

**Symposium on Japan and India:
Challenges and Prospects in Asia and Pacific in the 21st century**

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Mita Kaigisho, Tokyo**

Co-Chairs

- Mr. Sakutaro Tanino
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- Dr. S. Narayan
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Speakers

- Japan
Mr. Masahiro Akiyama, Chairman, Ocean Policy Research Foundation
Mr. Yukio Okamoto, former Adviser to the Prime Minister of Japan
Mr. Eisuke Sakakibara, Professor, Keio University
Mr. Hitoshi Tanaka, former Deputy Minister for Foreign Affairs
Mr. Osamu Watanabe, Chairman, Japan External Trade Organization
- India
Mr. Suman K. Bery, Director General, NCAER
Mr. Subhodh Bhargava, Chairman, VSNL and Past President, CII
Mr. Lalit Mansingh, former Foreign Secretary and Ambassador to U.S.
Dr. C. Raja Mohan, Editor, Indian Express
- U.S.
Mr. Michael J. Green, Senior Advisor and Japan Chair, CSIS and Associate Professor, Georgetown University
Dr. Stephen P. Cohen, Senior Fellow, the Brookings Institution
- China
Prof. ZHAO Gan-Cheng, Director, Dept. of South Asia Studies, Shanghai Institute for International Studies

Opening Remarks

- Mr. Yasuhisa Shiozaki, Senior Vice-Minister for Foreign Affairs

Inaugural Session

(Mr. Tanino) Good morning, ladies and gentlemen. It is high time we started this session.

From 1995 to 1998, I, my name is Tanino, I was an Ambassador to India. Therefore I was given such an important task of serving as the co-chair of this Symposium on Japan and India. And I would like to spend 5 minutes or so to introduce Mr. Shiozaki, the Vice-Minister. He is here despite his very busy schedule in the Parliament Session as Senior Vice-Minister for Foreign Affairs. He is here with us and will make opening remarks soon. The topic for today, as written here, is "Challenges and Prospects in Asia and Pacific in the 21st century". So under this title we will talk about Japan, India, the U.S. and China with distinguished participants from each of the countries. We are so pleased to have 4 distinguished speakers from India, because India is of course the core and focal topic for this symposium. We will think about Asia focusing upon India, i.e., the relationship between Japan and India; uni-and bilateral relations between India and the U.S. or the relation between India and China; and how India will play a peaceful role and put a role for the sake of Asia and how this region and the 4 countries could play important roles to contribute to the peace of the region. I hope that could be the outcome of this symposium.

I'm sure that all the participants have great interest in India. When I look at newspaper articles and other media or books in the bookstores, books on China, of course, are still very popular. But there has recently been an increase in the number of books on India in Japan, and in newspaper articles as well. As it used to be the case with a report on China or China related matters, now there are increasing reports or articles on India. I'm so pleased with that, because that is a very good thing. The relation between Japan and India is represented by the fact that Prime Minister Mori visited India in 2000, while Prime Minister Vajpayee visited Japan in the next year, and in April, last year Japanese Prime Minister visited India again. So there have been increasing visits and better relation between the two countries. Recently the bilateral official visits are on the increase, and in addition the business sectors are also quite active in bilateral relation formation - Keidanren as well as the Kankeiren of Kansai or JETRO. All these entities are dispatching large scale delegations or missions to India. The Ministry of Foreign Affairs said that of course, last year, there was an agreement between the 2 Prime Ministers and the next year would be designated at once as the Year of

India in Japan and as the Japan Year in India both of which focus upon cultural activities. So people are now preparing for these special years, India Year and Japan Year in the respective countries. So the bilateral relation is being strengthened and I'm sure it will be further enhanced.

When after visits to India paid by Prime Minister Mori and then by Prime Minister Koizumi last year, Prime Minister of India came to Japan, we heard an important word "Japan-India Global Partnership", a big umbrella under which we promote bilateral relations. That is a wonderful motto. Now both the public and private sectors of Japan should really feel the good content substance to this great title – Japan India Global Partnership –, but we have to give meat to this great word. Japan-India relation is so important. But these two countries are important powers in Asia. So the two countries should work together to contribute to the peace, stability and prosperity of this region and should also identify the functions and roles we can perform and play that will actually involve the other 2 key players, China and the U.S.A. We should work together with those other countries to share the responsibility to make together the efforts and make contributions to the peace and stability of this region. How hard we can work is the actual challenge for us.

We have all day today for this international symposium and you are here to join us. In the morning session we will talk about different issues in Asia-Pacific. In the afternoon about Japan-India relation as well as the 4-party relation amongst Japan, India, the U.S. and China – and the possibility for further cooperation amongst the 4 countries and so on. I would like of course to leave enough time for the audience as well so that they can ask questions and make their comments towards the end. I would like to seek your cooperation and understanding.

I would like if I may to introduce the distinguished participants today, but before the introduction, I'd like to introduce Mr. Shiozaki, the Senior Vice-Minister who has to return to Parliament soon. Mr. Shiozaki.

(Mr. Shiozaki) Good morning, ladies and gentlemen. On behalf of our Foreign Minister, Taro Aso, I would like to welcome you to this symposium and also thank you for participating to this symposium. And I have also to thank you all on the stage, all the panelists that we are going to listen to.

The symposium on Japan and India titled "Challenges and Prospects in Asia-Pacific in the 21st century" is sponsored by Ministry of Foreign Affairs of Japan and also co-sponsored by the Confederation of Indian Industry. And I have to

thank the Confederation of Indian Industry too. I promised the simultaneous translators that I was going to speak in Japanese and I didn't have enough time to translate my speech into English. So from now on, please allow me to speak in Japanese. Also as Ambassador Tanino said, I just sneaked out of the committee in the Diet, while our Foreign Minister is answering all the questions in the committee.

So please allow me to speak in Japanese now. I thank you very much for you coming to this symposium on Japan and India. The objective of this symposium is to discuss how to develop and strengthen the relationship between Japan and India that is rising rapidly as a global power. India with its remarkable economic development and active diplomacy is drawing attention of the world. Japan welcomes the rise of India and her positive engagement with international affairs from the perspective of peace, stability, prosperity of Asia and international prosperity. This is because both India and Japan share the same basic values such as democracy and market economy, and Japan and India have a high degree of commonality of interests like East Asia community. The Asian economic development has shifted from a "flying geese" pattern led by Japan to the domestic demand led growth based on horizontal division of labor among different countries. We are seeing rapid development of economy of India. In a long span it will be interesting to see how the economic development will impact on Asian economic order or political/social order.

We can cite some examples of impact by Indian economic development. Indian economic development model is represented by an organized company that is large companies and high growth of IT industries. That will realize equitable accumulation of wealth and contribute to the establishment of sound Indian democracy. And that will become a model for Asian countries. The second will be what the conditions to make Indian economic development sustainable in mid to long term are. For example, cooperation in the energy sector which has an impact on Asian countries and the degree of maturity of financial market. What will be the impact on the environment? What Japan and India can do for that by involving other countries. What can we do now? Thirdly the development of India. How will it change the security picture of Asia in mid to long term? What kinds of expectations India has from other Asian countries. What is the establishment of regional cooperation framework in a broad area not limited to the limited military or counter terrorism? With such understanding and circumstances, Prime Minister Koizumi visited India last April and agreed to enhance the strategic focus

of Japan-Indian global partnership and strengthen it through 8-fold initiatives. In January this year, Foreign Minister Aso visited India and agreed to conduct Foreign Minister's level talks with a strategic perspective. The 2 sides agreed to earnestly consider the possibility of comprehensive economic partnership agreement. The largest challenge between the 2 countries is how to strengthen the economic relationship, combination of manufacturing technology and Indian software, Japanese capital and technology to be used for enhancement of energy efficiency and development of infrastructure, and intellectual exchange between universities and research institutes. There is much room for cooperation utilizing the complementariness of the 2 countries.

There are also negative aspects of economic development, that is, environmental issues. Japan has experiences and developed technology to address those environmental issues and we can contribute to that. With regard to political and security issues, Japan and India have common values, that is, freedom and democracy. So we can deepen the dialogue on disarmament and nuclear non-proliferation which have not necessarily received consensus. It is important that what both countries can do to the issues, for example, the stability of the region, establishment of the East Asia community, or maritime security and democratization of Myanmar and Nepal. In order to secure prosperity and peace in the Asian region, we need to involve China, that is, we need promotion of cooperation among the major powers in this region. It is important to promote democracy and universal values of democracy and peace. For that purpose partnership is very important, that is, how to secure the supply of energy in a cooperative manner, because energy is very important for the progress of the economy. Active trade and investment depend upon the safe sea lane and in order to secure the safety of the sea end, we have to work together to take counter terrorist activities and deter the proliferation of weapons of mass destruction. The United States of America is strengthening the relationship with India rapidly. When President Bush visited India early this month, the two sides agreed to expand cooperation in economy and Asian and international security environmental and international security. The United States and India are strategic partners of Japan, and Japan welcomes the strengthening of their cooperation which is brought about in scope. The fact that China and India share interest in enhancing peaceful environment to achieve the major objectives of economic development and they are engaged in confidence building measures is beneficial for the peace and security of the region.

At this symposium, the future direction of the Japan-Indian cooperation would be an important item for discussion. I hope that discussion will be broadened so that the United States and China might exchange views on how the 4 major powers in this region should cooperate to promote peace, stability, prosperity of the Asia and the Pacific region.

I would like to express our appreciation once again to the speakers and the panelists from other countries and the people on the floor for coming to this symposium. Thank you very much for your very kind attention and I will go back to the Diet session now.

(Mr. Tanino) We'd like to wish him the successful work at the Parliament for Mr. Shiozaki. Now we are going to start the first session. Before starting this session, I would now like to introduce the participants and speakers for the morning as well as the afternoon sessions. First of all, the co-chair of this symposium will be Dr. S. Narayan. Dr. Narayan is a very renowned figure. In the former administration of India he was the Economic Adviser to the Prime minister. Before that he was the Deputy Minister of the Finance Ministry, also the Deputy Minister of the Petroleum Industry and so forth. He has served India in so many important positions. We have such distinguished participants from India and let me introduce Mr. Suman Bery, Director General of the NCAER; and Mr. Subodh Bhargava, he is the top person of the so-called Indian version of the Keidanren in a way. He is the Chairman of the VSNL and Past President of the CII; and Mr. Lalit Mansingh, he was the former Vice-Minister of the Ministry of Foreign Affairs and he was the Indian Ambassador to the United States; and Dr. Raja Mohan. He is the editor of Indian Express, very renowned media as well as a renowned journalist. With an access to the Ministry of Foreign Affairs of India and even to the Minister, he has almost a free pass to meet anyone there. He is such an influential figure. And Mr. Seth, former Ambassador of India to Japan

From the U.S.A., Mr. Michael Green. He was the former Senior Director for Asian Affairs of the NSC. The Japanese media really missed him because experts on Japan disappeared from the White House after he left it. And Dr. Stephen Cohen. He is currently Senior Fellow of the Brookings Institution of the U.S.A. As to South Asian studies, he is the most senior expert researcher and a thick important book of his has been translated into Japanese as well.

From China, we have Professor Zhao Gan-Cheng. He is the Director of the Department of South Asia Studies of Shanghai Institute for International Studies,

and the leading figure of the South Asia Studies. He is from Shanghai not from Beijing, so maybe a bit more liberal than the experts in Beijing. People in Shanghai, I think, tend to speak more freely. So I'm really looking forward to his frank views and his expertise today.

Finally, there are some people who have not arrived here yet, but I would still like to cite the names. Mr. Akiyama, the former Deputy Director of the Minister of Defense Agency and currently Chairman of the Ocean Policy Research Foundation will attend this session later. And Mr. Yukio Okamoto, the former Adviser to the Prime Minister of Japan, has retired from the Ministry of Foreign Affairs a bit early. Mr. Eisuke Sakakibara, currently Professor of Keio University, was formerly the Vice-minister at the Ministry of Finance and is called "Mr. Yen". And Mr. Hitoshi Tanaka has not arrived here yet. He, the former Deputy Minister for Foreign Affairs, has recently retired from the Ministry of Foreign Affairs. And Mr. Osamu Watanabe, the former Deputy Minister of the METI and currently the Chairman of JETRO, will join us in session 2 in the afternoon.

Session 1: Challenges in Asia and the Pacific

(Mr. Tanino) We will have 2 sessions, which will continue through 12:30 and need your support and cooperation. The first part will be chaired by me, Tanino but the latter part by my co-chair, Dr. Narayan. This session 1 entitled "Challenges in the Asia-Pacific". As Senior Vice-Minister Mr. Shiozaki mentioned earlier, the Asia-Pacific region is enjoying a powerful development and growth in terms of economy. Under that environment, China is prospering, followed by India. These 2 countries are now globally the focus of attention. At the same time, as Mr. Shiozaki mentioned, what about issues of energy, environment and others? At any rate, economy is growing, accompanied by numerous challenges and problems as well. In addition, Asia-Pacific is, of course, such a diverse region. Many countries have different stages of development and the political systems are different and diverse. Especially in South Asia, a focal point of today's session, there are very rich people, with huge population suffering from poverty. This gap between the rich and poor exists in China as well. There is also the issue of North Korea, political and diplomatic, and a security issue still remains here that is the legacy of the Cold War era in a way. Many things happened in Thailand and the Philippines recently. The degrees of maturity of democracy are different amongst the countries in this region after the end of the Cold War. So, new issues emerged

like problem of terrorism or the proliferation of weapons of mass destruction, Aids and SARS and other infectious diseases. That is so-called non-traditional threat to security according to the expert's terminology, new kinds of issues. There is also the competition amongst the nations with regard to energy.

Generally speaking, this region, however, enjoys the high growth rates in economy and trade; investment, flow of human resources and human exchanges are growing. In other words, interdependence has become much stronger everyday in this region. So I have cited different issues and challenges we face. In an attempt to solidify and strengthen peace, prosperity and democracy, I think, we are now confronted with this new situation. How can we cooperate to cope with these challenges so that we can build a good relation? I think that is the agenda for this session 1 this morning. So in this session 1, we will talk about the different phenomena in the international politics and security in the economy in Asia-Pacific. We are going to talk about the challenging issues, and to discuss how this kind of movement and development will affect the peace, stability and prosperity of this region in the future.

Theme 1: Recent Developments and Challenges in the Asia-Pacific region from the perspective of International Politics and Security

(Mr. Tanino) There are 3 speakers for this session. The first speaker is Mr. Yukio Okamoto. He will speak or about 10 minutes. I'm very sorry that I'm rather impolite. After 10 minutes, a signboard will be raised to indicate that your time is up. I would like to ask you to speak slowly so that the interpreters can catch up with you. Thank you.

(Mr. Okamoto) Thank you Mr. Chairman. Since I am the first speaker, I want to thank you, Mr. Chairman, and the organizers for the strenuous efforts to have made this very interesting meeting possible at a very opportune moment. This morning the Chairman, Ambassador Tanino was telling panelists something provocative or less provocative in this session, but because I was sitting at the far end of the table, I couldn't hear his conclusion. So I would choose to be provocative.

In the aftermath of September 11th when a small number of terrorists brought the United States to its knees for a brief moment, we all thought the world was spinning out of control. Terrorism in Indonesia or in the Philippines seemed to predict a new asymmetrical global war. Nuclear threat in the so-called Rogue

states of Iraq, Iran and North Korea that may lead to global catastrophe was feared very much. Five years ago it was fashionable to worry about the world entering into a new era of Dark Age, but nothing of this thing happened in Asia. Looking at the Asia-Pacific today, what is most striking is not the frequency of security incidents, but that security issues are getting to have less and less frequency in Asia. So I'm going to enumerate some of the things that we feared but have not taken place in Asia.

Ongoing state versus state war, this did not happen; Genocide, this did not happen; a major new provocation by DPRK (North Korea) – no demise of the regime; military coup de tat in the Philippines, this did not happen of course; the complete breakdown of Sri Lankan ceasefire; or an insurgency supported by communist as a part of worldwide revolution, this did not take place; not any nuclear tests since India and Pakistan tests in 1998. No significant things of the crackdown on human rights except the case of Myanmar. A breakdown of energy flow into the region did not take place. Terrorists did not lead breakdown of order in Indonesia. Neither a decision by South Korea to close U.S. bases in ROK or downgrading the security relationship with the United States, nor Chinese military response to Taiwan happened. Communal murder and large scale killings and arson in India did not take place; a breakdown in the India-Pakistan reconciliation process did not take place; assassination of President Musharaff or President Karzai did not take place despite the presence of large scale armed enemies. Russia and China did not sign a comprehensive defense pact in the wake of the first large scale China Russia military maneuvers; an uprising of Islamists in Western China did not take place. None of these easily imaginable nightmares has come to pass. What made it possible was a lot of hard intelligence efforts, defense cooperation, regional commitment to fighting terrorism, a remarkable amount of restraint governments and political parties imposed on themselves and a global regional commitment to diplomacy. I hasten to add that Dr. Michael Green must deserve a lot of credit in this regard.

I have given you some of the brighter aspects of the region, but, of course, this is not the end of the story. To be provocative, I fear that if things go unchecked, a sinister structural change in Asia is on its way, and this is a possible rift between continental Asia coalescing around hegemonic China versus maritime Asia. One of the unfortunate examples is the Japanese and Indian bid to be elected to the permanent Security Council seat. Whereas 11 countries in Europe stood for Germany to become the co-sponsor of the resolution, only 3 countries in Asia stood

to co-sponsor the resolution for 2 countries – Japan and India. And they are Maldives, Bhutan and Afghanistan. Now it's easy to think that Bhutan and Maldives stood for its giant neighbor India. So, who stood for Japan? It's only Afghanistan. Is there something fundamentally wrong with what Japan was doing in this region? Of course the direct cause was an aggressive Chinese anti-Japan campaign in the region to prevent Japan from taking the permanent seat. But, why did Asian countries listen to Chinese pressure than a friendly call from Japan. There is something we have to seriously think about this. If the deterioration of Japan-China relationship goes further, I'm afraid Asia will become a battleground for China and Japan. As a zero sum game was played by the United States and the Soviet Union during the Cold War days, so Japan and China, I'm afraid, will have to aggressively campaign for an Asian country to stand on their side rather than to look for any constructive situation, to play a plus sum game in the region.

