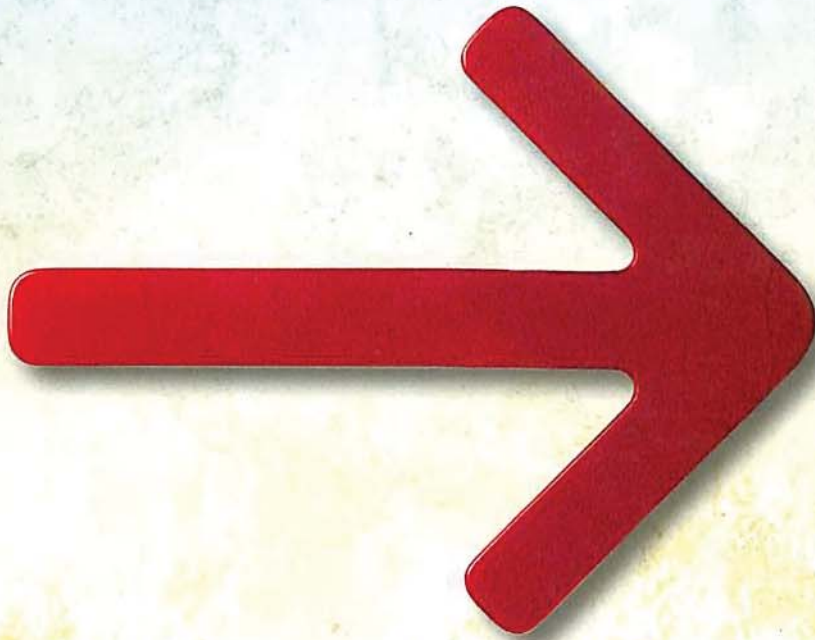


# INDIA'S LOOK EAST POLICY AND THE NORTHEAST



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ngkholal Haokip



India's Look East policy was launched in 1991 by the then Narasimha Rao government to renew political contacts, increase economic integration and forge security cooperation with several countries of Southeast Asia as a means to strengthen political understanding. The book, while providing a historical background of political integration and its fallout in Northeast India since independence, examines the continuity and change of India's policy towards its Northeastern region and the economic potentials of this policy.



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# India's Look East Policy and the Northeast



**Thongkholal Haokip**

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First published in 2015 by



**SAGE Publications India Pvt Ltd**  
B1/1-1 Mohan Cooperative Industrial Area  
Mathura Road, New Delhi 110 044, India  
[www.sagepub.in](http://www.sagepub.in)

**SAGE Publications Inc**  
2455 Teller Road  
Thousand Oaks, California 91320, USA

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1 Oliver's Yard, 55 City Road  
London EC1Y 1SP, United Kingdom

**SAGE Publications Asia-Pacific Pte Ltd**  
3 Church Street  
#10-04 Samsung Hub  
Singapore 049483

Call No. 337.54059 HA0/I P1

Acc No. H1625

Published by Vivek Mehra for SAGE Publications India Pvt Ltd, typeset in 10/13 pts  
Berkeley by Diligent Typesetter, Delhi and printed at Sai Print-o-Pack, New Delhi.

#### Library of Congress Cataloging-in-Publication Data

Haokip, Thongkhohal.

India's Look East Policy and the Northeast / Thongkhohal Haokip.

pages cm

Includes bibliographical references and index.

1. India, Northeastern—Economic policy. 2. India, Northeastern—Politics and government. 3. India—Economic integration. 4. India, Northeastern—Foreign economic relations—Southeast Asia. 5. Southeast Asia—Foreign economic relations—India, Northeastern. I. Title.

HC437.N57H36 337.54059—dc23 2015 2014048850

ISBN: 978-93-515-0101-5 (HB)

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The SAGE Team: Rudra Narayan, Sanghamitra Patowary and Vaibhav Bansal

This book is dedicated to my beloved mother,  
Mrs Lhingkhonei Haokip.

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## List of Abbreviations

AFTA	ASEAN Free Trade Area
AGP	Assam Gana Parishad
APEC	Asia-Pacific Economic Cooperation
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
BATD	Bodoland Autonomous Territorial Districts
BCIM	Bangladesh–China–India–Myanmar Regional Economic Forum
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BIST-EC	Bangladesh, India, Sri Lanka, Thailand-Economic Cooperation
BJP	Bharatiya Janata Party
BPO	Business Process Operation
CLMV	Cambodia, Laos, Myanmar and Vietnam
ECC	European Economic Community
ECOSOC	United Nations Economic and Social Council
EMS	European Monetary System
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GoI	Government of India
IAS	Indian Administrative Service
ICT	Information and Communication Technology
IFAS	Indian Frontier Administrative Service
IGEG	Inter-Governmental Expert Group
IMF	International Monetary Fund
INC	Indian National Congress
J&K	Jammu and Kashmir
KNA	Kuki National Army
MDoNER	Ministry of Development of North Eastern Region
MEA	Ministry of External Affairs

MERCOSUR	Mercado Comun del Sur, Common Market of the South
MGC	Mekong–Ganga Cooperation
MNF	Mizo National Front
NAFTA	North American Free Trade Agreement
NDA	National Democratic Alliance
NEFA	North Eastern Frontier Agency
NEC	North Eastern Council
NNC	Naga National Council
NSCN	National Socialist Council of Nagaland
R&D	Research and Development
SAARC	South Asian Association for Regional Cooperation
SAPTA	South Asian Preferential Trading Agreement
STEOM	Senior Trade/Economic Official Meetings
ULFA	United Liberation Front of Asom's
UMFO	United Mizo Freedom Organisation
UN	United Nations
UNCTD-III	United Nations Conference on Trade and Development-III
WTO	World Trade Organisation

## Preface

The Look East policy has emerged as a major thrust area of India's foreign policy in the post-Cold War period. It was launched in 1991 by the then Narasimha Rao government to renew political contacts, increase economic integration and forge security cooperation with several countries of Southeast Asia as a means to strengthen political understanding. Outside South Asia, India saw Southeast Asia as the only region where politico-strategic and economic conditions offered an opportunity to play a role for itself. India's Look East policy is aimed at greater economic alignment and an enhanced political role in the dynamic Asia-Pacific region in general and Southeast Asia in particular. The Look East policy is pursued to make India an inalienable part of Asia-Pacific's strategic discourse. Hence, the current phase of the Look East policy marks the beginning of a vibrant relationship on the economic, political and strategic fronts. The economic potential of this policy is also emphasised to link to the economic interests of the Northeastern region as a whole.

