political and cultural – will likely be comparable more to middle powers such as Korea and Australia than to the Pacific's three giants: the United States, Japan and China.

In short, India remains a developing country with profound domestic problems that will need to be fixed before it can stake its claim to a place at the head table of world affairs. Keeping this in mind, the parameters of U.S.-Japan-India cooperation in Southeast Asia must be built on realistic assumptions. First, India's symbolic value – as proof that democracy and development are not incompatible – is dependent on continued economic progress. Second, Japan-India relations lack the robustness and depth of U.S.-India relations. Third, India's fractured politics and sluggish state institutions place natural limits on government-to-government cooperation. Fourth, India is, somewhat uniquely, a Third World nation that contains islands of First World excellence. It is these – particularly a robust military, the soft power of Bollywood, talented entrepreneurs and centers of educational excellence – that offer the United States and Japan the most promising avenues for cooperating with India in shaping the future of Southeast Asia.

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To be sure, the recent hype about India is far from baseless. The economy expanded by 9.4 percent in 2006, and foreign direct investment nearly tripled over the previous year to \$16

billion. Emblematic of a new confidence, last year an Indian firm, Tata Steel, finalized a \$11.3 billion purchase of the Dutch steelmaker Corus. This year another Tata firm has acquired the marquee brands Jaguar and Land Rover.

Political turbulence has not stalled economic momentum. Per capita income, in purchasing power parity terms, doubled from about \$1900 in 1991 to \$3800 in 2006. The middle class, broadly defined, has swelled to 250 million people. Indians buy more cell phones each month than any other people, eight million in August 2007 alone. Foreign exchange reserves stand at a robust \$230 billion. Since economic liberalization began in 1991, ten firms – spanning banking, pharmaceuticals, software and services – have listed on the New York Stock Exchange, and seven on the technology-heavy NASDAQ.

In addition to greater than ever Indian integration into the global economy, public attitudes also favor greater US-Japan-India co-operation. Indians are among the most pro-American people in Asia; the Pew Global Attitudes Survey recently found that about six in ten hold a favorable view of the United States. Indians also hold an overwhelmingly positive view of Japan, which dates back to the colonial era when many Indian nationalists viewed Japan as Asia's standard bearer of independence and self-reliance.

In recent years, official U.S.-India ties have also prospered. In 2005 the two countries signed a landmark agreement to cooperate on civil nuclear energy (since stalled by domestic politics in India.). In September 2007 the U.S. and Indian navies were joined by their counterparts from Japan, Australia and Singapore for five days of exercises off the Malabar Coast. In Afghanistan, India has pledged \$750 million of aid to the U.S.-backed Hamid Karzai government, and has underscored its commitment to Afghan democracy by promising to erect a new parliament building.

Meanwhile, India has overtaken China as Japan's single largest recipient of overseas development assistance. A high profile visit to India in 2007 by then Japanese prime minister Shinzo Abe included a much publicized address to India's parliament where he spoke of the "confluence of the two seas," a reference to growing ties between India (on the Indian Ocean) and Japan (on the Pacific).

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Yet, despite all the good news, it remains a fact that India – unlike say countries of comparable influence in Southeast Asia such as Australia and Korea – is beset with problems that raise questions about the inevitability of India's rise and, by extension, of the size of its role in the region.

To begin, there's hubris. At times it appears as though India, borrowing a page from Bollywood fantasy, has begun to see itself as a developed nation rather than a poor one. Last year, for example, several Indian newspapers reported that the economy had become the world's twelfth largest with a variation of the misleading headline, "India 12<sup>th</sup> Richest Nation in the World." After the 2004 tsunami India turned down aid from the United States and the EU and instead offered an aid package of its own to Indonesia, whose per capita income and indices of human development remain considerably higher than India's. An aid program for Africa is also underway.

If India stops benchmarking itself against its own (dismal) past and instead compares itself with the rest of the world, it begins to look less like the sand-kicking bully at the beach and more like the proverbial 98 pound weakling. According to the World Bank, in terms of per capita

income, India lies between Syria and Georgia, at 146th in the world. The average Chinese, at about the same level of income as the average Indian thirty years ago, is now more than twice as rich, and the gap is widening. With a female literacy rate of 46 percent, India lags behind Southeast Asia's poorest countries, Laos, Myanmar and Cambodia. In terms of ease of doing business, India ranks 120<sup>th</sup>. On Transparency International's corruption index India ranks 72<sup>nd</sup>. The danger here lies less in irrational exuberance itself, but in the very real possibility that Indian policy makers will allow complacency to stall much needed reforms.

For example, although India has taken steps to improve the quality of its infrastructure in many respects, it continues to lag behind most of Southeast Asia. Thanks to politicians' penchant for promising free power to farmers, and condoning widespread theft, private firms have little incentive to invest. As a result, most Indians live with frequent brownouts and spotty power supply. Similarly, in manufacturing, socialist-era laws make it nearly impossible for firms employing more than 100 workers to fire workers, which discourages hiring. Failure to scrap reservations for "small scale industries" make India uncompetitive in employment-generating industries such as toys and shoes that depend on economies of scale, and that helped power growth in East Asia. The difficulty of slashing subsidies on fertilizer, fuel and electricity contributed to a fiscal deficit in 2006 estimated at 9.3 percent by Morgan Stanley. This crowds out more productive private investment and hamstring the government's ability to invest in health and education.