Coming back to Japan-India relationship, I don't think I need to add something more to what Vice-Minister Shiozaki said. I think Japan and India has a great future to play together in. One prerequisite I have in this regard is that Japan should not succumb to the temptation of dealing with India in order to deter the hegemonic influence of China. Japan-India relationship should stand independently from what is going on between Japan and China. A robust and strong India, the largest democratic nation in the world, is in itself a great contribution to the regional stability from which Japan benefits.

So I am really looking forward what the fellow panelists would have to say on this regard. Thank you.

(Mr. Tanino) Thank you very much. I, maybe, would like to ask Prof. Zhao to make a comment on what he said. The next speaker will be Mr. Lalit Mansingh, the former Foreign Secretary of India and the former Indian Ambassador to the United States. I had the pleasure of talking with him yesterday. President visited India recently, while Prime Minister of India had visited Washington before. They agreed to have a civil nuclear cooperation. All the Japanese newspapers wrote articles on this historical agreement on a civil nuclear cooperation. There is a kind of concern in those editorials because the United States agreed with India on the civil nuclear cooperation, so that NPT system might be deteriorated by admitting the civil use of nuclear. And I would like to ask Mr. Mansingh about this. Maybe you can also talk about relationship between Pakistan and India, and

the relationship is now moving to getting better. Thank you, Ambassador please.

(Mr. Mansingh) Thank Mr. Chairman. It's a great honor to be here amongst these distinguished panelists and addressing this great audience.

Let me start by pointing out that the feeling for Asia has always been a very strong sentiment in India's foreign policy; and that when our leaders were fighting for India's independence, they said it was not for India's freedom alone, but we were fighting for all the Asian countries which were still under colonial domination. So this was the vision of Pandit Nehru that Asian solidarity would be awakened after India's independence. And in 1947, before India became independent, there was the first Asian relations conference whose attendants were addressed by Pandit Nehru. Let me remind you of the remarks he made there. He said this in March 1947 before India was independent. We stand at the end of an era and the threshold of a new period of history. After a long period of time, Asia has suddenly become important again in world affairs. Now it sounds very contemporary, but Nehru's vision of Asian solidarity unfortunately never took place while he was alive. So during the entire period of the Cold War, we didn't see the taking shape of the solidarity of Asia that India and its leaders were dreaming of. It was after nearly 4 decades of benign neglect that the Indian leadership has come back to look at Asia. This is the look east policy that was proclaimed in 1991 which involved a multifold approach to the problems of the region.

Basically there were 2 strands here – one was to establish institutional links with the countries of the region, and second was to have strong bilateral links with the important countries here.

So talking about institutional links, we approached ASEAN after the look East policy of 1991. In 1992 India was invited as a sectorial dialogue partner with ASEAN. In 1993 it was accepted as a full dialogue partner; and in 1996 India was made a member of the ASEAN regional forum or the ARF. In the year 2002 India became a summit partner of ASEAN under the formulation of ASEAN plus 1. Meanwhile India had shown interest in other regional organizations and India was given observer status in the Shanghai cooperation organization, the SCO, in which India has an opportunity of exchanging views on the development of the region with china, Russia and the countries of central Asia. The most important development, however, has been made more recently in December, India was a part of the first East Asia summit, and as our Prime Minister declared there, India's presence in this group is an opportunity that we value. So we are indeed in Asia

but we are like the new kid on the block. We are finding our footing here, are trying to understand what the problems of the region are and we are trying to make our best contributions.

On the bilateral front, we have developed close relations with ASEAN countries and in East Asia our relations with China, Japan and Korea have been on the upswing. What does India contribute to this region? India brings to the regional table enormous assets which will add to the region's prosperity as well as security. Growing currently at 8% GDP, India will be the third largest economy by the middle of this century and India has a role to play in the political cooperation of this region. I will cite the report of the Central Intelligence Agency of the United States, an agency which has not always been very friendly towards India. But this is what they had to say in a report which was made public last year. It calls India "the swing state in the region. A country that could make the difference between war and peace, between chaos and order." So, compliments from an agency which has not always seen India in such a positive light. India also brings to the region its unique skills and services, especially information technology. And finally India brings to the table the quality which is not generally associated with a big power. India has no territorial ambitions. India has no aggressive intentions. India has no desire to interfere in the domestic affairs of any country and India has no secret agenda.

So we are pleased to be here and I want to bring to you the image of a new India which has emerged, which is not understood in its entirety yet. This is the new India that is emerging from the shadows of the past, not the India of poverty, of domestic chaos, of economic uncertainty. It's a new India which is politically stable, economically vibrant, technologically advanced, an India which is willing to be a responsible power. And this is why I'd like to say we are here in the region and we want to be with you all throughout the way.

I thought, in the brief period that I have, I would make a very broad canvas of how our relations have developed in the very recent past after the end of the Cold War. Now let me turn to the dramatic change in our relations with Japan. India's ties with Japan in the past have been cordial but not quite intimate. Japan was preoccupied with its economic development, had its linkages with the West. Japan was an advanced economic country. Japan was a member of the OECD. So Japan understandably did not have much time for India and India was seen as a poor developing country in Japanese eyes, often hyphenated with Pakistan. The Japanese ambassador in Delhi has been saying "there was a

psychological fence between Japan and India”, and the good news is that fence has finally come down. Symbolically the change in the relationship started when the visit of Prime Minister Mori took place. That was the time when I was the Foreign Secretary in Delhi. As the Foreign Minister was mentioning at dinner last night, it was Mr. Mori’s visit that turned the relationship around, because it was Prime Minister Mori who persuaded Mr. Koizumi to make his famous visit to India last year. And that, I think, has been a watershed in our relations because Mr. Koizumi’s visit produced the breakthrough that we are looking for and there was going to be a comprehensive relationship, a partnership dialogue. And it is very important that both Prime Minister Man Mohan Singh and Mr. Koizumi endorse the idea of an Asian economic community, a community which would not be what the Americans call “a part of the arch of instability” but actually as the 2 Prime Ministers called it “an Asia that should be seen as an arch of advantage and prosperity”. It has been agreed that there will be a continuous high level dialogue between India and Japan; there’ll be a broad convergence of our long term political, strategic and economic interests; there’ll be a very robust security and defense dialogue. And what is also important and significant, knowing what differences have been around the issue of non-proliferation and how upset Japan was with our nuclear tests of 1998, Japan and India have embarked on a dialogue on nuclear non-proliferation.

Let me turn to the other giant of the region, China. The reconciliation between India and China, the world’s most populous and the fastest growing economies, will have profound implications not only for the Asia-Pacific but for the security and stability of the world. The history has been not very encouraging because in 1962 China invaded India and that has left a bitter memory in Indian minds. So our relationship went into a freeze for nearly 25 years. And then we had two very pragmatic leaders on both sides – Mr. Deng Xiao Ping on the Chinese side and Mr. Rajiv Gandhi on the Indian side. It was Mr. Gandhi’s visit in 1988 that finally broke the ice. And we have seen a very dramatic change in our relations since then. The Indian nuclear tests created a brief chill in our relations but fortunately that was very short-lived. So our relations have progressed very well and they are back on track. Here this was another important visit from China which has really consolidated the relationship. I’m talking about the visit of Chinese Prime Minister Wen Jia Bao in April last year. They signed a large number of agreements, but, more than the symbolism of the agreements, it was the visible manifestation of the new warmth between China and India which was there and a growing relationship

that is reflected in the trade and economic partnership. The statistics will tell the story. Our bilateral trade was less than 3 billion dollars in the year 2000. It became 14 billion dollars in 2004. I'm told it is close to 20 billion dollars last year; and the target is to achieve 30 billion dollars by 2010, which is looking very feasible. If these figures are correct, China is the second largest trading partner of India next to the United States. There is even some speculation that China may even overtake the United States in being our number one trading partner.

We have seen a welcome change in China's attitude towards issues which are sensitive to us, particularly on the issue of Jammu and Kashmir from being supportive of Pakistan on this issue. We have also seen the Chinese leaders take a much more balanced and nuanced stand. There is no longer the blind support for the Pakistani point of view. China is now encouraging India and Pakistan to sit down together and resolve this issue, which has always been our stand. We were encouraged so in the brief military encounter that we had on the issue of Kargil. The Chinese stand was not to encourage Pakistan further but to ask Pakistan to restore the sanctity of the line of control. In fact we were encouraged when President Chiang Tse Min went to Pakistan in 1996 and advised the Pakistani leaders to put the Kashmir issue on the back burner and to concentrate on the more positive aspects of the relationship with India.

Having said this, let me also underline some other issues relating to China which are causing us a degree of discomfort. There are issues on the Chinese side too and let me mention that the Chinese have always been anxious about the presence of the Dalai Lama and the activities of his followers in India. China has always asked India about its stand on Taiwan although India has repeatedly asserted that we believe in the one China policy and there is no deviation from there. But from the Indian point of view there is concern on China's continuing cooperation, or continuing missile and nuclear cooperation between China and Pakistan. China's relationship with countries which are facing domestic difficulties in our neighborhood. Like Nepal, Bangladesh and Sri Lanka they are also a matter of continuous concern for India. And China's policy of constructing military and semi-military facilities in the countries around India like in Myanmar, Bangladesh, Sri Lanka and Pakistan and China's policy "string of pearls" strategy in the region are certainly causing us concern. We hope that there will be greater transparency in China's policies in this regard.

Now let me turn to the most dramatic development in the region which is the change in our relationship with the United States. After nearly 5 decades of

hostility and estrangement we find India and the United States following a policy of strategic partnership. Despite the nuclear tests of 1998 which brought our relations almost to the point of breakdown, we have seen the best period ever in our bilateral relationship in the years that followed. The symbolic change in the relationship took place in 2000 when President Clinton came to India which was a Presidential visit from the United States after 22 years. But the substantive changes have taken place more recently after Prime Minister Man Mohan Singh's visit to Washington last year and the visit last week of President Bush to India. And at the heart of this new understanding is the agreement on nuclear cooperation. The nuclear agreement with the United States has 2 very significant aspects. The first one, it relates to India's energy security. India that is growing at 8% a year will have enormous demands of energy and we don't have indigenous resources to meet this gap. We are importing petroleum products to the extent of about 70% of our needs and this is going to expand. We have coal, but, if our coal is burnt, it will create serious environmental problems. So the long term solution is to depend on nuclear power, and this is the fact that the United States has understood. Indeed India should have access to reliable and affordable sources of energy. But it is also the fear of the United States that if India goes in for burning its coal and goes on importing more and more oil, it is going to create pressures on global oil prices which will not benefit the entire world. Therefore there has been support for this nuclear cooperation agreement. And the second issue, the second point of significance is that for the first time after we exploded our nuclear devices, there is an implicit recognition of India as a nuclear weapon state. This has a great significance for India because for the past 30 years India has been under an embargo – an embargo on dual use technology and this agreement with the United States is going to lift the embargo for the first time.

Many issues have been raised as to whether it is good for the world or not. Let me address some of the oft repeated criticisms of the deed that this is a setback for the nuclear non proliferation regime. It is not appropriate. The fact that India is a nuclear weapon power is not reversible. But what the United States is trying to do is to close the loopholes in the non proliferation regime and the argument is that as India has an impeccable record in non-proliferation, it is better for India to be a part of the regime than to remain out of it. A second issue is whether an exception for India is going to encourage other countries to say they can also have the same. The answer has been given very categorically by President Bush when he went to Pakistan and the issue was raised by President Musharaff. And President Bush

said “No, there is no question of Pakistan getting the same terms because India and Pakistan are different countries, they have different requirements and they have different histories.” By different histories, I think, he meant that India has a record of non-proliferation as against Pakistan’s history of proliferation in the biggest nuclear black market that ever existed. And finally will India have unlimited capacity to make nuclear weapons now? Obviously not, because India believes in a minimal nuclear deterrent and if 22 reactors were available earlier for India’s military program, today 65% of that capacity is going on international safeguards. So 8 reactors for the military program are certainly better than 22 reactors which were available for them.

Now I think my time is up, but Mr. Chairman let me conclude by saying that we are in a region which is already overcrowded, but I think there is enough place for 4 powers. There is place for China, Japan, India and the United States. I think it is possible for the 4 powers to live in peace provided they agree to compete and not to fight, and provided they show sensitivity to each other’s vital concerns. I am looking forward to listening to the views of our learned colleagues from other countries on this issue. Thank you Mr. Chairman.

(Mr. Tanino) Thank you very much. He told us that as India is changing, its relation with China and the U.S.A. has in particular made marked progress. Now finally I’d like to introduce Dr. Green and listen to him from Washington’s perspective of Asia. Of course the U.S.A. is at once a part of the ASEAN nation and a Pacific nation, and the U.S. was quite surprised and upset that they were not invited.

(Dr. Green) Let me start my speech by saying I hope we can come back to the last topic that Ambassador Mansingh addressed because I believe it is in Japan’s interest to get solidly behind this agreement that was reached in Delhi, and I’ll talk about that this afternoon when I have a brief opportunity to speak specifically on U.S.-India and U.S.-Japan relations. But this morning I was asked to talk about how Asia looks to Washington.

I am a free man now. I worked in the White House for 5 years. I’m now a Professor at Georgetown University, and I’m at the Center for Strategic and International Studies. So I’d like to try to give you my personal view but I think it’s a fairly accurate capturing of the mainstream view in Washington in the administration and the congress about the challenges we see in Asia. As Yukio

Okamoto said, “a lot of the bad things people worried about in Asia have not happened”. I think that’s in the large part because of the U.S. engagement in this region and the U.S. military presence, but it has at least as much to do with the phenomenal economic growth in this region – 8% for India, 7-1/2 for Pakistan, 10 for China. And it’s worth bearing in mind that in the view of most historians, the second world war was caused by the collapse of the global trading system by the decline of economic growth that brought out these subterranean tectonic challenges. So it is important that now in a period of economic growth and integration and cooperation, we address those challenges and we put in place patterns of cooperation, so that we are well set in case the underpinnings of peace and harmony in this region, and especially economic growth should turn down.

The broad things that occupy Washington these days, it’s fair to say, are Iraq in the Middle East, and you don’t have to go much beyond the Washington Post or New York Times to realize that the Presidential election, the mid-term elections will largely be determined by the foreign policy debates about those regions. But there are lots of people thinking about Asia.

And I think there are 5 major areas that consume their attention. The first is the growing importance of both India and China. The second is the future of U.S. alliances in this region which are so critical to stability here and to our own presence. The third is the challenge of proliferation and especially North Korea. The fourth is the emerging regional architecture – the multilateral forms. I said 5 because India and China will actually be 2 separate topics when I address them.

Let me first turn to the rise of China. Some people don’t like to say “The rise of China” but I think it’s a fair term. There is a view outside of Washington that the United States has a policy of containment or at least that there is a debate about containment versus engagement with the Chinese side. In the White House it always struck me as a very odd perception of U.S. foreign policy towards China. Although I understood it given the plurality of views about China in the congress and in the media, and I tried to dispel that notion that the U.S. is somehow in a game of containing China by asking friends when they came to the White House if they knew who China’s 7th largest trading partner or export market is. And I would get many answers – India, Italy, but in fact China’s 7th largest export market is Walmart which is one American company. And I would venture to guess, and I think I’m right about this, that Walmart trades more with China than India does. So this is not a situation that lends itself to containment or one where we have the luxury in the United States of debating engagement versus containment. We have

absolute undeniable economic interdependence with China. China is soon set to surpass Japan as the largest holder of U.S. treasury bonds. It goes beyond trade to finance. What the U.S., I think, wants to do with China is to shape China's choices and to encourage and even push gently China to be what Deputy Secretary of State, Bob Zelic, calls a stakeholder in international relations, which is to say a country that not only benefits or derives economic benefit from the international system, but also one contributes actively to the maintenance of that system. And so in April when President Hu Jin Tao goes to Washington, the big issues of discussion will be things like intellectual property rights protection in China; the value of the Ren min bi. China's friends – why is China keeping company with Burma and Nepal and Sudan and Venezuela and Cuba and Iran? A topic will also be military transparency. But overall the approach the President will take is to make efforts to bring the U.S.-China relationship up to the next level; to improve U.S.-China relations; and to approach this discussion of stakeholder in a context that helps the U.S. work with China to make not only choices that make China's growing impact beneficial for the United States but also one that is largely consistent with the strategy of peaceful development that President Hu Jin Tao himself has articulated.

India is the other growing power and in the national security strategy in 2001 the administration said that one of the U.S. goals should be improving relations among the major powers. And so it is important to say that at the beginning because the figures that Ambassador Mansingh just cited of growing China-India trade are absolutely in U.S. national security interests. The U.S.-India relationship relates to China in the sense that India's choices as a democracy will affect China's choices because countries will look where to invest, which will have an important impact. So there is a China dimension, to be sure, but the logic of U.S.-India cooperation and partnership goes far beyond that. I'll talk about it a bit more this afternoon. But I think as Prime Minister Man Mohan Singh said, when he was in Washington in July, in terms of U.S.-India relations, the best is yet to come. This has been 40 years of neglected opportunity. I think the momentum is going to be very strong.

The U.S. also has to pay a great deal of attention to its alliances. The U.S.-Japan alliance, I think, is in the best shape that it has ever been in. Some people worry that after Prime Minister Koizumi and after Prime Minister Bush leave office, this alliance relationship perhaps will collapse. There is no doubt that the 2 leaders' personal relationship and their chemistry was a critical part of

the strengthening of the U.S.-Japan alliance. They threw baseballs together, they sang Elvis Presley. This is not your normal Head of State relationship, it was very warm and very forward looking. But Japan-U.S. relations are premised on more than individual leaders, it's based on a growing sense of common values and a growing sense of common challenges – whether it's the North Korean nuclear issue, questions about China's future, terrorism in Asia or the regional architecture.

The U.S.-Korea alliance worries people more in Washington. We, frankly, are increasingly having divergent views of North Korea between Seoul and Washington, and managing that alliance relationship is becoming very challenging for that reason. But there is a good news side to the story. Under Roh Moo-hyun administration The ROK has dispatched a brigade to Iraq – something that is unprecedented in the history of U.S.-Korea relations; the Korean side is restructuring U.S. forces on the peninsula with us, something that frankly we have not yet completely been able to do with Japan. And now we are embarked on free trade agreement negotiations between the U.S. and Korea which is quite significant. So as Mark Twain, the U.S. humorist said about Wagner's music, one might also say about U.S.-Korea relations, "it's not quite as bad as it sounds".