The beginning of the early 1990s was marked by a transformation in the international political economy, contributed by the end of the Cold War and the resulting spread of globalisation. Globalisation of world economies intensified international competition and has given rise to a new wave of regionalism. As a viable response in a rapidly globalising world, the trend towards regionalism is being espoused by the developed as well as the developing countries. A large number of states in different parts of the world constitute themselves into regions to give fresh impetus to a wide variety of cooperative ventures based on regionalism. Geographical proximity, economic complementarities, political commitment, policy coordination and infrastructure development provide conditions for formation of such groupings.

During this time India, like many developing countries, faced many challenges—both internally and globally. Internally, the country was unsettled by social unrest, serious political instability and poor economic performance. After the disintegration of the Soviet Union, New Delhi lost a major economic partner and its closet strategic ally. India became aware

of the growing trend towards regionalism and due to fears of being marginalised from the global economy, she emphasised on weaving a web of durable cooperative ties with various countries in the region.

The first ever regional economic cooperation that India joined in her own neighbourhood is SAARC. However, it has become a non-starter due to political tensions between India and Pakistan. India also cannot look towards West Asia and Africa for intensive economic cooperation, as the countries of this region look up mainly to the West. During this period, India has got attracted to the high-performing economies of East Asia. Forced by the economic crisis and the dire need of Foreign Direct Investments (FDIs) for rapid economic development, India had enunciated the Look East policy in 1991 and was determined to work with the spirit of regional economic cooperation with her Eastern neighbours. The policy underlines the renewed thrust towards the Asianist perspective of cooperation and development which was undertaken during the Nehruvian era.

The first phase of India's Look East policy was ASEAN-centred, and focused primarily on trade and investment linkages. The second phase, which began in 2003, is more comprehensive in its coverage, extending from Australia to East Asia, with ASEAN as its core. The new phase marks a shift in focus from trade to wider economic and security cooperation, political partnerships, physical connectivity through road and rail links. In India's effort to look East, the Northeastern region has become a significant region due to its geographical proximity to Southeast Asia and China. India's search for new economic relationship with Southeast Asia is now driven by the domestic imperative of developing the Northeast by increasing its connectivity to the outside world. Instead of consciously trying to isolate the Northeast from external influences, as it had done in the past, New Delhi has now recognised the importance of opening it up for commercial linkages with Southeast Asia. In its effort to look East, India has the vision for Northeast as the gateway to the East and a springboard for launching intense economic integration with Southeast Asia.

Northeast India is the northeastern borderland of South Asia, and also the northwestern borderland of Southeast Asia. The region has much more geographical contact with and proximity to other national states than the Indian mainland. The people have distinct ethnic and cultural identities, which are similar to those of the people of Southeast Asia and China than with the people of the rest of India. The region is a storehouse of mineral resources, biodiversity and water resources, and

has been known for her natural resources and maintenance of active transborder trade with her neighbours during the pre-independence period. But these natural bounties are yet to be harnessed. The partition of India in 1947 caused the extreme geo-political isolation of the Northeast, making it the most regulated, sensitive border region and the most exposed territory. In addition, the partition also caused the severance of the inland water, road and railway communications through erstwhile East Pakistan, and access to the Chittagong port was lost. The Chinese takeover of Tibet and the virtual closure of the border with Burma added to the isolation of the region. These profound economic and political changes that followed in the wake of independence created a sense of unease among the tribal population of the region. Since the development initiatives of the Indian government in this region have been based on its security concerns, the state-centric security approach has kept the region isolated and underdeveloped.

For several decades, people have talked about economic integration of the Northeastern states with the rest of the country. Over the time, policy-makers, bureaucrats and intellectuals have attributed the numerous armed separatist struggles and political instability in the Northeastern states to the region's underdevelopment and weak economic integration with mainland India. As part of the efforts to integrate the region with the rest of India, developmental funds were poured in and emphasis was laid on infrastructural development. However, the region still has the problem of underdevelopment and faces the problem of a growing and expanding security apparatus. The migration of people from Bangladesh, Nepal and Myanmar has only added to the tensions in the region. Such unrest in the region has resulted in alarming changes, which endanger the security of the region by hindering the development of a strategically significant region of the country. Moreover, there is a relocation of factories and industries towards northern and western India, and hence the cost of transportation of goods to Northeast India has increased. Therefore, the existing policy of development of the Northeastern region needs to be reoriented if its stated objectives have to be fulfilled in due course.

In the recent years, the development of this region is being factored into the overall strategy of national development as well as in the conduct of India's relations with the other countries. India's Look East policy, which identifies Northeast India as the gateway to the East, is one such major initiative undertaken by the Government of India (GoI). One direction that holds out much promise as a new way of development is political integration with the rest of India and economic integration with the rest

of Asia, particularly with East and Southeast Asia. In the second phase, the Look East policy has been given a new dimension wherein India is now looking towards a partnership with the ASEAN countries, integrally linked to the economic and security interests of the Northeastern region.

Taking into account its geographical proximity, its historical and cultural linkage with Southeast Asia and China and the primary objective of the Look East policy, it is being widely stated that the Look East policy would result in the rapid development of the region as it promises increased trade contacts between the Northeastern region and Myanmar, China and Bangladesh. The policy also has the potential of solving the problem of insurgency, migration and drug trafficking in the region through regional cooperation.

On the other side, there is pessimism that the policy of integrating Northeast India with its Eastern neighbours would lead to dumping of cheap foreign goods and the region's own industries being adversely affected by it. The region is also being perceived as just a transit region without bringing economic development to the region, as it has no adequate industrial infrastructure to produce goods which can be exported to these countries. There is also a concern that such integration will develop further the feeling of alienation of the people and the region itself would drift away from the mainstream Indian politics. Therefore, there is a need to examine deeply the existing realities and issues. Considerable works have been done on the dynamics of India's Look East policy, but these academic works did not examine the economic potentials of the Look East policy linked to economic interests of the Northeastern region. The works on the economy of the Northeast recommend the economic integration of the region with the dynamic East and Southeast Asia without examining the possible consequences of such a policy in terms of ethnic integration of the communities of the Northeast with the rest of the Indian states.