It's hardly surprising then that India remains the world's only aspirant for great power status that lacks a single world class city, a presence among the medals at the Olympics or serviceable roads, bridges and airports. For an American or a European determined to discount India's weaknesses on account of its democratic traditions or free press the comparison with

China may make sense. To the average visitor from Indonesia, Thailand or Vietnam, it's incomprehensible.

Thus, a large part of United States-Japan-India cooperation – unlike, say, United States-Japan-Korea cooperation – must involve helping India get its own house in order. Burgeoning business ties between India and the United States are a step in the right direction, as is stepped up Japanese ODA for India, much of it earmarked for upgrading India's shoddy infrastructure.

However, Japanese aid alone – even when it results in such high profile successes as Delhi's metro (an underground railway) – is a poor substitute for private sector business engagement and people to people ties. The Japanese private sector has been slow to respond to the Indian market. As a result, it is Korean firms rather than Japanese that dominate the consumer goods market in India such as televisions, refrigerators and air-conditioners, and that give the Japanese a run for their money in the automobile sector. By contrast, Japanese firms dominate most Southeast Asian markets.

There are several reasons for Japanese business apathy toward India. First, the Japanese don't have the appetite to deal with India's Byzantine regulations and often corrupt bureaucracy. Second, culturally – whether in terms of restaurants or nightlife – India is a lot less hospitable to the Japanese than Southeast Asia. Third, China's combination of high labor productivity, business-friendly governments, and a population with a relatively large number of Japanese speakers has made it a more sensible manufacturing base than India. For this to change, Japanese firms will need to overcome some of their squeamishness about doing business in India. At the same time, India needs to cut red tape and work harder to attract Japanese businesses of all sizes. It cannot reasonably expect private sector firms to make business decisions on so-called national security grounds.

People-to-people ties between India and Japan also remain extremely thin. India sends more students to the United States each year than any other country; by contrast it sends virtually none to Japan. Japanese tourist visas are hard to come by for Indians. For the Japanese, the squalor and poor infrastructure of much of India, especially in the parts of eastern India that house historic Buddhist sites, make tourism less attractive than in competing destinations such as the Indonesian resort island of Bali. Over time, as India becomes more prosperous, some of these problems will be mitigated. But the pace has so far been glacial. Should Japan wish to deepen people to people ties it should direct a large chunk of its aid to India toward education. Scholarships to talented high school students to study in Japan, Japanese language classes in Indian cities, and perhaps a top-grade engineering or management school endowed by Japan would all go a long way toward this end.

For all its problems, what sets India apart from other countries at a similar level of economic development is the existence of islands of excellence. Though India will only truly be able to play a role in Southeast Asia commensurate with its size once it gets its domestic and regional houses in order, this does not mean that greater engagement with the region should wait until after this happens. Four groups are worth paying special attention to.

First, India has not only a large military but also a willingness to use it, which many advanced economies (the United States and the United Kingdom are exceptions) appear to have lost in large measure. Over the past two decades India has been among the largest contributors to UN peacekeeping forces. Japan ought to follow the United States in strengthening ties with all arms of the Indian military. Joint exercises, officer exchanges and technology transfer can all be stepped up.

India's soft power – the music, movies and television serials of Bollywood and its subsidiaries – is another strategic asset that can be used intelligently in Southeast Asia. In Afghanistan, for example, Indian television serials dubbed into Pashto and Dari have subtly pushed the message of greater opportunities for women and religious tolerance. For similar cultural and economic reasons Indian films are tremendously popular throughout Southeast Asia. Although the Indian government is squeamish about democracy promotion – believing that this constitutes interference in the internal affairs of other countries – Indian soft power can be used to help inculcate underlying democratic values such as equality before the law, gender equity and respect for private property.

In terms of education, India has much to offer the poorer countries of Southeast Asia – Laos, Cambodia, Vietnam, Myanmar and perhaps Indonesia. It has created a relatively small but impressive base of world-class engineering and management institutes – the Indian Institutes of Technology and Indian Institutes of Management – as well as a meritocratic system of admissions. For richer Southeast Asians – Malaysians, Thais and Singaporeans – an education at home or in the West is a much bigger draw. But where resources are slim, scholarships to Indian institutions or programs that encourage Indian education professionals to work in Southeast Asia can have a tremendous impact. Similarly, training in election management, where India has an excellent record, may be helpful to some of the poorer countries in the region.

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In sum, India's rise creates opportunities for cooperation with the United States and Japan, the two most influential external actors in Southeast Asia. However, domestic problems limit the

extent of cooperation that is feasible at the moment. The United States and Japan should work with India to help it overcome its domestic challenges. At the same time, they should draw on Indian expertise and talent – in the military, in entertainment, in management and in education – to further the goal that all three countries share of a prosperous and democratic Southeast Asia.