We have a partnership with Australia that is critical but even can be wobbly sometimes. Secretary of State Rice is on her way to Australia now for a 3-day trip to compensate for a trip she had to cancel before because the Australian side felt neglected and so that alliance also requires attention.

In Southeast Asia the story of U.S. bilateral relationships, I think, is good. We have a strategic framework agreement with Singapore that expands our political and security cooperation. We have lifted the obstacles to military and military cooperation with Indonesia, and we have addressed issues in trade and religious freedom with Vietnam that allowed the Prime Minister to come to Washington last year and will open the way for a very historic presidential visit this year to Vietnam on the occasion of APEC. Overall in Southeast Asia these bilateral relationships are critical. I think the trend there in the region is good in the sense that the competition between terrorism and the ideology of terror on the one hand and democracy in rule of law on the other is generally being won by the democracy in rule of law side as evidence by Indonesia and others.

Proliferation is a major concern and North Korea in particular. In September the 6 parties agreed on a concept for dismantling North Korea's nuclear program and building a peace mechanism and broader pattern of cooperation in Northeast Asia. My own personal view is that North Korea did not make a strategic decision

to give up its nuclear weapons but it did make a strategic decision to stay in this process of the 6-party talks. I think it is increasingly difficult and risky for North Korea to do provocations but it is also extremely difficult to convince North Korea to give up its nuclear weapons. So we are going to gird ourselves to get ready for a continuing tough diplomatic process, one that could yield some very new thinking and very new negotiations about the architecture of Northeast Asia, about replacements for the peace, for the armistice that ended the Korean War and about replacing that with a peace mechanism that will affect Japan's interests, which could lead to much closer U.S.-China-Russia cooperation and to much closer Japan-Korea cooperation, so that all of this is embodied in the September agreement if we make progress. But we also have to be ready for the real possibility that as North Korea has not made a decision to give up nuclear weapons, its arsenal could grow; and that it will continue to be a factor of major instability and uncertainty in the region.

Finally regional architecture, what we call it, the array of multi-lateral institutions and meeting and forums in Asia. When I started at the NSC in April 2001, the then National Security Advisor, Condoleezza Rice would go around to the regional directorates for a Stanford University style seminar on Friday evenings. And in the White House, as others here have worked in the Prime Minister's office, you know that you don't expect to go home on Friday evening before 10 or 11 anyway, so it was a real treat. In the first one of these and the second one of these – 2 hour talkings about Asia – Dr. Rice was very focused on regional institutional building in Asia because there is such a paucity of institutional cooperation with Europe. This led President Bush to take a very keen interest in APEC and push very hard for not only a trade liberalization agenda but also attention to security issues and terrorism. It led to thinking in Washington about how to use the North Korean nuclear crisis to create institutions that don't yet exist in Northeast Asia like the 6-party talks. It led people in Washington to think how we could quickly respond to the tsunami of December 2004 in a way that creates a pattern of cooperation. And we created the regional core group to respond to the tsunami with India, Japan, Australia and the U.S., nations that had the naval capability and the sense of public good to respond quickly to the tsunami and then bring in others. It was an ad hoc arrangement with no secretariat. It was very effective and then it went away. Also to think about issues like energy and the environment and create forums that address those in a functional and pragmatic way like the clean energy – Asia Pacific Clean Energy Forum that includes India,

China, Japan, Korea and Australia and the United States that met in January. So the U.S. and Washington, I think, is very focused on this emerging regional architecture. In the East Asia Summit, I was provoked by Ambassador Tanino to say they were mad we're not there. The East Asia Summit presents a dilemma for the United States. On the one hand there is a natural uneasiness about the growth of institutions in this region that exclude us. On the other hand it is not clear what this institution will do, and I can tell you as a former White House staffer, it's very hard to tell the President to get on a plane after APEC and fly right back to Asia to sit down and listen to speeches by 17 heads of state again. So the U.S. is going to have to watch these developments, see whether it's worth joining. I think the conditions for joining the East Asia Summit are conditions the U.S. could easily match. Someone from this region tried to argue that the U.S. isn't geographically close enough to Asia but I explained that Washington is no further from Beijing than Delhi is. And certainly in terms of the conditions, partnership with ASEAN, adherence to the treaty of Amity and Commerce and so on and so forth, the U.S. could be in this but it remains to be seen whether it's something that will actually address the challenges I talked about. As you all know Americans are very impatient, litigious and eager to get things solved and so we will have to see where this East Asia Summit goes.

I'll just conclude by saying that in all of these areas and in all of these challenges Japan and India are absolutely critical players and critical partners for the United States. Japan is the anchor for our engagement in this region, and India is the partner and the partnership that has so much potential still to be fulfilled and I am very glad to be invited to this conference because, as I'll say a little bit this afternoon, it's in U.S. interests. U.S. interests are supposed to strategically and economically for India and Japan to deepen their own partnership.

(Mr. Tanino) Thank you very much. You covered a wide variety of topics. I will not repeat the main points that were referred to due to time constraints. With the permission of the co-chair, Dr. Narayan, I'd like to extend this session until 11:40 for discussion under theme 1. Well, we are left with about 15 minutes.

First from the panelists, I'd like to hear your reaction to what you have heard. What kinds of comments do you have or any question? Especially Prof. Zhao, in response to the challenge made by Mr. Okamoto.

(Prof. Zhao) Thank you Mr. Chairman, I would like to very briefly respond to Dr.

Okamoto's wonderful speech. I just want to actually clarify 3 points: One is China does not have hegemonic power in Asia. Secondly, China does not seek any hegemonic power in Asia. The third point is that China opposes any possible candidate to seek hegemonic power in Asia. So this is a major context in which you can understand the Chinese foreign policy. And you are talking a lot about the failure of G4 in pursuit to the possible reform of the Security Council. There are many reasons and in my personal opinion, the major, the key reason is the lack of consensus in the international community. Therefore you try any attempt to attribute this failure to any individual state, in my opinion, is not very convincing. What the Chinese pursuit is to develop friendly cooperative relations with all its neighbors because China is an Asian power in the Asian countries. The major national interest of China lies in Asia and the major goal of the Chinese foreign policy is to pursue a kind of cooperative framework with all the Asian partners including Japan and India. And talking about China-India, of course, China is paying increasingly enormous attention to the rising status and increasing power capacity of India. China is also making enormous efforts to improve its ties with India. As Ambassador argues that there are discomfort on the Indian side about China's policy, China's behavior, there are also kinds of discomforts on the Chinese side towards India's behavior and India's policy. The key is that we try to understand each other and try to improve our transparency of our respective policies towards each other. That's very important. Thank you.

(Mr. Tanino) Thank you very much. We heard about the other word "stakeholder" by Dr. Green. This has become a kind of a fashionable word to use. To be a stakeholder was perceived as the positive message by China, but what is important is that it is with the modification adjective, that is, responsible. The responsible stakeholder. That's what is called for. That is in that context that the defense and other aspects lack transparency on the part of China and that is why the word responsible is added. It should be understood in that way. And about the Security Council, 60 years have passed since the end of World War II. We have seen great changes in the world. We have seen more members joining the United Nations, while yet something remains unchanged, that is, the P5 are the permanent five in the Security Council and that should be rectified. It is only China that represents Asia, and developing countries are represented only by China. We have been discussing the international relationship and its major changes that took place for the past 60 years and they are not reflected at all.

Japan does not behave like a giant and thus they don't claim that they are qualified to be the permanent member of the Security Council and yet they want to play a role, commensurate with its status. So I would point out that there is a question that has to do with the points taken by China that related to the textbook issue and that behavior by China really hurt the feeling and emotion on the part of the Japanese. Since this is such a good opportunity, I'd like to invite comments or questions from the floor. Mr. Takashima, are you there? Okay, now turning to the panelists, anyone? If you want to add to what you have said. Ambassador Mansingh, what about the relationship between India and Pakistan in recent days?

(Mr. Mansingh) Thank you Mr. Chairman. As you know, Pakistan has been an important part of our foreign policy and Pakistan has been the one neighbor with which we had differences continuously over the last 5 decades. But the good news is, like in the case of other countries, that our relationship with Pakistan is changing. And for the first time we are seeing the prospects of settlement with Pakistan that will enable India and Pakistan to live together as neighbors. Basically we feel that these relations and these problems can be resolved only through bilateral means. It is not possible for any third party, any outside country to bring Pakistan and India together. We have to do it ourselves bilaterally. And that seems to have been accepted by Pakistan. The peace process has been going on. This is what is called the composite dialogue. The major issues are there. Discussions are at the levels of the foreign secretaries, foreign ministers and the Prime Minister and the President of Pakistan. And that is going on. The very good news is that a number of confidence building measures have been implemented in recent times. This includes bus services between India and Pakistan; and now a train service between India and Pakistan; there is talk about a ferry service between Karachi and Bombay. So lots of new ideas are coming up and this is welcomed by people on both sides. Symbolic of this new relationship is the fact that when an earthquake devastated most parts of Pakistan and parts of Jammu and Kashmir in India, India rushed forward with help and what could not have been achieved in 5 decades of political negotiations happened overnight. Five points were opened along the line of control where people from both sides could come, get together and help each other. I think this is symbolic of their new relationship with Pakistan. I don't want to underestimate the challenges involved. They are very difficult issues but the position is certainly looking brighter than at any time in the past. Thank you Mr. Chairman.

(Mr. Tanino) Thank you very much. Anyone else? If not, we are a couple of minutes behind the schedule but I'd like to hand over the microphone to Dr. Narayan.

Theme 2: Recent Development and Challenges in the Asia-Pacific region from the perspective of international Economy

(Dr. Narayan) Thank you very much Ambassador Tanino. It's a great honor and opportunity to be here at this symposium. This particular panel is to discuss on the development and challenges on the perspective of the international economy.

If you really look at the last decade, and the last decade in Asia and the last decade in international economic relationships, I think you would find probably 2 or 3 very major significant aspects. One of the major aspects from Japan is what has ended today – the decade of deflation as the Bank of Japan has announced today saying that the decade of deflation has ended and therefore we are looking forward to an opportunity of economic growth. This has been decadal problem. The 1997/1998 saw the East Asian crisis and the different countries in Southeast Asia reacting to the crisis in different ways. But if you look at 2005 and 2006, you do see that these economies are all looking to have 5% 6% growth. Even small economies like Cambodia, like Laos, they are all looking at 5% growth in 2006 and a comfortable growth estimate for 2007 as well. You see Vietnam growing at 7 to 8%. You have Singapore adjusting and planning to grow at about 5 to 6% continuously for the next decade. If you look into South Asia, you see healthy growth rates in Pakistan and 7 to 8% growth rates and poverty levels dropping. You see Bangladesh growing at 5 to 6% irrespective of their political problems of their fundamental issues that they are facing internally. The India story is obviously well known that their 7 to 8% growth rate is something which I think we'd continue to achieve for a long time to come.

So the story in Asia and particularly the story in Asia is that this economic growth is something which is going to happen for the next decade, and this is a kind of change which has happened over the last 10 years. This growth has actually given the strength, the opportunity as well as the capability of really expanding external relations because foreign relationships, external strategy and diplomacy has to have a kind of a cornerstone which is based finally on trade, commerce, economic development and mutual advantage and mutual competition

as well for resources, for markets or for wealth. And I think this opportunity has arisen. If you look at Asia and you compare Asia with the rest of the world, you'd find that if there are 83 million barrels of oil which are being pumped every day, every extra million barrels or every extra barrel that is pumped goes only to China and India and flows through the South China Seas and the Straits of Malacca. Container traffic and all of the increase, 60% increase in container traffic is happening in Asia, South Asia, Southeast Asia and the South China Seas. So there is a kind of buoyancy in this region. I could use the word historic but where you say it, it has developed so significantly over the last 8 to 10 years and therefore it is time for all of us to take stock and sit back, and say "Okay". If this is happening, what can we do to use it to the advantage of all the people of all these countries to improve the wealth, to improve the opportunities?" And I think this is the kind of backdrop under which this particular panel would probably be looking at issues of the international economy. And there is probably a life for this region which is in a way not necessarily going to be linked to the life or growth of, let us say, the European Union. There would be an organic growth to intra as well as inter regional trade within this region, and I think this is going to be important. The United States, most certainly, is an important and a growing trade partner with all and each of these countries. To continue to grow that relationship while at the same time maintaining the inter-regional character of the trade and economy is again a kind of a challenge that probably would have to be faced.

So against this background I think I would first call on Prof. Sakakibara of the Keio University professor, to give his presentation.

(Mr. Sakakibara) Thank you very much Dr. Narayan. It is said that the qualification of a good Chairman in an international conference like this is to restrain the Indian participant not to speak too much and to force the Japanese participant to speak out. So I will try to cooperate with the Chairman by speaking at least as much as Mr. Bhargava.

When we talk about Asia or Asian economy or emergence of the Asian economy, or more precisely re-emergence of the Asian countries, I think we need to put this issue in a proper historical perspective. American historian by the name of Andrei Gundof Frank has written a book entitled "Re-orient" in the year 2000. In this book he asserted that the center of the world economy had been the Asia until early 19th century and it was only the last 150 years that Europe and European offshoots have dominated the world economy. According to Angus Madison, a very well

known historical statistician, as late as in 1820 (that is early 19th century) the largest economy in the world was China occupying about 28% of the total world GDP. The second largest economy was India occupying about 16% of the world GDP. It was only from around mid 19th century that both China and India have declined very dramatically. This is because of the colonization by the West of Asian countries. Colonization has ended with the World War II and from around 1950s Asian growth has been revitalized again. Now Asia, particularly China and India, have appeared at the center stage of the world economy. But this is the beginning of the new sort of trend that central sort of locomotive of the world economy is now shifting from West to East.

From this kind of perspective, let me look at the past recent history of China and India. China opened its economy in 1978 by Deng Xiao Ping. And India has lagged behind China by about 13 years. India opened a policy and delegation started in 1991 with then Finance Minister, Man Mohan Singh taking the lead after the major crisis. But now the scene seems to be shifting a little bit and the People's Congress, which is now being held in Beijing, China, has declared that its emphasis would be shifting towards balance and stability, and China's targeted growth for the next 5 years would be lowered to 7.5%. This is a major shift I think in the Chinese policy which in the 80's and 90's has emphasized the robust growth by coastal regions. Now the balance and stability has become much more important for the Chinese economy.

On the other hand, Indian economy which has been growing at 6, 7% for the past decade has achieved 7.5% growth in fiscal 2004, and the estimate for fiscal 2005 which was just disclosed was 8.1%. Now the Indian government seems to be targeting at the growth rate of 8 to 9% in the next 5 to 10 years. So India seems to be entering the new stage of relatively robust growth and shifting the target growth rate from 6, 7% to 8, 9%. This is probably the China 10 years ago. So in the BRIC's report, Goldman Sachs has predicted that relative growth rate of China and India may reverse in the time period of 2010 and 2015. This may come a little earlier. I would say in the next 5 to 10 years relative growth rate of India and China would probably reverse, that India would start to grow a little bit higher than China: India 8-9%, China 7-8% or 6-7%. So we would like to really look at India in the next 5 to 10 years in this context particularly in the economic sphere. What is very interesting for us is how India would enter the Asia economic region. East Asian economy has been integrated quite rapidly. It is not an institutional or a political integration, it is what I call market driven integration. Both Chinese

economy and Japanese economy have been integrated in a very dramatic way. Right now, China is the biggest trading partner of Japan, and Japanese exports to China has exceeded for the first time after World War II that of Japan's exports to the United States. And this region driven by corporations, driven by the private sector is being integrated very rapidly, and this integration is being accelerated. The question is how India would come into this integrated EAE (East Asian Economy). Indian exports to China have been rising but the base is relatively small, and India's major trading partners are still western countries. So how India would get integrated into this Asian economic region is the issue which is very interesting to observe in the coming years.

Looking at the Indian economy for the last 10 years, it is quite obvious that IT industry has really been the driving force for the rise of the Indian economy during the 1990s. India, as a matter of fact, has become a world hub for the IT industry as China has become the world hub for the manufacturing industry. Along with IT industries, medical services and biotechnology are the strengths of the Indian economy. Now, Man Mohan Singh government is emphasizing the manufacturing sector and infrastructure sector, and I think the success of the Indian policies in the coming 5 to 10 years depends upon how successful this infrastructure investment would be implemented. Poor infrastructure has been one of the weak points of the Indian economy for the past decades or so, and now it is being emphasized by the government and by the private sector. In particular what I am very much interested in is that India is trying to sort of use the private sector fund for the infrastructure investments. In particular they are eager to attract foreign investment in those infrastructure filed, and this would probably be the key to the acceleration of the growth rate of the Indian economy. If you compare the Chinese outstanding infrastructure with the outstanding Indian infrastructure, India is far behind but the fact that India is far behind implies there is lot of room for investment in the infrastructure. If huge investments, both domestic and foreign, take place in those infrastructures, India could grow 9% or 10% quite easily. This was exactly what has happened with China during the last 10 years. The major driving force for the Chinese economy was the infrastructure investment and infrastructural equipment investment. The question is whether this is going to happen to the Indian economy in the coming 4 to 5 years. And this emphasis by the coming government on the agricultural sector, infrastructure and manufacture, I think, is quite rightly placed and I think that so far this process has been proceeding quite smoothly.

But here I'd like to emphasize the importance of Indian-Japanese relationship. Japanese investment in India as compared to the Western investment has been lagging, not only to the Western investment, compared to Korean investment for example has been lagging quite dramatically. Koreans have taken a risk and they have been quite successful in automotive industries, in electric appliance industries and so on. You see Samsung and LG and Hyundai everywhere in India these days. We don't see any Sony's and Toyota's that much. But I think increasingly Japanese private sector companies are now being interested in Indian investment. And how we promote this would be very crucial and, I think, for India as well. If Japanese construction companies, if Japanese so-called general contractors put huge amounts of money in the construction of the Indian infrastructure, that should really help, and Japanese investment probably would help India balance foreign investments, vis-à-vis the Western countries. Fairly large amount of money from the United States and Europe has come into India in IT sectors or in other sectors, but probably balancing foreign investment as well would be quite useful for India. So, looking at the future of the Indian economy and Asian economy in general, I think India-Japanese economic relationship, political relationship, of course, is very important, but economic relationship would probably be the key. As you know, there is sort of sudden boom in Japan about the Indian economy. Indian equity mutual funds are selling in a crazy manner within a matter of 2 or 3 days. All those mutual funds which are floated in the Japanese market evaporate, and huge amounts of Japanese money are now coming into India equity market. This is going to continue but we have to properly manage those flows and we should lead this enthusiasm of Japanese investment into India from portfolio investment to physical investment. And physical Japanese investment I think is extremely important in the coming years.