This book studies the evolution of India's Look East policy, the economic potentials of the Look East policy linked to the economic interests of the Northeastern region, the continuity and change of India's policy towards the Northeast and, in that context, examine whether the Look East policy is likely to attain its goals. It also examines whether it is feasible to adopt a policy for economic development by opening up to the East in the face of possible alienation in ethnic terms.

This book has been divided into eight chapters. Chapter 1 discusses the trend towards regional integration after the end of the Cold War, the growth of regional organisations and its relationship with the United Nations. The chapter then briefly discusses India's attempt at establishing

regional cooperation. The main concepts, namely, regional integration and regionalism, as they have emerged, so far have been discussed in this chapter.

Chapter 2 of the book assesses the challenges that India faced, both at the domestic and international levels, during 1990–91 and the compulsions of India to look East. The chapter also discusses the policy objectives of the Look East policy, such as regional integration, reforms and liberalisation, rapid economic growth, development of the Northeastern region and security consideration, and its various approaches, such as geographical focus, sub-regional cooperation and free trade agreements.

Chapter 3 discusses the endeavours of India to reinforce the Look East policy by joining several sub-regional groupings, such as the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), the Mekong Ganga Cooperation (MGC) Project and the Bangladesh–China–India–Myanmar Regional Economic Forum (BCIM Forum). It also explores the complementarities that exist between Northeast India and its neighbouring countries, and possible technical and marketing collaborations in various fields.

Chapter 4 provides the historical background of political integration and its fallout in Northeast India since independence.

Chapter 5 attempts to provide the historical background of economic development in Northeast India till the late 1980s. It traces the background of modern economic development in the region, since the discovery of tea in 1823 by East India Company and the subsequent entry of the region into the world economy. It explores whether the plantation economy and modern economic growth raise the standard of living of the people. The consequences of the partition of 1947 and the newly drawn political boundary, the Chinese occupation of Tibet and the virtual closure of border with Burma on the economy of the region and the region's economic condition after independence are also discussed.

Chapter 6 examines the continuity and change of India's policy towards its Northeastern region, and the economic potentials of the Look East policy. It starts with the analysis of *Nehruvian policy framework* for the Northeast to the *politics of political representation* and the *development syndrome*. It then looks into the development of new policy by the GoI, which directs its Look East policy to tap the geo-economic potential of the Northeastern region as a gateway to East and Southeast Asia by converting locational disadvantage into advantage.

As the Look East policy provides a lot of opportunities as well as challenges for the Northeastern region, Chapter 7 examines the possible

political impact of the Look East policy vis-à-vis the issues of ethnic integration, insurgency, migration and drug trafficking. These conundrums in the Northeastern region are interrelated and transborder in nature. This chapter also explores whether the transborder nature of these problems can be solved by way of effective regional cooperation through the Look East policy, and examines the nature of sovereignty bargains that the Indian state will be willing to engage in its pursuit of regional integration. The concluding chapter (Chapter 8) recapitulates the major findings of the previous chapters.



## Acknowledgements

I am indebted to many people who have helped me in writing this book. First and foremost, I am sincerely grateful to the faculty members of the Department of Political Science, North-Eastern Hill University (NEHU), Shillong, for sharing their views on the subject.

I am thankful to Dr C. Joshua Thomas, Deputy Director, Indian Council of Social Science Research-North Eastern Regional Centre (ICSSR-NERC), for his immense guidance and help which enabled me to avail help from the ICSSR, New Delhi, during my visit to various libraries in New Delhi.

I am grateful for the help received from the staff of NEHU Central Library, ICSSR-NERC and North Eastern Council library in Shillong, Omeo Kumar Das Institute of Social Change and Development in Guwahati, National Library in Kolkata and from other libraries, namely, Jawaharlal Nehru University library, Nehru Memorial Museum and Library, Parliament Library, Research and Information System and the National Social Science Documentation Centre, New Delhi.

I would also like to express my deep gratitude to my parents, Pu Sonthong Haokip and Pi Lhingnei Haokip, for their understanding, encouragement and support during the course of my work.

Last and by no means least, I thank the Almighty God for enabling me to do this piece of work without any difficulties, and for the blessings I have received over all these years.

Thongkholal Haokip  
Kolkata: January 2014

# 1

## Regional Integration and India

The beginning of the 1990s was a turning point in international politics. Dramatic events took place at the global level that brought about one of the most significant changes in the twentieth century, and subsequently transformed the nature of international politics. This period witnessed the end of the Cold War between the two military blocs that brought an end to the bipolar world, which was based on confrontation of two politico-economic systems. It also brought an end to the stability of the world based on mutual deterrence. The high-risk–high-stability situation has been replaced by a low-risk–low-stability situation. The end of the Cold War and the collapse of the Soviet Union also brought about the reorientation of former Soviet client states, especially those in the Third World, from centralised to market economies. These global changes have precipitated two consequences in the prevailing international relations. First, there is a growing interdependence between countries and second, economic and trade issues are gaining vital precedence over the political and military ones.<sup>1</sup> With a shift from geo-politics and geo-strategic to geo-economics, the economic dimensions of international politics have become prominent. The world, previously polarised by an ideological struggle, rapidly changed into economic blocs.

With the end of the Cold War and the resultant breakdown of the overarching Cold War structure that underpinned and ordered international relations, nation-states became aware of the need to re-evaluate their place in the international system. As a result individual states began to seek new relations with the emerging group of major powers and with their own immediate neighbours. Many states realised 'how much their own welfare was dependent on the stability and well-being of the region in which they are located.'<sup>2</sup>

The post-Cold War phase in international relations witnessed a distinct trend towards regional integration. As a result, a large number of states from different parts of the world began to make serious attempts to constitute themselves into regions to give a fresh impetus to a wide

variety of cooperative ventures amongst themselves. Regional integration, in general, appeared to be an effective device to serve economic and commercial objectives of these states. In the process, old organisations were recasted and new organisations created to suit the changing global political context.<sup>3</sup> All these developments consequently brought about a change in the world policies leading to the development of a new world order, and dramatically altered the basic parameters in which the various relationships had hitherto operated.<sup>4</sup>

## Regional Integration: Concept and Growth

The growth of regional integration has been one of the major developments in recent international relations, and has become part and parcel of the present global economic order. This trend is 'now an acknowledged future of the international scene' and 'has achieved a new meaning and new significance.'<sup>5</sup> The nation-state system, which has been the predominant pattern of international relations since the Peace of Westphalia in 1648, is evolving towards a system in which regional groupings of states are becoming more important than sovereign states. Walter Lippmann believes that 'the true constituent members of the international order of the future are communities of states.'<sup>6</sup> E.H. Carr shares Lippmann's view about the rise of regionalism and regional arrangements, and conceives that the concept of sovereignty is likely to become even more blurred in the future than it is at present.<sup>7</sup> The process of regional integration has increasingly affected and even shaped international relations. Trade, economic cooperation and many trans-border issues and problems are increasingly being dealt at a regional supranational level. It is this development of increasing regional cooperation in economic, political and security issues that has gathered momentum in recent years. These integration projects are an increasingly growing phenomenon and occur simultaneously with globalisation.

Regional integration has been defined as 'an association of states based upon location in a given geographical area, for the safeguarding or promotion of the participants', an association whose terms are 'fixed by a treaty or other arrangements.'<sup>8</sup> Philippe De Lombaerde and Luk Van Langenhove define regional integration as 'a worldwide phenomenon of territorial systems that increase the interactions between their components

and create new forms of organisation, co-existing with traditional forms of state-led organisation at the national level.<sup>9</sup> According to Hans van Ginkel, regional integration refers to the process by which states within a particular region increase their level of interaction with regard to economic, security, political, and also social and cultural issues.<sup>10</sup> In the present age of economic globalisation, integration is generally defined as 'the voluntary linking in the economic domain of two or more formerly independent states to the extent that authority over key areas of domestic regulation and policy is shifted to the supranational level.'<sup>11</sup> In short, regional integration is the joining of individual states within a region into a larger whole. The degree of integration depends upon the willingness and commitment of independent sovereign states to share their sovereignty.<sup>12</sup>

Regional integration initiatives, according to Van Langenhove, should promote:

the strengthening of trade integration in the region; the creation of an appropriate enabling environment for private sector development; the development of infrastructure programmes in support of economic growth and regional integration; the development of strong public sector institutions and good governance; the reduction of social exclusion and the development of an inclusive civil society; contribution to peace and security in the region; the building of environment programmes at the regional level; and the strengthening of the region's interaction with other regions of the world.<sup>13</sup>

Regional integration arrangements are primarily the outcome of necessity felt by nation-states to integrate their economies so as to attain rapid economic development and reduce the conflict between the integrated units by building mutual trust. Integration is not an end in itself, but a process to support economic growth strategies, greater social equality and democratisation. This desire for closer integration denotes the desire for opening to the outside world. Regional integration is being used as a means to boost development by promoting efficiency, rather than disadvantaging others. The members of these arrangements believe that their regional initiative will result in a freer and open global environment for trade and investment.

Regional integration or regionalism is not a recent phenomenon. In the past two centuries, four waves of regionalism have occurred. The first wave started in the mid-nineteenth century and continued until the beginning of the First World War. It was basically a European phenomenon, and

the conclusion of a number of bilateral and regional trading agreements contributed to the growth of regionalism in Europe. The First World War disrupted this first wave of regional trade arrangements. The second wave began soon after the end of the War and was highly protectionist and often associated with *beggar-thy-neighbour* policies and substantial trade diversion, as well as heightened political conflict. Some were created to consolidate the empires of major powers; however, most were formed among sovereign states.<sup>14</sup>

The third wave of regionalism occurred soon after the end of the Second World War and took place from the later part of the 1950s till the 1970s. During this episode, a number of regional trading blocs were formed by developed countries in Western Europe, the Soviet Union and its allies, and less developed countries as against the backdrop of the Cold War and decolonisation. Thus, all regional integration projects during the Cold War period were 'built on the Westphalian state system and were to serve economic growth as well as security motives in their assistance to state building goals.'<sup>15</sup> However, the present wave of regionalism relies on high levels of economic interdependence, a willingness by the major economic actors to mediate trade disputes and a multilateral framework that assists them in doing so.<sup>16</sup> In the words of Lawrence:

The forces driving the current developments differ radically from those driving previous waves of regionalism in this century. Unlike the episode of the 1930s, the current initiatives represent efforts to facilitate their members' participation in the world economy rather than their withdrawal from it. Unlike those in the 1950s and 1960s, the initiatives involving developing countries are part of a strategy to liberalize and open their economies to implement export and foreign investment-led policies rather than to promote import substitution.<sup>17</sup>

As such, regional integration provides an opportunity for the constituent units to increasingly react and settle trans-border disputes within the framework of their regional organisation. Nation-states, especially developing countries, prefer interaction with states outside their region not as a single entity, but as a region or regional organisation so that they can maximise their bargaining power. Therefore, the formation of an organisation based on region for trade, economic, security and political cooperation is on the rise. These countries which venture upon regional integration are usually close neighbours, and, to a certain extent, share

a common past and, thus, common history. Common history, in turn, leads them to share common problems and an intensified perception of those problems.

The recent surge of regionalism can, thus, be attributed to the increasing force of globalisation, which in turn is the result of the end of the Cold War. Globalisation has resulted in the growth of world market, increased penetration and domination of the national economies, which makes the nation-states bound to lose some of their *nationness*. This dominance of the world market over structures of local production has resulted in the emergence of a political will to halt or to reverse the process of globalisation,<sup>18</sup> in order to safeguard some degree of territorial control and cultural diversity.<sup>19</sup> One way of achieving such change has been through regional cooperation. Regional cooperation, therefore, is seen as a natural response to the forces of globalisation and a part of the states' effort to cope with pervasive globalisation. In many regions, regional integration has become an important answer to the challenges of the management of globalisation. Regional arrangements do not infringe the barrier of the sovereign state system, but rather provide an impetus and the machinery for much closer cooperation of states on the regional level. In recent years, regional integration projects have become the focal point of discussions, as developing countries are turning to regionalism as a tool for development. Almost all countries are now members of at least one project and may belong to more than one.