In any event, I am quite hopeful that this East Asian economic integration would be expanded in a rapid manner to include Southeast Asian countries. I am not that much critical of East Asian Summit. Dr. Green could criticize me now on that, but I think this Asian integration is really proceeding fairly rapidly and it is only natural that India would come into that scene because its geographical location and because of probable complementariness among the countries in the Asian region. India is far ahead of China and probably Japan in terms of IT, medical services and biotech. China and Japan and other East Asian countries are probably ahead of India in manufacturing. So this kind of complementary relationship could be utilized skillfully to create a win-win type of situation for all

the countries involved.

I think time is up. Thank you very much.

(Dr. Narayan) Thank you Professor. Just a couple of quick comments. The balance and stability issue I think is a very important one, and the present Indian government which came into the elected government in 2004 addressed this issue as a matter of bringing up the poorer regions of the country and it is a formidable plank that the government has chosen. So a lot of economic architectures and economic and infrastructure investments are going to go much into the smaller towns, into the small sectors and into the rural areas. And one strategy and I think not many people are aware of this, one major strategy is to revitalize agriculture. It's very interesting that India is perhaps the only country which is experimenting with keeping people in agriculture, going to add additional value in agriculture, create a huge market for agriculture and food processing products. The reason for this is that unlike China, in terms of a global trade, I think, India would never reach the percentage of participation in global trade that China has reached. But at the same time with a 200 to 300 million middle class consuming market living in urban areas and with urbanization growing from 35 to 40 to 50% over the next 10 to 20 years, the consumption demand in the urban areas within India are going to provide a huge demand for these kinds of value additions from agriculture which the internal economy can consume. The point I am making is, that there is a particular depth of internal demand that is rising in India which would easily take care of the kind of growth even though exports are growing at 15 and 20% and would probably continue to grow at that rate. But at the same time internal consumption demand would be growing at a much higher level, so I think this is a kind of a new experiment and we would have to see over a period of nearly a decade whether this experiment is a successful experiment or not. We can see government moving in this direction.

Just after that comment, can I request Mr. Subodh Bhargava, Chairman of the VSNL and the past President of CII who has been in the forefront of a large number of such international gatherings to share the views with us?

(Mr. Bhargava) Thank you, Mr. Chairman. I would borrow first from the view, expressed by an American author, John Naisbitt in 1995 in his book "Megatrends" about Asia, that Asian countries would emerge from being a group into a network. Asian economies would become market driven and would be consumptive. And I

think today what has been happening in international economies is very definitely important dimensions for Asia-Pacific region as well. There are several positive dimensions of opportunities for growth in international economy but I see several challenges and I'd like to very briefly touch upon them.

The first is inequity. The so-called trickle down effect for improving the life of the poor has been much too slow. Some people believe that the gap between rich and poor within a country like China or India has been increasing, but I think equal concern is that in the global community there are countries, there are regions where these disparities are continuing. That could be a real stopper for this international economy.

The second brought to my mind is the demand stagnation or constraint in the developed economies of yesterday – North America and Europe – and that stagnation is bound to cause stresses.

The third, which is perhaps the fallout of the second, is that yesterday's liberalizers act as protectors for themselves. It has been happening whether in national level or otherwise.

And that's the fourth point which I have, the regional groupings would become fortresses like the European Union, which at a point of time was projected and perhaps was seen as an opportunity, but in this emerging scenario would it change.

The fifth to my mind is the strong tendency of the powerful economies to apply what I would call the non-tariff barriers, entities of all sorts happening left, right and center.

The sixth I believe is the challenge of fiscal indiscipline or fiscal health of some countries in this process of global influences, either through management or by accident, becoming very difficult to handle.

And finally I think which is the biggest challenge is the people. Where on one side the connectivity, whether by telephone, civil aviation electrical communication or travel, is being given the emphasis for growth, there is on other side a people-to-people movement which has not been given the same liberalization outlook from others. I don't know whether it attributes to the visa or restraints. I think capital can move, goods can move, but if people can't move, we might find some situation which may be difficult to cope with.

Having said that, let me say that the developing economies like China, India and many others have a very key role to play in sustaining the growth in international economy, not just their respective growths but also the growth across the globe. The respective domestic demand growths and also the global opportunities are

something for us to grasp at this point of time. The Asian-Pacific region economies are very diverse. You heard about Japan, the second largest economy having gone through deflation, and, I think as yesterday celebrations talk, about its reviving itself, coming back. China, an economy which has been growing for many years with a fueling demand for commodities and other things all over the world. But then there are some concerns being talked about at the macroeconomic level. ASEAN economies are actually, if you look at it consolidatedly, are a pole of what I would call growth. In this context India is perhaps best defined as the world's largest and fastest growing market democracy. The recent growth of 7 to 8% as was mentioned is actually adding one Australia every year to the size of the economy; is adding one France every 3 years to the size of the economy; and that is the growth opportunity which exists in India today. The growth is sustainable and I think that is where the key is that this is flash in the pan or this growth is likely to be available. I would say the growth is sustainable because the growing larger market or employment creation is a virtual cycle which is domestically giving the boost to the demand and the growth. The second very important thing, from a global perspective, is that the cost effective outsourcing, whether of products or services, is making to a global consumer products and services at more affordable prices, sustaining demand in many economies which otherwise would have perhaps lost out that market altogether. Lastly, I think, in an Indian or Chinese context, the capacity building which is taking place, whether in infrastructure area or social infrastructure, is fueling global demand also. And the institutional setup and regulatory mechanism in India or elsewhere are likely to ensure sustenance of this demand.

Let me turn to the regional aspect for a minute. India's geographical and historical links have enabled the trade with much of Asia, whether it's east, south, southeast or west, or old traditional links of what I would call the Asian brotherhood which was based on shared experiences of the colonization. But I think it was in '91 when India for the first time took a conscious perspective of look east. And what has happened, the results have been dramatic. You heard about India-China. Of course its today's trade is not insignificant and it would be almost 15% of Indian trade. Out of India's export of 80 billion U.S. dollars and import of 110 billion, the bipartite trade with China including Hong Kong would be almost 25 billion plus. These are fairly significant percentage as far as India is concerned and we are looking for its continued growth from a market driven policy perspective. Almost 40% of India's exports and 36% of our imports are within the

Asian region. As far as China is concerned, there is one core, SAFTA. We still haven't realized the potential but it has grown. In 1990, SAFTA intraregional trade by China amounted to 1.4% of its trade, in '92 it grew to 3.2% and it is sustaining growth in the intraregional area as well.

The Indian government has put a very new emphasis on regional cooperation and globalization of the economy, the recent initiatives regarding FDI seeking partnerships in the ASEAN region with Singapore; an economic partnership comprehensive agreement has been put in place; the free trade agreement with ASEAN is expected to be made shortly; agreements with Japan, Korea and China are under active consideration; and in West Asia, India is also working with Gulf countries.

Coming to corporate India, let me say that the vision is beyond the region. Corporate strategies invariably today have a focus on a certain significant percentage of the top line coming from global markets, and I don't think a company, which has future aspirations for sustained growth, talks about less than 30, 40% of its turnover coming from markets outside India. There are several areas, as Professor mentioned, automotive, pharmaceutical, biotechnology, etc. The cost effective quality manufacturing in India is increasing, manufactured good products, and also developing globally. For example, there are companies like two-wheeler scooter manufacturers which are world's largest ones today. So it is no more a domestic market only, there are companies in size and quality are globally compared to those in world class. IT and IT services I need not talk about. India does account for 65% of the global industry in offshore IT and 46% of the BPO industry. FDI has been much talked about and I think this is the area where the government of India's outlay of 40 billion U.S. dollars over the next 4 years for rural and agricultural economy is a very welcome initiative as far as the corporate India is concerned because it is that agricultural and rural growth which will fuel growth for the industry as well. Therefore the government is also going into the rural area agricultural sector. The people in India, the industry in India is looking forward to government partnership for building infrastructure and other investment. And let me say the infrastructure is poor. I agree, but a lot has happened. Come to India and see 9,000 kilometers of 6 lane highways having been created. There are malls in Delhi, Bombay and so on which are world class ones. There are residential accommodations which are of world class; there are 80 million people owning cellular telephones and the growth is 2 and half million per month adding to the cellular phone community. In fact last month an all-time

record of 5 million new cellular connections in one month was achieved. At that growth rate, the connectivity in India fueling its internal and global growth is very definitely assured.

Let me say that simultaneously there is emergence of India multinationalists. The mergers and acquisitions across the world have been a new strategy. More than 2 and a half billion dollars have been invested in less than last 2 years. And this is the area where Indian industry is not looking at and understands that cost and quality is essential but not sufficient for sustaining growth in future.

Therefore India is focusing today on R & D; India is shifting its focus today on building its own brands from being just a workshop for the rest of the world. I think India is going today with its own products to the rest of the world. And that is the sustainable study as we talk about.

Let me just talk a few minutes on the India-Japan perspective. The bilateral trade is only 5 billion and I don't need to say that it doesn't reflect anything of the potential which exists. In fact, when a small window for foreign technology and investments opened in India in early 80's, the Japanese were the only ones who came in – the Suzuki's; Hondas; Mitsubishi's; Toyotas. But the first arrival advantage which Japan could have taken was lost. I don't know why. It was aggression, it was some problems in India or it was deflation in Japan, but I think this is where a political alignment and the psychological barrier which was talked about in political dimension has been removed, but I don't think in the economic sphere such psychological barrier has gone out totally. I think it's our own failure too. India has not been able to communicate the changes which India has undergone in the last few years. In fact through meeting many Japanese businessmen over the last 2 days, one got the impression that the information is still what it was 8, 10 years ago. And I think in that context I would like to say that the new initiatives sound extremely interesting. We have JETRO. In fact when the Prime Minister was there in April last year, the 2 Prime Ministers talked about exposing Japan to India all over again through Japan being the partner country at the Indian Engineering and Technology Fair in February 2007. We have a partnership with JETRO and we are going to get that exposition in Delhi in February 2007. There are many other initiatives – the government of Japan and the Embassy of Japan in Delhi are talking about teaching Japan language to 30,000 people, and I think that's essential to understand each other. That's an initiative which we in Indian industry welcome very much. Of course there are other bilateral trade and economic exchanges, partnership agreements,

delegations but I think what we need is beyond the delegations. There is an opportunity and the moment is now – it has to be seized now.

Thank you.

(Dr. Narayan) I think we have in the last 4 or 5 speeches heard a lot about India and India-Japan, and I think we have now an opportunity from Prof. Zhao to hear about how exactly China have used this relationship, how China have used its economic architecture, what exactly it is looking for in this region and how it is viewing this region with the rest of the world. So can I now turn to Prof. Zhao.

(Prof. Zhao) Thank you Mr. Chairman. I am a person engaged in studies of China-India relations, political ties in particular. I do have a lot to talk about China-India relations, that, however, is not something I am required to talk about at this conference. Actually I am required to talk about Asia Pacific, and the Asia-Pacific community and the recent developments and the challenges. Since I am studying China-India ties, I would put in my presentation the focus a little bit more on India and the Chinese perception of India and would pick up several significant trends in Asia-Pacific. When I am talking about Asia-Pacific, something suddenly comes to my mind as to whether India is really in Asia-Pacific nation. Our Indian friends are very happy to say that of course India is Asian-Pacific power and India is a participant for instance in the first East Asia Summit and so forth. And I'm not quite sure because if China for instance either China or Japan participates in Osaka Summit, you would see China or Japan as a South Asian nation. I'm not quite sure, so this is something about geographical and national identities. Traditionally the Asia-Pacific in a common sense mainly points to the part of Asia that includes Northeast Asia and Southeast Asia and then plus the other side of the Pacific like Canada, United States and even Mexico – like the APEC process. But that kind of concept is no longer valid since the enlargement of ASEAN by including for instance Vietnam and Myanmar etc. and also because of Indians look East progress, the pace of economic integration is apparently being accelerated. That has changed the mindset for the older perspective vis-à-vis Asia Pacific. During this kind of steady process, South Asia represented by Indians initiative is increasingly becoming a participant in the Asia Pacific integration. So Indians' desire to go beyond the Indian Ocean, to go beyond the sub-continent and to get more integrated into Asia-Pacific has made India the nation very much unique in its geographical identity. As a nation India has taken

a potential status of both India Ocean power and Pacific power. That kind of status is not shared by any other Asian nation. This is a very important development and trend and now the issue for other Asian powers such as China, Japan and South Korea, how we should assess the Indians status and the position in Asia-Pacific. Are we all ready to accept India as a Pacific power even though geographic location does not give this kind of identity to India? That's one of the major trends I would like to talk about and maybe could cause some of academic thinking rather than policy consideration.

The second trend I'm going to talk about is the implication of observer status of both China and Japan in SARCA – South Asia Association of Regional Cooperation. Last year saw a major development at the 13th SARCA Summit, both China and Japan were accepted as observers to the organization, implying further participation of Asia-Pacific economic powers in South Asia. As far as closeness of trade in economic changes is concerned, China is in this regard a little ahead of Japan. For instance, trade between China and India exceeds far more than that between Japan and India even though India has already become the number one recipient country of ODA from Japan. Nevertheless, both China and Japan have perceived enormous potential of South Asian market and that of India market in particular. While the political distrust remains among all the relevant parties in Asia, in Asia-Pacific in general, I think the fact that India accepts the two – I mean China and Japan – on equal basis indicates some positive direction in my personal view. The real issue is that, in my personal view again, we cannot wait until all the political distrusts are solved and then begin economic cooperation. The current development indicates the opposite and the recent development shows that economic driving force can and should go first, and that is likely to help in the end of the day remove political distrust among the relevant parties. This is a very interesting example we have already seen as far as China-India ties is concerned. Because of this fast development of Sino-India trade, I have been to India many times and my sense when I travel in different cities of India, my sense is perception of China as a threat in India is declining very fast. I have had a chance to talk to business communities in various circles in India and businessmen also hold a kind of view that seeing China as an opportunity rather than a threat because making business is much better and there is no point for China and India to remain in a certain kind of political distrust like Dalai Lama, like other things. It doesn't make sense. People to people exchanges and a lot of trade taking place between the two powers have dramatically removed the potential of a political distrust. I

think this is a very good example we can apply as far as Asia-Pacific regional integration and the relations among China, Japan and India is concerned.

The last trend I want to talk about is India's position in Asia Pacific. India's participation in the first East Asia Summit shows a more aggressive gesture of India in the Pacific region since the look East policy was initiated. India has broadened its economic ties with nearly all the nations in the region with ASEAN countries as its first priority for both historical and realistic reasons. I am not sure whether my Indian friends would agree with me or not, at least in my judgment Indians initiative of look East policy in the first place aimed at ASEAN countries and try to resume that kind of traditional and cultural ties with ASEAN countries but India is not going to limit itself to Asia. India wants to go beyond that and then you are going to touch upon other powers, that is, China, Japan and South Korea. As I said, due to the unique Indian culture and traditional influence in Southeast Asia, its look East policy is generally seen in ASEAN countries as a kind of resumption of some tradition rather than a new creation, and thus Indians move in Southeast Asia is mostly welcomed. But India's further participation in this part of the world would be highly relevant to other 3 Asian-Pacific powers, that is, namely Japan, South Korea and China. All these 3 powers have much stronger economic ties with ASEAN countries compared to that between India and ASEAN. When India is trying to extend its look East policy, its ties with the 3 nations – China, Japan and South Korea – will be on India's agenda I assume. India plus ASEAN is another formula of 10 plus 1 is important in a sense that it has laid a foundation for India's further integration in this region. The issue for India is how to become a major trading partner in the region in the first place just as China, Japan and South Korea, vis-à-vis their relations with ASEAN countries. This is a real challenge for India on how to turn that kind of a potential into reality. Everybody acknowledges that India enjoys enormous potential as far as trade and economic cooperation exchanges with ASEAN countries or with other Asian countries are concerned, but how to turn that kind of things into reality rather than just to create a self-closed economy, I think, that is really a challenge to Indian leaders and the Indian government.

In other words from the Chinese perspective, fundamentally speaking India's participation in East Asia is not a political issue in the first place. When Indian Prime Minister, Man Mohan Singh, said at the Kuala Lumpur summit that the role of India coming to East Asia, one of India's functions is to balance Chinese power. The question from the Chinese perspective might be understood as how in

economic sense, not what in political sense. It is because China believes that India's approach in this part of the world would focus much more on economic integration rather than as a political counter weight, and that the latter in my personal view does not seem to fit India's interests nor fit the steady trend of improved China-India relations in general. So based on that judgment, China openly welcomes India's participation in Asia-Pacific with an expectation that China and India could be complementary in the region due to our different respective advantages.

In final analysis I would say India is never perceived as a threat, but to the 10 plus x formula including India in Asia-Pacific would really make sense when India becomes a powerful trading partner in the region.

Thank you.

(Dr. Narayan) Thank you very much, Prof. Zhao. That is a slightly different perspective than we have heard from the earlier others. What I would like to do first is to open the comments to the panelists here and then perhaps to the audience. We still have..., I think I would, with the permission of my co-Chair, extend it by another 5 or 10 minutes. So can we have Professor.

(Mr. Sakakibara) I'd like to comment on Prof. Zhao's geographical identification of the countries. To me this Asia-Pacific notion is somewhat artificial which was probably created at the time of the creation of APEC. It was architecture by Australians and Japanese which was eventually joined by the United States. But to me Asian countries - East Asian, Southeast Asian countries plus South Asian countries coalition is more natural. Because if you look back at the history, between 14th and 17th century India was at the center of trade between Asia and Europe, and lots of Chinese ships were in the port of Goa trading with Indians and through Indians trading with Italians and Muslims so that if you look back at the long history, I think this from a historical perspective is very important. India being a very strong trading country or maritime country, southern China was a maritime country as well, you interpret Japan is at the rim of the Chinese Empire but we interacted through China with India and other Southeast Asian countries. So I think if you look back upon the long history, I think India, China, Japan and Korea are a natural sort of combination. Even when you look at the Japanese culture, Japanese history, Buddhism was imported from India through China and Korea, and if you look at the Japanese Buddhism there are lots of traces of

Hinduism. We have lots of Hindu gods in the Japanese temples here and there. So we have very strong and long standing cultural ties, geographical ties, trading ties, so that your assertion that India may not fit the regional notion of Asia-Pacific that to me is a little bit artificial.