Regional integration and regionalism are often used synonymously in international relations. Regionalism may simply be stated as loyalty to the interests of a particular region. It may also be defined as a policy whereby the interests of a nation in world affairs are defined in terms of particular countries or regions. In the economic sphere, regionalism can be defined as 'an agreement among a certain number of states on preferential trade.'<sup>20</sup> Much of the literature on regionalism focuses on the welfare implications of preferential trading agreements, both for members and the world as a whole.<sup>21</sup> On a broader term, regionalism stands for the integration of economies and political systems on a smaller, regional scale, encompassing a few states that are located near each other, with many such regional cooperation or integration processes taking place simultaneously. Regionalism, therefore, promotes the regional integration of closely-knit neighbouring countries.

## International Organisations and Regional Integration

The end of the Cold War brought about significant changes in the political, economic and strategic environment of the world. The issues in this new environment are vast and complex that it needs global cooperation and action to tackle them. Nation-states realised that these issues can be best addressed at multilateral agencies, and, therefore, multilateralism is being espoused by the United Nations (UN) and is increasingly regarded as the *modus operandi* in world politics today. However, the multilateral system is facing increasing challenges. Due to the repeated failure of multilateralism, developing countries have lost confidence in the global multilateral institutions to provide equitable development rules and to give them ownership of development policies. Since multilateralism, the first best option, is not attainable by many countries, both developed or developing and large or small are pursuing the second-best option—regionalism. Regionalism is then considered to be an alternative, at least, for countries geographically close to one another, especially for countries with close economic interests and exchanges. The desire for regional integration evolves as a result of environmental development, compulsions due to common problems and the experiences gained out of the drawbacks and inadequacies of the existing larger international organisations.<sup>22</sup>

The idea of regional arrangements has gained support from many international organisations. Since its inception, the UN has recognised regional arrangements. In its Charter, the UN has one chapter (Chapter VIII, Articles 52–54) entitled 'Regional Arrangements', fully devoted to the subject of regional arrangements. Observing the consistency of regionalism and regional arrangements with the principles of the UN, Article 52(1) of the Charter states that:<sup>23</sup>

Nothing in the present charter precludes the existence of regional arrangements or agencies for dealing with such matters relating to the maintenance of international peace and security as are appropriate for regional action provided that such arrangements or agencies and their activities are consistent with the Purposes and Principles of the United Nations.

Clauses 2 and 3 of Article 52 also encourage regional arrangements for pacific settlement of local disputes before referring them to the Security

Council. In addition to Chapter VIII, Article 33 calls upon the parties to any disputes, the continuance of which is likely to endanger the maintenance of international peace and security to seek a solution through regional agencies or arrangements. Article 51 of the Charter also provides for an unrestricted regional security arrangements outside its effective control.

The Charter of the UN, however, does not define *regional arrangements* or *regional agencies* and its relationship with such arrangements or agencies. All references relating to regional arrangements are confined to the field of security. It is silent on the possible economic, social, cultural and other potentialities of such groupings. The institutional approach to regionalism and regional cooperation that was incorporated in the UN Charter was founded on the clashing power politics of the two power blocs in the post-war years.

With the end of the Cold War, the main focus of regional organisations has shifted from security to economic cooperation. As it has encouraged regional agencies and arrangements for pacific settlement of disputes during the Cold War period, the UN now encourages regional integration. The UN also believes that a 'relative cultural, economic, political and geographic affinity within a region leads itself to a more effective organisation',<sup>24</sup> and these more effective regional organisations are more supportive to its multilateral objectives. The UN's Economic and Social Council (ECOSOC), which facilitates international cooperation on standards making and problem solving in economic and social issues, promotes regional integration as a prerequisite for globalisation. Globalisation not only widened the opportunities for national development, but also brought risks. Danuta Huebner, former Executive Secretary of the Economic Commission for Europe, said that the best response from the European continent to global challenges was its integration, since 'integration and international cooperation were guarantors of peace and stability.'<sup>25</sup> The UN is now increasingly feeling that the regional perspective is necessary for global action.

The UN has five regional commissions which provide inter-governmental frameworks for regional cooperation to assist countries in addressing sustainable development issues. These regional commissions have unique convening power in organising ministerial conferences and high-level meetings to further the implementation of regional and global sustainable development action plans through policy dialogues. The UN Conference on Trade and Development-III (UNCTAD-III) emphasises



various aspects of regional cooperation. The Doha Declaration of World Trade Organisation (WTO) in 2001 recognises the fundamental role regional trade agreements can play in fostering the liberalisation and expansion of trade and, thus, in helping development. Apart from the UN, other international organisations also support regional integration for economic development, peace and security of the world. The Non-Alignment Movement Summit held at Algeria in September 1973 also calls for maximisation of trade and economic cooperation among poor countries.

## **New Wave of Regional Integration and Regional Organisations**

There has been a new wave of economic regionalism since the mid-1980s, which reached its peak during the 1990s. The United States, which was the main proponent of multilateralism, has been disappointed with the lack of progress at the world trading negotiations. It decided to switch the course and concluded the Canada–United States Free Trade Agreement, and is now going ahead with the North America Free Trade Area.<sup>26</sup> The United States has also announced its intention to negotiate free trade agreements with other countries. Alongside this, the European Union (EU) continues to widen and deepen its integration. These developments have, in turn, led other countries to reconsider the regional option. East Asia, in particular, is convinced that a regional bloc may be the only way to meet the challenges posed by developments in America and Europe. Even developing countries are beginning to fear that their access to world markets may be curtailed significantly if trading blocs become a reality, and they are left out. Hence, throughout Asia, Africa, Latin America and West Asia, old arrangements are being revived and new ones created with a fresh objective to serve the economic interests of the participating countries. Therefore, this new economic regionalism is manifested by recasting old organisations and forming new economic organisations to suit the changing global context, and the deepening of the existing arrangements. This surge can be attributed to the new environment created by the end of the Cold War and military alliances, and the resulting emphasis given by nation-states on development through mutual economic cooperation with neighbouring states.

The EU is the first regional organisation in the post-war period. The formation of the European Community was critical in triggering integration projects in the 1960s, while the recent deepening and enlargement of the EU has been a key factor in triggering the latest wave of integration.<sup>27</sup> A good example of new regionalism is the development of a model of integration that incorporates political elements in deep economic integration. It has come a long way through decades, where redefining of objectives, priorities, adaptations and institutional changes are the secrets of its survival and prosperity. The EU was originally created by the six founding nation-states—France, Italy, Belgium, West Germany, Luxembourg and the Netherlands in 1957 by the Treaties of Rome, which established the European Economic Community (ECC) following the earlier establishment by the same six nation-states of the European Coal and Steel Community in 1952. The Single European Act in 1986 introduced measures aimed at achieving an internal market and greater political cooperation. The treaty on EU, which was signed in 7 February 1992 in Maastricht, Netherlands, renamed the ECC as EU. The Amsterdam Treaty of 1997 introduced measures to reinforce political union and prepare for enlargement towards the East, and the Nice Treaty (2001) defined the institutional changes necessary for enlargement. Now, in Europe, there is a complex multilevel governance system with deep cooperation between nation-states, with firm devolution of power within states and a strong international legal framework. This has created a political model which challenges assumptions about governance all over the world.

The most comprehensive economic integration project undertaken since the new wave of regionalism emerged in the middle of 1980s is the regional trade and investment agreement between United States, Canada and Mexico called the North American Free Trade Agreement (NAFTA). NAFTA, which is an expanded version of the Canada–United States Free Trade Agreement of 1988, came into being on 17 December 1992. The agreement came into force on 1 January 1994 to implement free trade area. The declared aims of NAFTA primarily deals with the strengthening of economic growth in the territories of the three NAFTA members by phased elimination of tariff and most non-tariff barriers on regional trade, facilitate cross-border movement of goods and services between the territories of the parties and establish a framework for international cooperation, including most-favoured-nation treatment and transparency. It also aims to promote conditions of fair competition in the free trade

area and substantially increase investment opportunities in the territories of the parties. Through this regional cooperation, NAFTA countries are expecting positive impact on their nation's economies by way of creating new jobs and enhancing the living standards.

The core of the latest wave of regionalism in Latin America is Mercado Comun del Sur (MERCOSUR; English translation is *common market of the South*). MERCOSUR is a regional trade agreement which was established by the Treaty of Asuncion signed by Brazil, Argentina, Uruguay and Paraguay in March 1991. It has Chile and Bolivia as its associate members. The formation of MERCOSUR was triggered by external events that threatened to inflict severe damage on the economies of the Latin American region.<sup>28</sup> The primary objective of the formation of MERCOSUR is to create a single market for goods, capital and people. Or in other words, MERCOSUR's purpose is to facilitate free movement of goods, services, capital and people among the four member countries. MERCOSUR has become a successful market of about 200 million people, representing about US\$1 trillion of Gross Domestic Product (GDP) and \$190 billion of trade. It is the fourth largest integrated market after the EU, NAFTA and Association of South East Asian Nations (ASEAN).

The ASEAN, which is one of the successful examples of regionalism, was formed in 1967 with the signing of the Bangkok Declaration by its five original member countries—Malaysia, Indonesia, Thailand, Philippines and Singapore. The remaining Southeast Asian countries—Brunei, Darussalam, Vietnam, Laos, Myanmar and Cambodia joined the regional grouping during the 1980s and 1990s. The aims and purposes of ASEAN are: (a) to accelerate economic growth, social progress and cultural development in the region and (b) to promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries in the region and adherence to the principles of the UN.<sup>29</sup> The formation of ASEAN was to promote regional peace, stability and security and the prevention of balkanisation. It was primarily political and security driven, rather than desiring to benefit from economic integration. However, with the end of the Cold War and increasing wave of globalisation, the association has reoriented its objectives.

In 2003, the ASEAN leaders established the ASEAN Community, which comprised of three pillars, namely, ASEAN Security Community, ASEAN Economic Community and ASEAN Socio-Cultural Community. Through

the ASEAN Economic Community, ASEAN members try to pursue the end goal of economic integration. Its goal is to create a stable, prosperous and highly competitive ASEAN economic region in which there is a free flow of goods, services, investment and a freer flow of capital, equitable economic development, and reduced poverty and socio-economic disparities by the year 2020. With the aim of creating a Free Trade Area in the region, it formed the ASEAN Free Trade Area (AFTA) in January 1993. ASEAN has come a long way since its formation and survived the passage of time through the reorientation of its goals. The rise of Southeast Asian regionalism can be seen as a response to the larger changes occurring at the global level, such as the politico-economic integration of Western Europe into the EU.

## India's Attempts at Regional Integration

India's efforts towards regional integration can be traced back to the pre-independence period. The leaders of Indian independence movement were conscious of the need to develop cooperation among fellow Asians, and closer collaboration with them was one of their main objectives. Indian leaders foresaw the inevitable trend towards regional integration in the post-war period. Jawaharlal Nehru, during his prison days in 1944, said in course of his reference to imminent changes in the structure of world politics, 'It is possible, of course, that large federations or group of nations may emerge in Europe or elsewhere in the Pacific and form huge multi-national States.'<sup>30</sup>

In his inaugural address at the Asian Relations Conference in 1947, Nehru stressed on the need for greater regional cooperation and asserted, 'There was a widespread urge and awareness that the time had come for us, peoples of Asia, to meet together, hold together and advance together. It was not only a vogue desire but the compulsions of events which forced all of us to think along these lines.'<sup>31</sup> There was an expression of great enthusiasm for regional cooperation from countries such as Sri Lanka and Burma. However, the conference which marked the apex of Asian solidarity also marked the beginning of its decline. The underlying causes of failure 'were the intense rivalry between India and China in the

the ASEAN Economic Community, ASEAN members try to pursue the end goal of economic integration. Its goal is to create a stable, prosperous and highly competitive ASEAN economic region in which there is a free flow of goods, services, investment and a freer flow of capital, equitable economic development, and reduced poverty and socio-economic disparities by the year 2020. With the aim of creating a Free Trade Area in the region, it formed the ASEAN Free Trade Area (AFTA) in January 1993. ASEAN has come a long way since its formation and survived the passage of time through the reorientation of its goals. The rise of Southeast Asian regionalism can be seen as a response to the larger changes occurring at the global level, such as the politico-economic integration of Western Europe into the EU.