(Dr. Narayan) Thank you very much.

(Dr. Green) On this question of geographic definition, it's interesting. Someday as an academic I may do a study of how different governments divide up Asia. In the U.S. the State Department has South Asia and East Asia separate; the Pentagon has India with Asia but Pakistan with the near East. When I was at the White House, we had South Asia and East Asia together, but in the second term after I left, they decided to split it to have South Asia and East Asia. These are constantly shifting concepts. There was an opinion poll done of elites about 5 years ago across this region asking what is the Asian identity, and in the end they found that there was much more commonality with the U.S. than across the region; then there was internal cohesion on what it is to be Asian. So these things are always very uneven and probably have as much to do with national identity and search for identity as anything else. The East Asia Summit is a good example. If you're asking about security in this region and what guarantees security, there's no getting around the U.S. presence. If you look at especially ASEAN's trade with China, but also Japan's trade, much of that – especially ASEAN's trade – is exaggerated because its products are moving back and forth, and the end product gets exported to the United States, to Walmart more often than not. So if it's an economic definition, the U.S. should be in. And geographically Hawaii is as close to this region as Delhi and San Francisco is closer, so the U.S. is a Pacific power. At the end of the day, I think, what happened in the East Asia Summit was many countries in this region wanted their forum without the U.S. because the U.S. and APEC and everywhere else is very aggressive. We want trade liberalization, we want a lot of things to happen, and I think there was a psychic need in a lot of the region to have a forum without the U.S. but then there was a bit of a panic frankly in Vietnam and Japan about having this forum created with China and not the U.S. and so India was brought in. I think from the U.S. perspective that is probably a very good thing because India shares common values with the U.S. and obviously Australia does. Then it raises the question, should India be in APEC. And I think if you tried to sell that in Washington or Beijing or even Tokyo, it would be

very hard because people say APEC is too big. So these regional definitions are constantly shifting, there isn't one that works particularly well. I think what has to happen is that while these different institutional arrangements take shape, nations that really care about a broadly defined, open inclusive political and trading region are going to have to very closely coordinate behind the scenes, whether it's the U.S. and Japan, U.S., Japan and India, or the U.S., Japan and China. There has to be an awful lot of thinking about what the agenda is and what the purpose is, because my impression is that many of these arrangements of who sits at the table have more to do with national identity or sort of aspirations than they do with the actual work at hand.

(Dr. Narayan) This sentence on inclusion and exclusion I think I heard from Ambassador yesterday as well on the regional architecture at other seminars.

(Mr. Tanino) Just after listening to Prof. Sakakibara, it reminded me of the following. We have 3 kinds of Gods – Bonten, Taishakuten and so and so, they all come from India. So we used to have a strong link with India. The best bride out of 3 countries is very nice and beautiful and tender hearted, that is from China, Japan and India. With those 3 countries compared, so what I would like to say is that we used to have very strong ties especially before the war and we had large trade with India. So in the world perspective, India was in the center and we have economically a strong relationship with India, and culturally as well.

I'd like to supplement what Prof. Sakakibara said. India will catch up with China, he said. China will go into aging society but the population pyramid of India is triangular. Its major component is younger people, who go into the industry. So as Goldman Sachs said by 2030 or 2040 and beyond that, U.S.A., China and India will be the 3 major powers because Japan is an ageing society – how to support old people – that's a problem shared with China. China is aging rapidly too.

Another important aspect is infrastructure. Prime Minister Koizumi visited India and he was asked "why doesn't Japan undertake the cargo transportation that is a project involving over one trillion investment that is connecting Kalicut and New Delhi; and New Delhi and Mumbai (Bombay)?". And now the Foreign Minister has started work on this. So infrastructure building is a very important issue in India. I used to be in India as an Ambassador and as Prof. Zhao said earlier, those things which we import from India is still diamond, maritime

products, soy beans and seafood. What I would like to say is that automobiles are an important manufacturing sector but I hope that India will get more investment FDI. China has done too much on FDI but India should attract investment from Japan and others so that they can strengthen manufacturing industry. China is the third largest trading country in the world, but India's presence in international trade is not good enough, not strong enough because manufacturing sector is weak. But they have a very strong software programming industry and its information technology industry is growing rapidly. Japan and the U.S. is taking advantage of the IT industry of India but because of the language barrier only 4 to 5% of software export comes to Japan. United States is getting 60% of Indian export. One of the electric manufacturers is sending 100 engineers to India so that they can go under training. Those training cannot be done in Japanese universities, so some 100 young people go to India and study how to build software that is practical. Such experience can be used in the field so that it will be strong enough to be a manufacturing industry. China is strong in manufacturing industry, India is strong in software development and if you combine those two, people have coined the word "Chindia" that represents manufacturing sector and IT technology. There is another coinage JACIK. What is JACIK? ASEAN 10 plus 3 – China, Korea, Japan and India would like to join it JACIK. Japan is coming in the beginning, so China may not like it and be uncomfortable but JACIK that is ASEAN plus Japan, China, India, Korea. So maybe we should promote this kind of arrangement, so that is my personal feeling. Thank you.

(Dr. Narayan) Thank you. Subodh you wanted and then I'll turn to the audience.

(Mr. Bhargava) I come from the corporate industrial world and I want to share my perspective that as far as we are concerned, geography is history. We will go wherever we can make money and feel safe and this challenge or threat of not only nomenclature but regions could be to my mind a stopper for international economy's growth. Secondly I do wish to add this significance of these various tables of nations is getting lowered because the tariffs, the barriers to imports are coming down across the world. India today has a tariff from 5% to maximum 12-1/2% compared to ASEAN. If we are going to have lower tariff, what will I do with the special trade agreement with any particular country or region, it has no value. And India has very clear ambitions to be a major trading partner but on

the principle of not buying and selling but making and selling, and importing and selling. We are very clear that manufacturing in India is not paper but real researches. The global export of India-manufactured products has grown at 15% compounded in dollar terms year after year for the last 10 years. It has not happened because the world was waiting for Made-in-India brand. No we have transformed ourselves based on learning from Japan. It was the early 80's when I learned from Mitsubishi Toyota and Kanban and Kaizen and what have you. We have changed ourselves, we have transformed ourselves. Today we make good quality products where we are proud of brand India and we are exporting that all over the world. That is how we dream to become a major trading partner and continue to lower our import tariffs so that there are bipartite trade and we do not become threat either bilaterally or multilaterally.

Finally I do wish to add one more dimension which Ambassador had talked about, age. In fact that is the greatest positive factor for India. 65% of more than 1 billion people Indians are below the age of 35. More than 45% of Indians are below the age of 25. They are tomorrow's brains, hands and feet, and consumers, and we, therefore, are going to use that strength to sustain our growth in the coming years.

(Prof. Matsui) I'm a visiting professor Matsui of Kyorin University. In the morning we heard presentations of 7 or 8 speakers from international perspective. We learned about security and economic issues and so forth from the international standpoint. From that stand, I have a question about Russia, because Russia still is an important country for economy and security. More than the U.S., I think Russia is located in Asia Pacific region and Russia is surrounded by the long borderline with China and gas and oil development and nuclear power area, and Russia is still an influential power of the world. So in the Asia-Pacific region, when we talk about the future perspective, how the U.S. and China look at Russia, how you perceive Russia and its position.

(Prof. Zhao) I'll just say my personal view and not Chinese view. I cannot speak on behalf of China. Of course Russia is the most important neighbor to China and over the last couple of years, the strategic partnership between China and Russia has been seeing enormous progress, and the two sides agree that it is highly imperative and necessary to say a solid foundation for the bilateral relation development in the future, in the years to come. Actually in 1990s the bilateral

relationship has suffered some kind of setbacks and experienced some kind of severe tests to the perception of the leaderships. I think in the new century, the two leaderships have been fully aware of the necessity to build up cooperative relations. We accordingly understand that last year the two countries by making mutual concessions reached the border agreement and drew the last part of the demarcation line and finally solved the border dispute between the two countries. In the economic area I think the two countries are highly complementary. Russia is a main energy producer, and China of course is a country with increasing demands for energy. And again the two countries have reached a number of bilateral agreements to build up a pipeline, and of course we've got a Japanese element and a lot of stories about complications and the rivalry, trying to get favor from Russia by the Chinese effort or by the Japanese effort. My personal view is I believe that this is precisely an area where all the relevant parties could develop cooperation rather than competition. In January, the Indian Petroleum Minister visited Beijing and he had a very nice talk with Chinese officials about a possible cooperation between China and India on oil market and international market because the two countries in the past tried to launch our respective bid for certain kind of rights to oil fields or whatever in any country – in Africa, Latin America etc. – and the only result is the increase in price. So the rationale for the two countries lies in the fact that if our two demanding countries could have enough consultation and the communication channels and have good discussion on that, I think the prospect or the benefit for the demanding country is big. Now I think among China, Japan and Russia the same situation comes up. I don't think that a pipeline should be only for China or for Japan and there would be zero sum game; then, Russia would be the referee and see which country is better to me, and I give it to that country etc. I don't think that is a good situation. That is an economic area. In other area – in the political area – I think China-Russia relations is maybe, I can use the word, "in the best term" in history. And now the two leaderships have maintained mutual visits, exchanges on a regular basis and a lot of mutual understanding has been reached on a number of cases in the global context. The two countries do share a lot of common interests. I expect that by petrotrade between China and Russia would see a jump in the years to come. Thank you.

(Dr. Green) The Clinton administration made a strategic decision to pull Russia into Asia as much as possible partly to give Russia a global reach after the Cold

War and satisfy Russian sense of global purpose partly because of energy and because Russia had leverage on countries like North Korea. The Japanese Government was quite nervous about that. In recent years both the Bush administration and the Japanese government, I think, have seen the logic in the value of having Russia play a more active role in the Asia-Pacific region certainly in the 2001, 2002, 2003 period. I think for the U.S. and for Japan both it has been a disappointment. Russia has not played the role in the 6-party talks where it could. I think both countries are probably disappointed that Russia has not seized the opportunity to have a stronger relationship with Japan. Japan is more separate in the northern territories issue than ever and is prepared for more cooperation on energy. Russia didn't take that deal, the U.S. is disappointed that President Putin is cracking down on civil liberties and democracy. We are in a bit of a cool period right now, and the Russia-Chinese military maneuvers last year frankly were a bit clumsy. The use of heavy bombers in an exercise that was built as an anti-terrorism exercise and an anti-splitism exercise was clumsy. I don't think there is aI think it's good that China and Russia are improving relations. I think good relations among the major powers are in our interests. I don't think that there is going to be a new Cold War type alliance, but it was, I think, a clumsy move on the Russian's part and it has been disappointing, I think, for many in the United States and Japan. I hope it's only a temporary period because Russia can potentially play a very significant and important role in this region, vis-à-vis North Korea, vis-à-vis energy cooperation. Russia is really in a pivotal position to help build the kind of multilateral cooperation that would lead to more sustained prosperity and peace in the region.

(Dr. Narayan) I think we will have another opportunity in the afternoon to debate on these issues further, and I'll get a chance in the afternoon as well. So let me thank the panelists for really a wonderful interaction and I request the organizers to tell what happens next now.

(Lunch break)

Special Presentation

(Mr. Tanino) Good afternoon ladies and gentlemen. We would now like to resume the session in the afternoon.

As I said in the morning, before we start the afternoon session, we have a speaker

from Washington D.C., Dr. Green, who will speak for about 10 to 15 minutes. Dr. Green will tell us his perspective of Asia from Washington D.C. to hear his thoughts on this topic. So I will not repeat what I said but President Bush visited India just recently and as has been discussed earlier that the relation between the U.S. and India has made a marked progress. In that context we had a discussion especially the peaceful use of nuclear power, that is the area of bilateral agreement between those two powers in the economy as well as in the field of security. The relation between India and the U.S. has made marked progress, so for the Asia-Pacific region in the future, this improved bilateral relation will have an impact as well. So we are really looking forward to hearing from Dr. Green who came from Washington D.C. He will touch upon this as well as about China. I think he will speak for about 15 minutes, and then questions. He wishes to be engaged in discussion with the audience, so I'd expect active discussion as well so we could entertain some questions from the floor as well. The speaker is Dr. Green.

(Dr. Green) Thank you. I have been asked to try to propel the afternoon session by opening up with an American view about Japan-India relations. As the Senior Director in the White House for Asia policy, I spent a good amount of my time on strengthening and enhancing the U.S.-Japan alliance and also working on a new strategic relationship with India – two of the most important developments in the Bush administration's Asia policy I think in this period. A friend of mine who some of you may know named Satu Limaye tried to write an essay a few years ago about India and Japan, and under international relations theory he thought that India and Japan would be very natural partners. They both have to deal in the structure of international relations with the growing power of China, they both have complementariness in terms of hardware and software on the economic side, and both have aspirations to play a larger role in the world. But he said at the end after investigating the long history of Japan and India relations that ultimately he could not explain why Japan-India relations had not taken off, and he concluded that it must be due to something cultural. And so he called his essay "Sushi and Samosas". He said kind of strategic culture tastes too different. I think what this conference shows is that that may no longer be the case; that there are some spices that can be added so that some new dishes can be made which do complement each other well.

I think that the logic of strategic cooperation with India is very compelling for

Americans and the view of India is very positive in the United States. I think that for Japan as well the strategic logic of strategic partnership with India is going to grow and it's going to be more and more obvious, and I also think it's very much in U.S. national interests that India and Japan develop more of linkage, more of partnership. In some ways I feel like what the Japanese call a "nakodo", a "go-between" for an arranged marriage. And with that sort of spirit I want to explain the logic of this relationship from a U.S. perspective.

First and foremost, as has been said this morning, India is poised for decades to sustained positive economic growth. The demographics are very different from Japan, but they are also different from China. It was said this morning I think by Sakakibara-san that China and India may reverse growth figures in the next 10 or 15 years, but the more important point in some ways is that because of its demographic factors India is poised to have continued growth for possibly decades. That's an opportunity, It also means India will have an impact on things that affect Japan's interests ranging from the price of oil to international security and the United Nations system. The other thing that our friends in Japan should keep in mind is that the future of India in many ways like the future of Japan is pretty clear. I'm not sure if you can say that about China. I'm not sure if you can say that about the Korean peninsula, but you can be fairly certain that India in 20 years is going to be a multi-ethnic, multi-religious democracy with stronger rule of law and with a set of values that largely correspond with Japan's values, and in many ways I think there are going to be an increasing convergence between the two nations.

From a U.S. perspective, India, as an example, proves what President Bush has been saying that you fight terrorism in the short term with tough tools of national security but in the long term you defeat terrorism with ideals and ideas and especially democracy. India has the second largest Muslim population in the world but no Al Quaida. Why? Because people can take control of their own futures through the ballot box. So from an American perspective, India proves much of what America thinks the world should know. And I think for Japan this is increasingly going to be important. Fifteen years ago it would have been very odd to say that the United States and Japan have an alliance based on common values or that our values were converging. In 1988, polls in the U.S. showed that most Americans thought Japan was a bigger threat than the Soviet Union because of economic issues. People in Japan talked about Asian values versus Western values. There was not a sense of convergence. But today you look at the

language and the substance of U.S.-Japan cooperation and Japan's role in the world. And the role is increasingly the one based on the values of democracy, of rule of law that have Japan give weight in the international system. There was a BBC poll done recently and 50,000 people in 33 countries were asked "What country plays a positive role in the world?" Japan was given the highest number among 31 countries that had a majority of people who said Japan plays a positive role. That role is based on financial contributions, on people and on ideals. For Japan, I think partnership with India validates Japan's value to the world as well as Japan's role in the world because of its common values and ideals of democracy, rule of law and governance. This is a U.S. interest as well, because the demonstrative effect of cooperation among countries that make the right choices for governance or rule of law, democracy on other actors in the international system is very positive and is something we want to see develop.

India and Japan also are increasingly finding that they are providing goods in the international system. The best example is probably the response to the tsunami in December 2004. In the White House, when we debated how to quickly respond to this, we said "let's try Japan, a natural ally and democracy with the capability, Australia, which has the capability and India. Why not!" And the cooperation among these countries was very natural and was based not only, as I said earlier, on the capabilities of some very effective navies to get into this difficult area of Bandah Aceh and the area around the Indian Ocean, but also the sense that democracies do have international responsibility and provide public goods. It's much easier for a democracy to explain to its people why the taxpayer's money is being spent where efforts are being made in these kinds of international situations. That China, that the U.N. and other nations joined it was a very good thing, but I think it was really critical that India was there with Japan at the beginning to kick it all off.

In terms of regional architecture as well, in the East Asia Summit the U.S. is not in as I suggested this morning, but, at some point we might be in. And in fact we are going to have an array of international regional groupings with a variety of different agenda, or in some cases maybe without any agenda at all. To be honest I can't tell what the agenda is for the East Asia Summit yet, maybe it will have one. I think precisely because you have so many of these things starting to emerge and because the U.S. cannot be in all of them. Look at the Shanghai Cooperation Organization for example, and because India and Japan are in almost all of them, it makes an awful lot of sense for both Delhi and Tokyo. But also from a U.S.

perspective, there is an active dialogue and strategic planning about what kind of agenda these various international forums should have. And I would hope from the American perspective that Japanese and Indian cooperation would help to bring rule of law and governance and these kinds of objectives into the agenda for things like the East Asia Summit and other multilateral forums. It is what defines India in the world, it's what defines Japan, and from the American perspective, if we're not there but that's the agenda, we'll be a lot more comfortable with it.

The only country that the U.S. has explicitly supported for the U.N. Security Council is Japan, and the President of the United States has come out on several occasions and said that. The next closest one is India, and if you carefully parse what the Secretary of State or the President have said about India's membership in the Security Council, they don't explicitly say yes but there are hints and winks and nods, and my own personal feeling is as India continues to strengthen partnership with U.S., there will be more and more U.S. support for the concept of India in the Security Council. So not only in regional groupings but in the ultimate international organization, the U.N. as well, there is an obvious partnership between Japan and India, but I think it's one that the U.S. needs to take an active interest in and engage in as well.