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conference and the common distrust of the two Asian giants among the smaller countries of the region.<sup>32</sup> William Henderson observes: 'Neither the Indians nor the Chinese were prepared to concede leadership to the other, the Arabs were uninterested and the South-East Asians frankly afraid that such an arrangement would mean the end of their freedom, almost before it had been won.'<sup>33</sup>

The next attempt towards regional integration by India was the Conference on Indonesia. It was organised to express support to the Sukarno-led armed struggle against the Dutch attempt to re-impose colonial rule in Indonesia in December 1947. The conference was held in New Delhi on 20 January 1949, which was attended by 15 Asian nations. Apart from the Indonesian issue, Nehru made an open appeal for regional integration, where he said: 'We see creative and cooperative impulses seeking a new integration and new unity. New problems arise from day to day which, concern all of us or many of us.'<sup>34</sup> The conference passed three resolutions where the third resolution called for regional integration of the participating nations. It urged the participating governments to 'consult among themselves in order to explore ways and means of establishing suitable machinery ... for promoting consultation and cooperation within the framework of the United Nations.'<sup>35</sup>

The attempts at regional cooperation continued from 1949 to 1955 where many conferences were organised and attended by India to find out the possibilities of such cooperation. A major step towards cooperation of the Afro-Asian countries was taken in the Bandung Conference, in April 1955, to develop a policy and common approach to their problems. In the economic sphere, the conference underscored the need for economic cooperation in the region, of providing mutual technical assistance, of the establishment of regional training institutes, intra-regional trade, etc.<sup>36</sup> The proposal for regional economic cooperation and intra-regional cooperation in Asia and Africa in the Bandung Conference was not materialised. These earlier attempts by India, since independence, towards regional integration in Asia however failed. A number of reasons were responsible for the failure of these attempts. The interstate disputes, tensions, distrusts and apprehensions among the individual countries were the main factors.<sup>37</sup>

The South Asian subcontinent experienced a changing political environment during the later part of the 1970s. The Janata Party came into power in India, Zia took over Pakistan, Zia-ur-Rehman consolidated his

power in Bangladesh and Jayawardene took over Sri Lanka. The Janata government did not abandon the main tenets of the Indian foreign policy followed since 1947, but took a more conciliatory approach towards its immediate neighbours. The new leaders, in contrast to their predecessors, wanted closer relationship and cooperation within the region. The deepening of economic crisis, unemployment, poverty and declining growth rates compelled these countries to think for regional cooperation.

The smaller countries in South Asia, such as Nepal, Sri Lanka and Bangladesh, were very enthusiastic about regional cooperation. The idea of regional cooperation in South Asia was first mooted by late President of Bangladesh Zia-ur-Rehman. During his visit to India, Pakistan, Nepal and Sri Lanka, Rehman tried to convince the head of the states regarding the prospective future of his proposed regional cooperation. In May 1980, Zia-ur-Rehman sent a formal letter to all the South Asian countries proposing the establishment of regional organisation in South Asia followed by *Bangladesh Working Paper* sent to all countries on 25 November 1980.

The proposal for regional cooperation came from smaller countries as they felt that it could serve two objectives: It could provide a cover against India's domination and it could accelerate the pace of economic development.<sup>38</sup> With initial reservations, India accepted the proposal in principle, but decided to scrutinise it carefully. It is often argued that any attempt towards regional cooperation in the South Asian region is inconceivable without India's active participation, as South Asia is predominantly an Indo-centric region.

After several rounds of meetings and discussions among South Asian countries, the idea of establishing a regional cooperation took a final shape in December 1985. The South Asian Association for Regional Cooperation (SAARC) was formally established when its Charter was adopted on 8 December 1985 by the governments of India, Pakistan, Bangladesh, Sri Lanka, Bhutan, Maldives and Nepal. It provides a platform for the people of South Asia to work together in the spirit of friendship, trust and understanding. The main emphases of SAARC are to:

1. promote welfare of the people in the region;
2. accelerate economic growth, social progress and cultural development;
3. promote and strengthen collective self-reliance among members;

4. contribute to mutual trust understanding and appreciation of one another's problem;
5. development of mutual dependence among member states;
6. strengthen cooperation with other developing countries;
7. strengthen cooperation among themselves in international forums on matters of common interests; and
8. cooperate with international and regional organisations with similar aims and purposes.<sup>39</sup>

In due course of time, it is becoming clear that there is tremendous potential for regional economic cooperation, and a number of such areas can be explored for economic development. In addition, the association attached high priority to the promotion of people-to-people contact in the region to strengthen mutual understanding and goodwill among the people of South Asia.

The coming of a new wave of regionalism in the early 1990s, creation of new trade blocs and deepening of the existing ones raised the fears of protectionism among SAARC countries. The smaller members put forward the proposal for a preferential trading regime, namely, South Asian Preferential Trading Agreement (SAPTA). SAPTA was created in 1993 at the Dacca Summit, and it became operational in December 1995. However, the commodities under SAPTA constitute a fraction of the commodities traded. Therefore, a SAPTA fast-track is being proposed to extend higher tariff concessions. SAARC also decided to create a free trade area (SAFTA) during the 16th session of the Council of Ministers in New Delhi on 18–19 December 1995. To this end, an Inter-Governmental Expert Group (IGEG) was set up in 1996 to identify the necessary steps for progressing to a free trade area. The 10th SAARC Summit at Colombo in July 1998 decided to set up a Committee of Experts to draft a comprehensive treaty framework for creating a free trade area within the region. The SAFTA Agreement was finally signed on 6 January 2004 during the 12th SAARC Summit held in Islamabad, and the Agreement came into force on 1 January 2006 and the Trade Liberalisation Programme commenced from 1 July 2006. The keen interest shown by the member countries since its inception in 1985 shows that there is a vast scope of success for the association. South Asia has good reasons to promote cooperation in the region. The entire region is unified by a common cultural and ethnic outlook, geographical proximity coupled with the overlapping historical experiences, traditions



and common problems underlining the need to pool the resources of the South Asian countries.

Although the formation of SAARC was for non-political purposes, the member countries have not refrained themselves from their mutual political conflicts.<sup>40</sup> According to P.V. Rao, the objective factors required for the promotion of regional cooperation are very poorly prevalent in South Asia. Lack of economic complementarity, unequal levels of development, economic nationalism, over regulated trade practices, mutual suspicions and external suspicions and external intrusion are the major constraints on cooperation.<sup>41</sup> The problems posed by ethno-nationalities as well as inter-state borders within the region are stumbling blocks in promoting any cooperative venture. Since the launch of SAFTA Trade Liberalisation Programme in July 2006 till 10 August 2011, the total exports by SAARC countries under SAFTA reached US\$1.3 billion, which is far below the potential.<sup>42</sup>

India attempts for a greater regional integration in Asia and the world at large, but she faces a lot of local regional forces which, at many times, are responsible for instability in the country. Since independence, India has witnessed a surge of internal regional forces which manifest itself in the form of ethnic, cultural, political and economic regionalism.

Therefore, India's effort towards regional economic cooperation in its own neighbourhood is encountered with inherent difficulties, which are often political in nature, and the preoccupation of India's dominance. Economic fears and political hostility have constrained the growth of trade, and these obstacles have not been confined to ties between India and Pakistan. As India is not able to forge a successful regional economic cooperation in its own neighbourhood, it became imperative for her to look for a region where she can forge intensive economic cooperation.

## The East Asian Miracle

The East Asian countries witnessed a remarkable record of high and sustained economic growth from 1965 to 1990, and their economies grew faster than all other regions of the world during this period.<sup>43</sup> This rapid economic growth of the eight East Asian economies—Japan, the four Asian tigers (Hong Kong, Singapore, South Korea and Taiwan) and three

newly industrialising economies (Indonesia, Malaysia and Thailand)—has been termed as the *East Asian miracle*. In these eight countries, the real per capita GDP rose twice as fast as in any other regional grouping between 1965 and 1990. With sustained high growth rates, these countries also simultaneously reduced poverty and income inequality.

The success of the East and Southeast Asian countries is attributed to economic policies made favourable to the business communities and citizens by the leaders of these countries. Economic dynamism displayed by these economies was attributed to their outward-looking development strategies. Their growth performance has been far higher than that of the most developed regions, including North America, EU, other European countries and Japan. Yi Shen labelled the East Asian economies as *relation-based capitalism* which is characterised by personal and implicit agreements that are governed by second-party enforcement and widely based on mutual trust between transaction parties.<sup>44</sup>

The East and Southeast Asian countries have been one of India's priority areas of cooperation under the framework of economic diplomacy. In fact, India's economic ties with these regions were underdeveloped even though it was one of the fastest growing areas of the world because of its friendship with the Soviet Union. India neglected the Southeast Asian region and regarded ASEAN as a *trojan horse* of the United States, and cultivated close ties with socialist Vietnam.<sup>45</sup> Southeast Asian countries too have negative perceptions about India. They regarded Indian decision-making process as very slow, cumbersome and too bureaucratic, which hampers development in the country and consider Indians too much ideologically oriented and less pragmatic in their foreign and economic policies resulting in divergence of approach between India and the countries of ASEAN. Southeast Asian countries also avoided getting entangled with India as they felt that inclusion of India in any of the institutional arrangements would bring the South Asian conflicts into their own region, which in turn will only complicate their own security rather than solving it.<sup>46</sup>

During 1990–91, India was internally faced with social tensions and unrests, political instability and poor economic performance. The external environment was also not conducive to its interests with the fall of India's major economic partner and its closest strategic ally—the Soviet Union. The subsequent breakdown of ideological barriers due to the end of the Cold War has led India to follow a more pragmatic approach. The admiration

for economic achievements of East and Southeast Asian countries coupled with the changing global environment caused New Delhi to pay more attention to the rapidly growing economies of East and Southeast Asia.<sup>47</sup> To the Indian liberalisers, East and Southeast Asian countries appeared to be a model of success, and Asianism could be revived under a different garb to serve new purposes.<sup>48</sup> As a matter of fact, East and Southeast Asia became a model for the Indian reform process.

## India's Predicament and the Economic Reforms

The collapse of the Soviet system deprived India not only of a valuable economic and strategic partner, but also of an important model of centralised economic planning. The Indian predicament was further accentuated as globalisation made its headway during the early 1990s, and the world economic system rapidly turned towards the capitalistic mode of development. Globalisation of world economies greatly intensified international competition and has, at the same time, given rise to a new wave of regionalism.<sup>49</sup> This *new world* order of globalisation and regionalism has to be accepted and embraced by the developing countries in order to survive.

The success story of ASEAN, the resumption of integration process of the EU and the negotiations for NAFTA and Asia-Pacific Economic Cooperation (APEC) gave India the impression that it was in danger of isolation from the dynamics pushing the global economy.<sup>50</sup> Being aware of the growing trend towards regionalism and its possible marginalisation in the global economy and being faced with a serious balance of payment crisis, the Narasimha Rao government in the middle of 1991 liberalised its economy under the supervision of International Monetary Fund (IMF). The liberalisation process and the opening up to world economy have led to a reshaping of the role of Indian state, not only in economic management but also in foreign policy.

According to C. Raja Mohan, there are five structural changes in India, where these *changes stand out and are unlikely to be reversed*. They are: the transition from the national consensus on building a *socialist society* to building a *modern capitalist* one; the transition from the past emphasis on politics to a new stress on economics in the making of foreign policy;

the shift from being a leader of the *Third World* to the recognition of the potential that India could emerge as a great power in its own right; rejection of the *anti-Western* mode of thinking; and the transition from idealism to realism.<sup>51</sup>

In India's drive towards globalisation, the primary task of diplomacy is to contribute directly to economic development. For that matter, New Delhi has sought to improve the functioning and efficiency of its economic diplomacy. The new emphasis on economic diplomacy has induced some reorientation in the role and functioning of the Ministry of External Affairs (MEA). By the end of 1991, Prime Minister Narasimha Rao issued a note asking the Foreign Office and its diplomats posted abroad to focus more on the economic aspects of India's external relations.<sup>52</sup> As the Indian establishment and the members of the intelligentsia had wanted to escape westernisation, they then became favourably inclined toward Asianism as an alternative to the American capitalist mode.<sup>53</sup> Under the framework of economic diplomacy, the East Asian region has been seen as a priority area of cooperation. With high economic achievements, the Indian leadership became eager to cooperate with the East and Southeast Asian regions.

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