In all of this it is important that Japan-India relations not be premised on the China threat and not be seen as bookends to the rise of China. It's neither in India's and Japan's interests, nor in the U.S. interests. And frequently in the past efforts to jumpstart Japan-India relations, it seems to have been largely pushed by those who are doing it vis-à-vis China. And for India-Japan relations to be sustainable, it has to be based on something much more than that. And the effect on China and the role of this relationship to China, I think, can be a positive one in terms of the demonstration effect of countries' choosing the right course when it comes to governance and the rule of law and democracy. But containment is not a concept to be taken. Such concept will have ill effect on this relationship and it should not be the one that people turn to.

Alternately, what I hear in Tokyo from many business leaders is that they are going to keep investing in China and half of Japan's GDP growth for the past 2 years has been thanks to China. But what business leaders here increasingly are saying that you hear in the U.S. is that it's China plus one - it has to be some other place to invest in additionally. To Japan, I think, India gives the democratic edge, gives that additional benefit for investment, and that should motivate it as well. Private sector investment, economic relations are also critical if this relationship is

going to be sustained. As a third party observing Japan-India relations, it's been my sense that the institutional basis for economic cooperation is too narrow. It has basically got to expand. JETRO has to play a role, METI as well, and the Foreign Ministry has to play a role in Japan. It has to be broadened and this opportunity where there is a lot of interest between the two countries and a lot of interest in Japan has to be used to build broader institutional partnerships involving a variety of economic organizations. It's almost too much of a burden for the Chamber of Commerce which has so far carried it in Japan and much more people should be helping in the process on the Japanese side.

There is a natural link between Japan's advantages and technology on the hardware side, and India's advantages on the software side. India's need for infrastructure development, Japan's large ODA budget, Japan's own construction companies are not personally certain that Japanese companies will be able to play a large role within the Indian economy in terms of helping the agricultural sector meet domestic demand. This is not necessarily one of the strengths of Japan's corporate sector, but in a lot of other areas the potential is enormous as has been said.

Let me turn briefly then to the nuclear issue. Ambassador Mansingh eloquently explained the logic of this and I should take this moment to congratulate him because he was Ambassador in Washington when this train left the station and this recent visit of the President was the fruition of his efforts. The logic for the U.S., I think, is clear, and I think it's the logic that the Japanese side should consider as well. It's a hard decision for Japan because Japan has a very strong non-nuclear tradition. So this is an agreement between the U.S. and India that it's a hard one for Japan to get through but I think it's in Japan's interests. India will grow. India will, as Ambassador Mansingh said, have to turn to something as energy necessary for several decades of high economic growth. If it's coal or oil, it will affect the environment, or it will affect oil prices in ways that are not in Japan's interests. If it's civilian nuclear that's much better. India can be part of the non-proliferation team. The non-proliferation treaty is a necessary ingredient to fight proliferation but it is clearly not sufficient. We need to broaden the team of countries that are fighting proliferation, and with this agreement, India is joining the non-proliferation team – a different NPt (with a small t) but one that's at least as important as the actual non-proliferation treaty and based on a recognition that India is not going to join the NPt. And we have to deal with the reality we have in front of us and we have big challenges with North Korea, with Iran and

elsewhere. I think Japan-India cooperation in this area can be very helpful for India and for the United States and for Japan. For example the IAEA spends more time and money on Japanese nuclear facilities than any other in the world. Japan's corporate sector, Japan's government is an expert on this process of civilian nuclear facilities coming under international inspections. Speaking personally, it seems to me this is a natural partnership between Japan and India. India has got a pretty tough task ahead, separating out the civilian facilities from the military, and it seems to me this is an area where Japan on the civilian side in terms of how you do these inspections and how you make them work, can be very helpful to India and very helpful to the process by bringing credibility to it all. I would personally like to see Japan and India cooperate more and dialogue more about the proliferation security initiative and counter-proliferation. There is some skepticism in Delhi about the international legality of this, and yet Japan which is a very strong international legal citizen has joined the proliferation security initiative. It seems to me that Japan and India could have a very useful dialogue on counter-proliferation and PSI because India now is increasingly going to be part of this non-proliferation team and Japan can help explain PSI and help to build the kind of partnerships which, I think, will make it easier in India and make it an important topic for the two countries.

Similarly on Iran, this is clearly not U.S. policy but, I'll say it anyway, most of our efforts on Iran have been focused on the Europeans, on the three – Britain, France and Germany. It seems to me that tackling the problem of Iran's proliferation should include Japan and should frankly include India. This again is an area where it would bring credibility to the overall effort of India in the international efforts against proliferation and it will give a more active partner for Japan to increase its own role, and frankly put a little bit of "gaiatsu" or pressure on the U.S. to include countries other than just Europe.

Let me say for just a moment something about Pakistan. India, as I said, has a future that is quite certain and demographics that suggest economic growth will be quite strong. But from my perspective, the variable in India's future that's most uncertain and troubling is Pakistan itself. So, it's both in India's and Japan's interests to keep attention to Pakistan, to de-hyphenate the relationship. I was in an area near the Khyber Pass last September, and I visited a school about an hour drive north of Peshawar in an area that is very poor. We drove to this school and there was a very large Japanese flag and a very large American flag, and a sign saying "Thank you Japan, thank you the United States". This was the first of 50

schools that the U.S. and Japan are building in that part of Pakistan. There are 40 Madrosses in that region and people send their kids, their boys, to the Madrosses and some of them get a legitimate religious education, some of them are radicalized frankly. Their parents don't send their kids because they want them to be radicalized, they send them because they don't have enough clean water or a roof over their head, and so they need to send them somewhere. You can imagine the impact of 50 modern schools in this region with computers and electricity, textbooks, and I could see it with my own eyes. So I think it's important for Japan as it builds a very significant relationship with India to not lose sight of Pakistan and to do what it can to continue in the areas of development assistance and so forth, so that Pakistan's future also is good. And that's what's best for the region.

Let me conclude by going back to what I started with. It's in U.S. interests for Japan and India to develop this kind of strategic partnership. I think the influence Japan and India will have on each other frankly from a U.S. perspective is quite positive. To the extent, and I'll be quite frank here, the U.S.-India relationship has not gone as far as it could. For example, one of the reasons why it was difficult for Washington to come out for the Security Council seat for India is that there is this traditional Indian foreign policy of non-alignment that has us – the U.S. and India – voting very differently in many international organizations. I think partnership between Japan and India, dialogue between Japan and India will have a positive effect in continuing the movement of India towards active global foreign policy based on traditional Indian foreign policy teams but also what I would call a stakeholder role in the international system. And I think India can have a positive influence on Japan's foreign policy by pulling Japan out of East Asia, by encouraging Japan to partner with a country on a global basis based on values and norms that are an incredibly important tool in Japan's foreign policy kit. And finally, I think that Japan and India can have an influence on the United States that's quite positive. There are very few countries around the world where the United States absolutely has to listen to what they say - traditionally it's Britain and sometimes Australia. Increasingly over the past 4 years, Japan has, I think, fallen into that category as well. It is particularly on issues in Asia and on North Korean things like that. President Bush very rarely made key decisions without hearing what Prime Minister Koizumi thought. India, I think, is also moving in that direction, in having that kind of influence on U.S. thinking and U.S. foreign policy and that kind of impact and access. It seems to me that Japan-India partnership will only help U.S. foreign policy, help the U.S. continue

making the right choices and playing an active role in East Asia and South Asia and the world at large. Thank you.

(Mr. Tanino) Thank you. We'd like to entertain just 2 questions, so we would like to now give the floor to the audience. Please identify your name and affiliation.

(Mr. Nagao) At Gakushuin University Graduate School, I'm in the PhD course. I'm researching the security and international politics. My name is Nagao. I have 3 points of questions, sorry the time is limited. I'm a student, so my question might be rather irresponsible one. I hope that you could give me short answers. The 3 questions:

First point: Especially the fight against terrorism. After September 11th, many countries cooperated to fight terrorism. Especially India is located in South Asia which tends to suffer from many terrorist attacks. So India might have the strategy and tactics against terrorism because of its experience of fighting against terrorist attacks. So Japan and the U.S. and India and other countries need to cooperate. To what extent is this cooperation now already materialized to counter terrorist activities together?

Second point: It is related to the first question. During the Cold War era, there was alliance framework that is bilateral alliance and treaty like Japan-U.S. or U.S.-Korea or Pakistan and the U.S. So bilateral relationships actually comprised network. But what about Japan-Korea, or Pakistan and Japan, that kind of bilateral relation did not really deepen during the Cold War era. But after the end of Cold War era, the terrorist attacks became rampant and Japan-U.K. or Japan-Australia now started to form the bilateral relationship like alliance or the military exchange and others to counter these terrorist attacks and others. But if that is the scenario, what is a new kind of alliance relationship to be built based upon this new changed framework. A new kind of alliance to merge something like Japan-U.K. and others?

Third question: it is not directly related to the U.S. interrelation but my question is energy related question. The security is I think included into this theme and I hope you could respond to that - energy development is the project. Russia has taken a strategy to develop the natural gas fields off Sakhalin. What about the possibility of India because I hear Russia will work with India to develop the field in Sakhalin. China is important for Russia, but on the other hand Russia is too cautious about China's attitude, still try to manage to get along with China. So by

involving India in the Sakhalin gas project, I think that Russia used India in a way. What about East China Sea? Is there any possibility that India and Japan can work to develop jointly like oil or gas field or other countries are to be involved in this gas project or oil project in East China Sea? If that's possible, is it feasible scenario or not feasible?

So I'm not well versed in those matters, so I would like to get some answers from you. Thank you.

(Mr. Tanino) Those are I think the topics related to India and Japan. So rather than asking Dr. Green to answer, maybe let us integrate your questions in the latter part of the session because Mr. Tanaka who is direct involved is here. But touching upon the counter terrorist activity, what about cooperation between India and the U.S.? How developed is that cooperation?

(Dr. Green) In respect of things that have added strength to the U.S.-India strategic alignment particularly since 9/11, President Bush, when he was Governor, he gave a speech about his hope to make India a center piece of U.S. foreign policy. So the strategic direction predates 9/11. But I think one thing 9/11 did was to bond the American and Indian strategic cultures because both have been the victims of catastrophic terrorist attacks. So it is an area where our strategic cultures are very much bonded. It's an area where there certainly can be cooperation and has been cooperation. I think it also is one of the things that have increasingly led Washington and Delhi to cooperate on foreign policy towards states in South Asia like Nepal that are in danger of being failed states. Because failed states can become the place where terrorists take root as we learned in Afghanistan, and from the American perspective while there was a debate before 9/11 about U.S. foreign policy and it should focus on states that are in danger of failure, after 9/11 the view was we don't have any option. In South Asia there are a number of states that are struggling with governance, struggling with democracy. Nepal is the one that I think is most problematic and for India this threat of a failure of one of these states in the region in terms of spill over in terrorism and other areas is very real and very direct. So it has created a common world view that allows the U.S. and India to cooperate much more, not just on the narrow sense of counter terrorism but in dealing with these borderline states that are struggling for stability.

(Mr. Tanino) Maybe we could entertain one more question.

(Mr. Hara) I have a question about the United States. Up until 2004, I was in India in charge of India at Mitsubishi Trading Company and right now I am with the Japan-India Business Association. Hara is my name. As we have 4 important countries gathered here today – Japan, U.S., India and China –for them the most important challenge has to do with the energy. U.S. being the largest oil importer; U.S., China and eventually India will become another major oil importer. For those countries to resolve their challenges actually, the solutions available to them are so limited. Practically speaking, the realistic solution to this question could be the peaceful use of nuclear power. Thus, when President Bush visited India, he made such option quite feasible for India. Right now, Japan and China are on the negotiation table over the exploration of the gas field in the East China Sea, but if the economic development further expands in this region, then so will the demand for oil. Under such circumstances, if the United States is to take an initiative as a global leader, China, India should be involved and Japan. Those countries should be involved for their peaceful use of nuclear power and at the same time try to come up with the compliance with the Kyoto Protocol, whether it is the United States or the United Nations that would make such arrangement possible. That will require the leadership on the part of the United States and Japan as well. I'd like to know what the stance of the United States in this question is.

(Dr. Green) In January, the United States and Japan, Korea, Australia and India and China met in Australia to talk about clean energy. That kind of multi-lateral cooperation and dialogue on energy development is very important. I think as India looks at its future, as china looks at its future, there is nervousness about where all the energy is going to come from. There is an instinct sometimes particularly among our Chinese friends to be very mercantilist and look for long term investments that will secure that energy. It sometimes leads to the situations, for example in the Senkaku Islands as we saw in yesterday's negotiations between Japan and China. It sometimes leads to very hardened positions. But ultimately the energy market in the 21st century doesn't work like that any more and multilateral investment is necessary from the perspective of financial risk and technical risk. And that's why things like the meeting in Australia should happen more often. Because at the end of the day a multilateral

investment, a multinational investment in development of the Siberian or Yakucha fields or the Senkaku or others is going to be economically more viable, it's going to happen faster and it's going to reduce tension. You're right it comes to leadership. The U.S. tried to kick start, tried to get going some of those discussions in January, hopefully there will be more of it, and it ought to be a topic in places like APEC or even in East Asia somewhere I suppose because the economic realities are out of touch with the sort of nationalism. It's driving a lot of developing countries to grab for or grasp natural resources or those who are searching for them.

(Mr. Tanino) Thank you very much. Now, I'd like to turn over this microphone to the co-Chair of the afternoon session, Dr. Narayan, but we have the afternoon speakers now, so let me re-introduce the speakers. Mr. Akiyama who is the President of the Ocean Policy Research Foundation. And then Mr. Tanaka who was the former Deputy Minister of the Ministry of Foreign Affairs; and this side is Mr. Osamu Watanabe originally from METI but currently he is the Chairman of JETRO. We'd like to now turn to the co-Chair Dr. Narayan.

Session 2: Towards a more deepened Japan-India relations

Theme1: Strengthening of Economic Cooperation

(Dr. Narayan) Also on the dais you see Dr. Suman Bery, director General, NCAER; and Raja Mohan is up here as well; Mr. Stephen Cohen. So I think we could... and the interesting part of the afternoon which has been kick started by Dr. Green is that we have moved from the larger view to more specific questions and to the more specific agenda and I think this is where the afternoon session will probably take us. We have a frame, we have a background in the morning and then there are specific issues which are going to be probably addressed in the afternoon session. So without further ado, can I call on Chairman, JETRO, Mr. Watanabe to make his presentation.

(Mr. Watanabe) Thank you Mr. Chair for the kind introduction. My name is Watanabe. I am a Chairman of JETRO. I'd like to briefly discuss the current status of the Japan-India economic cooperation as well as the new development that we are seeing right now.

We heard a presentation by Dr. Green as he rightly pointed out Japan started to

focus increasingly on India in terms of the investment and trade related inquiries received by JETRO now exceeds 40,000. But back in 2002, India ranked number 20 in terms of the lob of interests but last year they became one of the top 10 countries that entered the Japanese business communities reflecting rising interest on the part of the Japanese business community. In terms of Japanese investors, there are about 330 enterprises in Japan out of which about 100 or one-third of them started to make an investment in the past 2 years, again reflecting the rapidly increasing level of interest among the Japanese business community. 80% of them are related to either the automobile industry or petrochemical industry, and 80% of the total investment is made in the Bangalore, Mumbai and greater New Delhi region. Among 330 Japanese companies, 90% of them are large sized corporations that are currently investing in India. As we conducted a survey every year on 330 companies, and according to the survey in 2005 those who stated that the investment was profitable accounted for 48%. In other words about 50% of the Japanese investors said they are making profit. Once again keep in your mind that about one-third of them started to make an investment in the past 2 years. Those who are interested in expanding their investment in the coming years were 90% among who responded. Actually those numbers are higher than the survey result in other countries. For instance, about 28% of the investors investing in ASEAN in 2005 stated that they made profit, therefore the percentage of the profitable companies in India are higher. And I said that 90% of the Japanese investors are willing to increase their investment in the coming two years or so compared to 80% who said so for the investment in China. But if the external investment by the Japanese investors is 100, then in the past 2, 3 years in 2003 or 2004 in terms of the cash flow, China accounts for 8 to 9% in terms of the share. The ASEAN about the same level of the investment but when it comes to India it's only 0.3%. In other words the current level of the investment in terms of the size of the investment is rather small. But on the contrary, from 1951 to 2004 in terms of the cumulative amount of the investment, historically speaking, Japanese used to invest in ASEAN countries which accounted for 9.3% - China 3.4% on a cumulative basis although their share is expanding rapidly. And again India 0.3% even on an accumulative basis. Thus as of now, as Dr. Green stated, Japan and India relationship has just begin. But in the past 1, 2 years it started to grow very rapidly. That's the current status or situation and since last year we have seen various developments including the visit of India by Prime Minister Koizumi. Thus we have also witnessed rising interest between the two sides. And

against such a backdrop, especially India now voices and calls for more investment made by the small and medium sized enterprises in Japan. You know that India has an advantage in their service industry, tertiary industry, but their manufacturing industry is lagging behind, therefore they want to induce more manufacturing industry. To do that, they need to increase the number of small and medium sized enterprises so that they can form the downstream industry. That's why they are interested in inducing investment by the small and medium-sized enterprises, that is, in February this year, and through the initiative of JETRO, the investment and business promotion alliance mission with 73 members was deployed spending about a week in New Delhi, Bangalore, Chennai and Kalyan. They are engaged in the business discussion. Mr. Akiyama, Indian expert acted as the senior advisor to the mission. In a nutshell, the majority of them were small and medium sized enterprises less experienced in investment in China and in India. But all of them were invited by Prime Minister Man Mohan Singh to his official residence and he was quite eager to listen to the discussion with them which greatly impressed the members and the delegation. At the same time in 4 cities they were engaged in 360 business talks and many of them all quite promising are still going on and thus members were quite satisfied with that mission. One-third of the companies that participated and the mission said they want to once again visit India for further talks with Indian counterparts, and 14 out of 73 participants were companies that already active in ASEAN. Many of them stated that they want to expand their investment. Thus we have a good promising outlook about the impression by the mission participants. In May or June the Minister of Commerce and Industry, Mr. Kamal Nath would bring his mission with Indian enterprises to hold a seminar which we're willing to support and at the same time, the joint study group involving both private and public sectors has been organized 4 times or so; and in July the report will come out from that study group where both Japanese side and Indian side would suggest what are necessary in terms of the policy modification changes for further expansion of the Japan, India, the business relationship expansion, and eventually that would lead to the talks on EPA. That's my personal observation, it's quite uncertain as to how certain it would become but in return of the visit by Prime Minister Koizumi, sometime between June or July, if Prime Minister Singh comes to visit Japan, then probably that may be about the time to kick off EPA negotiations. Then in February next year, large scale trade fair will take place in India where Japan acts as a partner country, thus throughout the Japanese industries together with

JETRO, all of us would contribute to and cooperate with that the trade fair so that we can further expand ties between the two countries. But given the share size of investment that has been made so far together with the current status of the infrastructure in India as we discussed in the morning, the saving rate as well as the speed of the FDI, as well as the size of the FDI, on those 3 questions if you compare India and China, I have to say that China is far ahead of India because China started its reform in 1978 but India started its reform efforts in 1991. Thus there is a time difference of about 13 years and that difference could be accelerated therefore in terms of the speed of the development. I have to say that compared to China, India is still slow to expand virtually speaking yet. Given such new initiatives for reform and to the initiative of Prime Minister Singh, they are now welcoming the FDI and foreign capital so that they can eradicate poverty instead of traditional inward looking approach. At the same time their population includes numerous younger generations therefore eventually their growth rate would come to catch up with China and eventually make outperform China.

As to the relationship between India and ASEAN, the EPA and the free trade agreement negotiation has already begun. By around 2011, ASEAN and India would complete the FTA. Right now between ASEAN and China, ASEAN and Japan, and ASEAN and Korea....are okay, are currently in the FTA negotiation. By 2012 the bilateral FTA would be complete between ASEAN and those 3 North East countries – that is, ASEAN -China; ASEAN -Korea and ASEAN -Japan – about the same time as the conclusion of the FTA talks between India and ASEAN. When China acceded to the WTO, they made several commitments, and it is around 2007 that they will fulfill all the commitments that they made. For instance the tariff on the car will be reduced to 25%, retail industry will be liberalized among others. Until those commitments are fulfilled, they are still in the first phase and after they enter into phase 2, around 2008, we will eventually see the rising voice calling for further reform in China. Therefore, further liberalization would be placed on the agenda between Japan and China around 2008 meaning ASEAN plus 3 would individually complete their FTA talks and Japan and China would start its negotiation in 2008. So that if the negotiation would take about 10 years, by 2020 the East Asia free trade agreement would be reached among all the states in the region. Because India, ASEAN, FTA would be complete by 2011, the greater East Asia free trade arrangement that would be complete by 2020 would include ASEAN. That's my long term perspective and this concludes my presentation. Thank you.

(Dr. Narayan) Thank you very much. I think that was a very comprehensive road map of the entire relationship looking positively growth oriented forward and during lunch we were just discussing the fact that it is interesting that the individual Japanese investor is today very ready to invest into the Indian market. We were told that the mutual funds get over subscribed and in 2 to 3 days about 8 billion dollars which has gone into India in the last one year. So the individual investor is very keen on India but the corporations are taking so much time to get into India, and this is a conundrum I think which we need to think about. I would now like to request Mr. Suman Bery, Director General of the NCAER for his comments.

(Mr. Bery) Again about 10 minutes, Chairman? Thank you very much Chairman and let me first start by thanking the organizers for giving me another opportunity to visit Tokyo, which is one of my favorite cities in the world. Just a brief word about myself and the organization I'm with.

I'm an economist and the organization, the National Council of Applied Economic Research is in fact an independent organization although we do a lot of research for government. We do research for a number of other entities as well and the reason for my interest and to some extent knowledge of Japan is two-fold. One is that the Japanese embassy in Delhi has entrusted us with certain studies about the Indo-Japan relationship and perhaps based on that I am a non-official member of the Indo-Japan joint study group that was referred to by Mr. Watanabe.

The 2 themes came to us – Indo-Japan bilaterally but also what I might call the quartet – Japan, India, China and the U.S. – and as a two-part presentation came to be focused upon at the presentations today, has got mingled in my mind and I hope that doesn't come across with confusion because I think that at least from an Indian perspective, the bilateral issues and the regional issues actually are quite closely intermixed. So I will be talking about them in sequence but please forgive me if I bring some of the larger regional issues into the bilateral discussion.

If you consider the quartet, Japan, India, China, United States, essentially there are 6 bilateral economic relationships and I would like to talk entirely about economics that potentially exist respectively between India and Japan, India and China, India and the United States and then China and Japan, China and the United States and then finally Japan and the United States. The striking thing is that every one of those 6 has been flourishing except India and Japan, and so I

think a question that does arise is very much like the sushi-samosas conundrum that Michael Green articulated, that is, why is it if, and again to use the arranged marriage simile, if we are being courted by so many other people and Japan finds it possible to date so many other countries, why is it that the two of us don't seem to be able to get together? I have to say that neither our research work nor the reflections within the joint study group have come up with a very convincing answer to that. I mean one doesn't like to use the term cultural because as an economist one tends to be an economic determinist. But really I think 2 points; one is that there doesn't seem to be anything specific that would differentiate the way in which Japan and India interact with each other from the way in which India interacts with China as we heard this morning or India interacts with the United States, and certainly as Watanabe-san has just said, currently things seem to be on the up. But really for 3 or 4 for really almost half a decade from the mid-90's on the relationship was even flatter than Ambassador Blackwell's chapatti. One possible explanation for this is that indeed a lot of the trade in manufactures that was originating in Japan has now shifted precisely because the location of a lot of Japanese production has shifted. It has shifted to ASEAN, it has shifted to China and so trade flows that previously were being recorded as bilateral trade flows may no longer be coming down that route, and I think it's a reasonable question to ask well if that is so, "does it matter?" I mean if the bilateral relationship matter or not. And my instinct as an economist is to say "no it doesn't matter." I have been quite critical of United States politicians focusing on the bilateral relationship between the United States and China as a reason for hammering China. There is really no basis in economic logic to focus on bilateral surpluses and bilateral deficits. So I think it's a reasonable analytic question whether we should worry about the bilateral relationship but I think for both economic and frankly political reasons my answer to that would be yes. And let me just spend a few moments on what I think each of the countries has to gain from the sort of deepened engagement that Dr. Green referred to before turning to what the implications would be more broadly for the region.

I think many of these points have already been made and it is one of the handicaps of coming towards the end of the program that I'll be repeating them but they perhaps bear repeating. I think for Japan it's worth asking the question why India is being so successful in the areas, that is – in outsourcing, in IT – and whether success is to be gained by Japan not participating in this particular relocation of economic activity, whether Japan is losing out. After all American

corporations who are the main clients of Indian firms are not doing it out of charity, they're doing it because they feel that in the overall value structure and in the overall competitive environment in which they operate both domestically vis-à-vis each other and vis-à-vis their competitors internationally, this is a cost effective way of reducing costs. And it may have started out that way in 2000 but by now I think people come to believe that there is also enhanced quality that is coming in through the outsourcing. So exactly in the way that Indians would like to buy Japanese machinery or Japanese technology in order to improve their competitiveness in manufacturing, you can argue that Japanese firms that are not exploring and exploiting what India has to offer in the areas of India's comparative advantage are probably losing out at an opportunity to enhance competitiveness. It is certainly true and this is a point that has come up in the joint study group that many of these services are being provided to Japan by Chinese firms because language is less of an issue, there is more involvement of student communities, etc. It's for Japanese firms to judge whether they are gaining services of exactly the same level of quality as they could from India. But at least that is the analytic question that arises.

The second point is a subtler point but I think it very much builds on to what Michael Green has said, which is in the newer areas, the services areas, things like fashion, entertainment, media. I think both Japan and India have a degree of soft power and the combination of the two could be quite powerful. We know the way in which Korea has progressed from manufacturing to things like pop music and cinema and things like this. Certainly Japan has tremendous reach in the world of youth from the manga to the anime etc. and these are the very parts of the new India that were mentioned this morning. So I would say that there are reasons why we might feel that we are missing out on something if the Indo-Japan bilateral relationship was not to deepen from the perspective of Japan.

Now what about it from the perspective of India? I think the point has already been made, let me stress it. I don't think any Indian economist, with me included, believes that India can realize its destiny without becoming a major manufacturing hub and a major exporter of manufactures. We have certainly gone about it in a very inefficient way but been through the kind of giant social transformation that China has achieved. China and India have been following in accordance with their sizes, a fundamentally different development path from the countries of Europe anyway because we do not have the empty lands that Europe did in order to improve its agricultural productivity. Both China and India essentially have

too many people on the land and these people's productivity has to be enhanced elsewhere so that those who remain behind others can enhance that productivity on the land. So that is the essential of the development challenges facing both countries. China was very successful in creating the township with enterprise and in using the entire FDI driven export model. That stage still lies ahead for India and I find it difficult to believe that that could happen in the optimal way without Japanese involvement.

Secondly, as mentioned both by Dr. Sakakibara and also by Dr. Green, in terms of demographics kind of labor intensive manufacture is gradually shifting its focus on from China to India and the main agents of that manufacturing boom have essentially been international investors from Japan, from the United States and from Taiwan, and so they have it within their power to undertake the relocation of that activity to India at an appropriate time.

These struck me as being the reasons for their focusing on getting more out of the bilateral interaction which as I say is unusually depressed and that makes economic sense. Well, let me just briefly in the few minutes that are left to me, just talk about why it might matter regionally and globally. I do think that we must all be stimulated by the example of the EU which succeeded in creating the security and incentive environment to encourage efficient specialization and innovation in an environment of financial stability. I mean all of us feel it too easy to secure 5%, 7%, 8%, 10% growth, but the experience for the 20th century shows that's not the way how it is. That countries do stumble at financial crisis does happen and I think it was an extraordinary achievement of Europe centered around the generosity of Germany to come up with an overall framework that allowed the development of the whole continent. We have to remind ourselves that in the 1940s and the 1950s essentially Greece, Italy, Portugal, Spain and Ireland, were effectively developing countries. So I do think that at least, from India's perspective, in order to participate in an architecture that provides that kind of stability to proceed with our and China's rise as developed countries, we do need a framework for this.

My final plea would simply be that the tremendous success of the flying geese pattern in this part of the world took place under, what economists call, MFN disciplines. It took place within a most favored nation framework, it took place within essentially non-discriminatory trading arrangements, and while it is unfortunate that the appetite for continuing those arrangements seems to be flagging particularly in Europe exactly at a time, certainly I think a country like

India is beginning to see what important stakes it has in that. So certainly cooperating in such arenas as the WTO is very important for both Japan and India, but I think the issue at a more local level is just as urgent. There was the mention in the press the other day that Japan is now contemplating having EPAs and FTAs earlier because they are worried about being left in the dust by Korea etc. I think the great achievement of the East Asian and the Southeast Asian development model and the reason for its sustainability is that it was efficient and it was efficient because of it was non-discriminatory and it was essentially on an MFN basis.

So I really do think that there shall be our efforts to try and recreate kind of circumstances of either the EU or the MFN in this region so that we might follow the development path that Asia describes is quite efficient rather than an inefficient protective one because, speaking as an Indian, I can only say we have seen that movie before and it doesn't work. Thank you.

(Dr. Narayan) Thank you very much Dr. Bery. That was very concise analysis of again the opportunities and the need for taking these relationships forward and I think we have an opportunity again of listening to Prof. Zhao on the China perspective on the development of the economic cooperation in this region.

(Prof. Zhao) Thank you Mr. Chairman. Because I am the only Chinese panelist in this group, therefore I have to present my views on two different subjects which are unfortunately not my research focus as a matter of fact. However, I'm very grateful for this opportunity to share with you some of my views. This afternoon I'm going to talk about challenges as far as Asia Pacific cooperation among the 3 powers is concerned.

The first challenge I think is about misperception of China threat. China's rapid growth is due outcome of its opening policy that has brought both benefits and competition to all the major players in the world. As far as Asia Pacific is concerned, there are two major indicators. One is China's trade in the region accounts for major and increasing power of China's total trade. And the other is China is increasingly inclined to a compromising gesture when trade disputes emerge. However, this is not a purely natural phenomenon. When the trade disputes mainly occurred between China and the West, China's trade goes much more to the Asia Pacific region and yet the theory of China threat mainly stems from and blooms in the West. Why China defends itself by criticizing the

unfairness of the West. Of the advanced world China seems to adopt a more compromising standing to deal with its Asian neighbors. In the meantime, China-Japan trade is continuing to boom reaching 189 billion U.S. dollars last year despite deteriorating political relations between the two countries.

As Japanese Prime Minister Koizumi and other senior officials in this Japanese government have reiterated in economic terms China is not and should not be seen as a threat. And the same has been said by India leaders too and witnessed by the rapid growth of China-India trade. China is already the second largest trade partner to India and expected to exceed the US in the years to come. There seems to be a consensus that China as a stake holder in the international system as argued by the United States, and first and foremost China is an economic stakeholder in Asia Pacific and its importance as such will continue to increase although rhetoric on China threat remains in other areas. That's the first thing about China threat.

The second challenge in my opinion is institutional frameworks in Asia Pacific. A number of regional institutions have already emerged in Asia Pacific including APEC and the East Asia Summit and also taking into account the recent development perhaps SARCA may also be included. In the meantime economists in the region are busy to negotiate FTA – the free trade area – at a bilateral level too. Apparently different countries have different priorities. The parallel development – I mean FTA at a bilateral sense and the regional institutions in the regional integration – this kind of parallel development shows there is no single institution nor mechanism in the region that is decisive in the Asia Pacific economic development and the issue for the major powers in the region is then whether there is a need for such kind of institution that would play such a role in regional economic architecture. And if so, it should concentrate exclusively on Asia or should include more members out of the region. We've got a number of various kind of practices, and so far we have not yet been able to see a positive outcome and the East Asia Summit is a clear example and we try to include more members out of the regime. Personally I am very much doubtful about whether Australia or New Zealand should be regarded as an Asian country, I'm not quite sure, but anyway it's included in that kind of regional institutions and the outcome of this is the Asia Summit. It seems to me it still looks like a talking shop rather than a substantial institution to push ahead substantial progress of economic cooperation integration among different bodies. Now I think the issue comes up again and again whether Asia really needs that kind of institution. If we need one,

maybe there should be a kind of just to cover the Asian nations or should exclude more countries out of the region from being included therein. This is a very serious challenge and also carrying some kind of political implications. And I think the reason why we need that kind of decisive single Asian institution, the reason is simple, without such a mechanism, without such a decisive and powerful institution it would be very difficult for Asian countries to reach a consensus when they deal with other major players in a global context. That's my personal view.

The third challenge is about political distrust, and the political distrust persists in this part of the world, and due to historical legacy and the geopolitical account, political distrust is the last feature in Asian architecture. And in many bilateral relationships of the region, political distrust often plays a role in economic affairs. In this regard, talking about measures for China, Japan, India and the United States cooperation, the issue becomes even more outstanding. And just now Dr. Green talked about, for instance, the future of India, saying that it is very predictable, about its democracy and about his foresight that it will develop into kind of moderately developed nation in the middle of this century etc. etc. In the meantime I remember that in the recent issue of the QDR, India just as China and Russia are listed as countries by the Pentagon as countries in strategic crossroads. If the future of India is so predictable as Dr. Green argues, what is the implication of this strategic crossroads in the White House mind. I'm not quite sure and I really want to raise the question to discuss with Dr. Green. Anyway about the political distrust, that's obviously a challenge. All the Asian powers are facing how to deal with each other and debates like engagement or containment are as a matter of fact not necessarily only limited to China-U.S. relations. When China argues for justification of a peaceful rise, its implication goes to security, and China's behavior in international system in the first place. But the real driving force on the Chinese side is its economic desire. That turns out to serve for China's domestic demands and I hope this point could be well understood by the outside world. China has done a lot to remove possible doubts over its rapid development and the point is mainly on economic rational. But the political distrust among major players in this region is more or less about ideology and the political system. That makes Chinese arguments less convincing. From Chinese perspective, China is a contributor to global economical growth and thus a promoter of world stability and global cooperation. On latter basis, China wishes to improve its economic relations with all the major players whether its political relations with them are good or not. China believes that political distrust

disputes should not disrupt or impose too much impact on economic affairs. This approach seems effective in all its economic ties with the major players in the region and Japan, the United States and also India in particular – all the 3 major players – when China talks about economic relations, there is a tendency that we can set this kind of political distrust aside. I think this is a mutual beneficial approach and hope this kind of approach would continue in the future.

The last I want to talk about possible measures to stress economic cooperation among China, Japan, India and the United States in Asia Pacific. First, transparency in political orientation, as aforementioned. As I said all the major players in Asia-Pacific have been busy with their bilateral FTA initiatives and negotiations. Although it is not necessarily bad for regional cooperation, the lack of transparency would be likely to cause suspicions among the players. Besides, the United States does not like any idea of an exclusive Asian mechanism or institution. Given the significance of American economy in the region, it is also imperative for major Asian countries to make better understanding with the United States before any serious discussion on relevant topics. The process of East Asia Summit proves that a strong Asian organization does not necessarily harm American interests, but American objection would harm the prospect of an organization like that. Secondly I think there is a necessity for compromise among the different players. The U.S. and Japan are the two largest developed economies, and China, India are the two largest developing economies. It is inconceivable that the 4 powers would always share common interests in either regional or global level when talking about economic cooperation. With the rise of both China and India, their comparative advantages are going to increase further leading to more competition between them in the global market and more friction between them and advanced economies like the United States and Japan. At the bilateral level contradiction would result in more barriers, and at the global level resulting in more disputes in multi lateral institutions as already seen in WTO. Since the 4 economies are highly representative in today's world, there might be a need to build up a mechanism among them to work out a consultation and compromise in terms of the trade balance, mutual investment, intellectual property rights protection, market access, etc.

Last, I think all the relevant parties should make more efforts for the symmetrical situation as far as economic exchanges are concerned such as trade and investment among the parties as professors, doctors have already argued. Among the 4 parties, India is in a relatively weak position now that India has built

up a domestic consensus for more opening of its economy and also has acquired a solid basis for growth. The chance is big for China, Japan and the United States to strengthen economic exchanges by investment and trade. In fact China-India trade has already seen a faster pace of bilateral trade increased by more than 50% on an annual basis. Last year when the Chinese Premier Wen Jia Bao Visited New Delhi, the two sides signed a series of agreements, with one of the focuses of this visit on improving trade relations, investment protection. It is well expected that bilateral trade will rise continuously. Given this context, China welcomes India to get more integration into Asia Pacific, and China would like to see more economic cooperation between India and other countries in the region despite a competitive nature. Between Chinese and the India economies, China believes that a strong and prosperous India would help stabilize the region and would provide China and other parties with even more chances for development. Now Japan is paying more attention to India, obviously good news from the Chinese perspective. In fact, all advanced economies have noted the Indian's steady and fast growth and more importantly India's potential. The situation would help not only fasten the pace of regional integration and the increase economic status of Asia as a whole but also create a more symmetrical development among the major players in a global context. On the other hand, the rise of India plus that of China is likely to make interactions among developing and developed countries more complex, which would in turn raise the importance to build up a new mechanism for consultation and negotiations among the 4 powers.

Thank you.

(Dr. Narayan) Thank you very much Prof. Zhao. I think we see there the intertwining of the politics and the economics. But 2 thoughts, one thought that as Prof. Zhao said, U.S. and Japan are the 2 strongest developed economies, and China and India are the 2 biggest developing economies. That itself gives an arithmetic for a need for all 4 to work together and to grow together. The other thought is that the problem with bilateral agreements, as many countries are perceiving, is that you enter into a lot of bilateral agreements and you end up with a spaghetti bowl of agreements with a hundred different countries, and it is in that sense that trade blocks, whether they are the NAFTA or European Union, and necessarily at some stage an Asian trade block becomes important because you don't have to make differential concessions within the block, uniform concessions within the block particularly in regions where trade is growing fastest. It adds to

efficiency, it adds to speed of trade, it adds to the faster circulation of trade particularly when you see, as Dr. Green said, products going from ASEAN, from country to country ending up in China, and in recycling it makes more sense to have a regional agreement rather than bilateral agreement. These are all kind of economic issues of trade logic which would probably move forward rather than the politics of the moment of the trade alone.

I think we have a little time, not too much time for questions, but first can I ask any of the panelists whether they would like to say anything in addition to what they have said, whether they would like to react or anybody.

(Dr. Cohen) I think we've heard some excellent presentations on the development of the Indian economy, and all of what I've heard is true. I've seen not only the Indian economy physically change but I think Indian attitudes towards growth and towards international investment partnership have been transformed. Yet it's important to remember the countries like India and like China has enormous mass of poor people. It today still has half the world's poorest people. They benefit to some degree from this growth but obviously not everybody benefits quite as much as the growing Indian middle class. So I think that has to be kept in mind that as a democracy, Indian politicians have to accommodate and deal with this large group of voters basically who have their own interests and their own concerns. So I do agree with just about everything said in terms of the rate of development of Indian growth. There is perhaps what we could call a democracy tax that is because the politicians and the bureaucrats have to be very sensitive to public opinion to get re-elected. There are certain inefficiencies in this system or certain efficiencies are prohibited by politics. But over the last 10 years we've seen barrier after barrier fall. I'm very confident that the rate of change in India will continue to accelerate but we still have to bear in mind that it has come a long way from where it was in 1990. Thank you.

(Dr. Narayan) Thank you. Dr. Bery.

(Mr. Bery) Just on two issues actually which are sort of linked. One is this business of India, being the infrastructure deficit and the reform having started later and also the point about equality, just some kind of correctives to some of the points that have come up in the morning and in the afternoon.

Firstly, there is no concrete evidence that the growth process in India has

actually worsened the income distribution, but I think it's the old point, I think it was that Machiavelli made, which is that once you can see growth around you, you get impatient. So there is a political pressure but I am not sure it is right to say that is a response to worsening inequality.

The second point about the infrastructure deficit is that is certainly the case today but what I understand is that a lot of the infrastructure investment by China has been relatively recent and China is now a country with roughly double the per capita income of India. It's also a country with a much higher savings rate, perhaps an excessive savings rate. So I think the point that was made this morning I forget by whom, it may have been by Ambassador Tanino himself, is an important one which is that India's willingness to explore the public-private partnership model – no it was Mr. Bhargava I think – of infrastructure provision is courageous because it is not clear how easy that is to pull off, but in some ways it is a kind of a commitment to a private sector led model. I'm reminded of a comment made by a professor at the Harvard Business School, Sara Canan who co-authors with Yasheng Huang. His overall judgment in an issue of the McKinsey quarterly was that if you look at India and China over the last decade, on the whole I think it is fair to say that China has been brilliantly successful at managing its intervention in the economy but it remains an interventionist scheme. What India has been trying to do, and perhaps this is an admission of failure, is actually a more consistent withdrawal of the state from economic management. So that may produce slower dividends in the short run but it creates a certain amount of optimism over the longer run.

If I could there was one other point. I just wanted to say that I don't think that the 79-91 comparison is quite fair because really if you read the OECD report on China, most of the things that have made the difference - in 91 China was not that different in economy from India in 91. It's just that from and after all they had the legacy of Tien An Men to deal with, they were as much as in the dark as we were after 1907. But there was just very courageous policy making in China as Prof. Zhao has mentioned, and they had their own political constraints but they went ahead with the WTO accession, they went ahead with trade liberalization in a very kind of pure way and I think India has lessons to learn from both Japan and China – Japan in its explosive growth period in the 60's and China in the 90's.

(Dr. Narayan) Thank you. If there's no comment from the panel, can I turn it over to the audience for any questions or any comments, anybody like to intervene.

(Mado Chandan Ghosh) I'm Mado Chandan Ghosh, I'm a visiting researcher at Waseda University, political science. I'm from India, doing my research on India-Japan relations doctoral research. Basically I'm focusing on political and economic relations of India and Japan. So this seminar is very useful from my research perspective. My question is to Mr. Osamu Watanabe. You are talking about India-Japan economic cooperation and what are the areas India and Japan economic cooperation can succeed further? But over the years, if we look into the issue, agricultural subsidy, we find that there has been a sustained difference and approach between the two countries. How do you think the two countries are going to resolve this issue of agricultural subsidy. Thank you, sir.

(Mr. Watanabe) Thank you very much. First, about the relationship between Japan and India, one of the points that I'd like to make here is that according to the recommendations by the study group and the process of the EPA negotiation, concrete ideas will be put forward for possible cooperation between the two sides. In general it is in the field of the IT industry that currently employs about 5% in India. Therefore it points to the need for further expansion of the manufacturing industry in India, and for that purpose SMEs have to grow further, and that's where Indian government should formulate measures to develop SMEs as well as the downstream industry to be expanded based upon the investment made by Japan. By so doing, we hope that the huge investment be made for the manufacturing industry including parts and components manufacturing and the downstream section.

Another point being the poverty eradication as well as the rural development and liberalization. Under Prime Minister Singh, they are eager to promote rural development which is critically important, and handicraft industry as well as agro business, the food processing might be the areas that should be supported for further expansion. That's where the government of India has to place priority in its policies, and according to that in order to upgrade such development and for technology transfer for instance, what was experiences between Japan and Thailand, that is to produce the unique products in each community to develop it as an industry, that could be the example that could be followed in India and that's where the Japanese industry can cooperate. That is the support for the downstream industry for the manufacturing industry as well as poverty eradication and rural development. Those are the two major pillars that should

be important in the future development of economy.

(Dr. Narayan) Thank you professor, but I do think that the issue of agriculture subsidy will continue to remain a naughty issue in trade negotiations for some more time.

(Mr. Komizo) Komizo is my name, I'm from the Foreign Affairs Ministry and I'm in charge of the peaceful use of nuclear energy. I'd like to ask a question about the development of the manufacturing industry as well as the SMEs development and the rural development. Prof. Zhao, I have a question. In the case of China, heavy industry has developed in the rural area, however, it produced some adverse impact in terms of environmental pollution. Therefore, although various efforts are made by the big enterprises for improving environment, what has to be focused on in the future is how to improve the environment in the rural area where heavy industries have developed. Based upon the experiences and China, how can India go about insuring sustainable development of the rural area? What kind of advice do you think you can offer to them?

(Prof. Zhao) Because I'm not an expert on that, as far as I know you are right that over the last 2 decades a lot of Chinese heavy industries have moved from urban area to rural area where pollution is produced. Anyway if the heavy industry is located in the urban area, pollution is still there. That issue for China, it's a serious challenge China faces – how to solve the pollution problems in general; not about because its in the rural area, the importance is less in the urban area is more important, it doesn't make sense. It's not the obligation or the responsibility of legitimate government. I think as far as I know Chinese government has paid increased attention to environment protection and try to get more international cooperation in this regard. I think China and Japan have developed very well communications on that area and also in the past years when Japan still gives China ODA and the large part of it actually were put in environmental protection. Yet however, China is a developing country and still a long way for China to go before it really correcting all these mistakes. As a matter of fact these kinds of mistakes are still going on and it has caused enormous problems for the nation and all the Chinese people and the media alike are fully of this serious problem and therefore recently, over the last 1 or 2 years I think, the new leadership led by Mr. Hu Jintao Raised the new slogan that is supposed to be known as scientific

development is much more important than GDP growth. And human society – social harmony and human harmony is much more important than wealth itself. I think this is kind of a new policy and a change of ideology on the ruling party side in the meantime how to implement all these increasingly strict measures for environmental protection is a very serious issue for all the enterprises. You know that in china now private sector is increasing very fast and accounting for larger and larger part of its national economy. The regulations, relevant to regulations, in terms of environmental protection, are very much difficult to be implemented to those private enterprises, and both of them are very small. Therefore I think this environmental protection, this pollution is not only about heavy industry but also about these small and medium sized enterprises located everywhere. Thank you.

(Mr. Bery) Because you're also asking about India, I would say firstly I think its fair to say that concern about environmental issues seems to arise at lower and lower levels of per capita income as humankind progresses. I think that in Victoria in England it was probably at the equivalent of double where China is today; in the case of Japan it was probably somewhat higher where China is today. So this is something that we are all becoming alert to and there is no easy answer because there is thought to be a trade-off between environmental concerns and growth, maybe its more apparent than real. That's the first point.

The second point is that there are ultimately as India has said on many occasions its our official policy that the surest antidote to environmental issues is wealth, so you don't want to get in the way of wealth creation unless you absolutely have to. Secondly it is often the case that environmental – misuse of the environment reflects poor policies, pricing policies in particular. And I for one would lay more store on pricing policies than on enforcement.

The third point is that the world as a whole has become much more conscious and has developed technologies for dealing with these issues and therefore one of the dividends that we get both China and India out of a) being open economies, and b) having access to the full shelf of technology, is in part that the trade-off between the environment and growth perhaps can be somewhat less fierce in the way as is demonstrated by the whole civil and nuclear deal.

(Dr. Narayan) Thank you. I think we are well past our time and I take this opportunity of thanking the panelists for an excellent presentation and for sharing their views with us. The issues of environment as well as energy securities are 2

issues that I do feel that we are still during the course of today's discussion are still up in the air. We haven't really talked about it adequately but maybe in a one-day seminar its not possible to deal with all the issues together. So I would now complete this panel and turn it over to Ambassador Tanino to take on the last part of the proceedings, and that is the strengthening of political and security cooperation issue.

Theme 2: Strengthening of Political and Security Cooperation

(Mr. Tanino) Thank you very much. We are already 20 minutes late to start this session – the last session today. I'd like to ask you to persevere a little bit more. In the first part we talked about economic cooperation, but now we will turn to the politics and the security area where we will enhance, strengthen the cooperation. There will be 4 distinguished speakers. A student, Mr. Nagao, asked a question earlier that is ready to counter terrorism, how India and Japan can cooperate in the field of struggle against terrorism. In the East China Sea the resources, for example the oil and gas development field where India might be able to participate, and the Japan-US Alliance is now put in place. But what about the possibility of the alliance between India and Japan, or maybe some kind of good cooperation between India and Japan. Mr. Akiyama is very much interested in the anti-piracy, the pirate problem, so Mr. Akiyama is the first speaker.

(Mr. Akiyama) Thank you very much. The time is so limited so I would rather speak not the piracy issues but maritime security issues.

We have been discussing about economic issues but we must not forget that there is a maritime transport of goods. Out of 2003, 6.5 tons of products were transported over the sea and now reaching nearly 7 billion tons. According to the U.N. statistics 40% goes to Asia. And cargo on the ship 40% is oil and LNG. So that is the movement by ships and that supports the development of economy in the world. Japan is situated in the North eastern part of Asia. India is situated in the South Western part of Asia. There is no need for me to explain, but there is a sea lane or sea lines of communications (SLOC). It is very important for both India and Japan. I would like to add one thing that is so-called SLOC sea lines of communications. I would like to call this consolidated web of communication (CWOC). So there are chalk points in these sea lanes, not only the Straits of Malacca, Andaman Sea, The Southern part of India, Holmes Strait, Indo China sea

areas. There are many chalk points where vessels assemble to pass through. Not only that, we have a Hub sea port. A huge number of vessels anchor in Hub sea port. So the challenge is how to secure safety and security for those vessels import and on the sea.

So let me talk about the threat on the sea. Of course, piracy is a very serious issue, but in the interest of time I will skip the pirate issues. The serious issue is that maritime acts of terrorists and combination of pirates and group of terrorists. Tug boats are often seized by the pirates. Tugs boats are often stolen or seized by pirates, hijacked yes. Tug boats are often sold for construction work however the parts are in the hands of terrorists. They use tug boats to engage in terrorist acts so we can expect horrendous acts of terrorism by using tug boats. For example, large LLG is anchored or passing through the Malacca Strait and if that is sunk by the terrorist attack, there is serious damage not only on economy but on the environment. Suppose the whole Strait is blocked for some reason, what would happen? I think international cooperation is the only answer to solution of those issues. It is next to impossible for each country to protect and secure sea lanes for themselves. We have bilateral, multilateral cooperation or international organization or maybe, you may not agree but, there is an initiative taken by super power like the United States. The initiative taken by the United States is internationally influential.

A student on the floor asked about counter terrorism, and anti-terrorism measures are now being taken by multi lateral cooperation, but bilateral cooperation is also important in our counter terrorism activities. Beyond 200 nautical miles we depend upon the United States for the security of sea lanes but Indian Sea and the Arabian Sea, we have Self Defense Forces vessels there. But can we depend upon the United States for the security? Suppose Strait of Hormuz is blocked, are we going to ask the U.S. to help us? In that case we'll have to cooperate with India. In the case of around the Arondra-Rainbow Indian navy did a great job.

I'd like to share with you 2 or 3 challenges and then will stop talking. This is a kind of request to the Japanese government. Please allow me to say this. One is that Maritime Self Defense Force of Japan, they will have to protect Japanese vessels, but the law complicated the process because of article 9 of the constitution, Maritime Self Defense Force cannot engage in war because of the constitutional issues. So in the peace time we will have to solve those constitutional problems. It is important to have security between India and Japan. What can we do for

India. We do not need to change constitutions, we don't have to enact the law, we just reform law so that we the Maritime Self Defense Force can protect our vessels. Of course, collective self defenses should be solved. Whenever I visit India or Indonesia I feel that India is a sea power, maritime power. But when it comes to ports or shipbuilding or maritime transport, they are not a big power. India is expecting Japan to transfer technology. Minister Kamal Nath said we don't need ODA any more, we need technology. That is what the minister in charge of industry said. But most of the shipyards in India – 80% of shipyards are used for military vessels, so if Japan is to help them then Japan cannot do that because we are bound by Article 9 of the constitution. But we buy weapons from the United States and we have technological exchange with the United States, why can't Japan give technology to India because we have 3 principles of non-military.

Another one I would like to say, it may sound rather controversial. In 1988 I tried to have a security dialogue with India at the level of Vice-Minister of the Defense Ministry but because of the nuclear test by India, we were not able to have this meeting. And 5 years later, we were able to start the security dialogue with India at Vice-Minister level. We'd like to discuss about NPT with India. Your act is rather fundamentalist. I would like to be rather realistic. Japan should have a realistic response to their position on NPT otherwise we cannot secure security because there would be a persistent nuclear problem between India and Japan.

I tried to start Japan's initiative like Mr. Kaneko Kumao. I would like to have the NPT phase 2 started as soon as possible. I might have been provocative but thank you very much.

(Mr. Tanino) Thank you very much for your powerful and enlightening talk. If I dare to say that the Japanese Parliament has been confused by the e-mail scandal and is their activity very much effective? They the politicians should really discuss these matters more seriously in the Japanese Parliament if I may dare to say such a critical comment.

Now I would like to introduce the next speaker, Mr. Tanaka.

(Mr. Tanaka) Thank you for the introduction. Actually in the last 5 years I was Director General in charge of the Asia-Pacific region as well as the Deputy Minister for Foreign Affairs. I was in charge of Japan-India relations directly at the Ministry of Foreign Affairs. From the rational standpoint, Japan and India's relation should naturally develop more and expand. Strategically, yes, India is the

largest democracy and India shared the same values with Japan so we should really expand our relations with India and there's room for further expansion, everyone agrees with me. I talked to our counterparts in India and engaged in different negotiations, dialogue and so on, but in reality, in practice, no breakthrough took place so far. In reality, in economic cooperation, all these politics and the security exchanges and cooperation, we lack a driving force to make a big breakthrough and that I think is the status quo of Japan-India relations. In the past there were certain barriers for the development, as Mr. Akiyama pointed out that India tested the nuclear bombs and then that the nuclear issue became a barrier; or India-Pakistan conflict was another barrier in order for Japan to really expand the bilateral relation because these specific issues curtailed Japan's initiative to try to have better cooperation. By year 2001 I was criticized by the Parliamentarians politicians and I lifted the economic sanction on India after the nuclear test, and after the lifting of the embargo Japan's ODA to India expanded and India became the world's largest recipient of Japan's ODA.

In politics and securities we talked about securities as well as counter terrorism and negotiations we have dialogues, but I don't think that is still sufficient. Unfortunately it lacks substance. So how can we solve this problem, improve this situation. I think we need some kind of driving force, in other words some kind of intellectual framework is necessary. So what's that? Recently East Asia 2020 is the key word I advocate. Mr. Osamu Watanabe, the former METI official also advocates that as well. The real serious issue for us is 2010. What will happen in this region in year 2010. The U.S. and Japan is not growing. We used to say that 20 million population growing in the past, but by 2010 China and India will expand. Several billions of population of the world, so they need demand – food and energy and other resources. So stable growth is a challenge for both China and India, and their stable growth is a big benefit to this region but it's not so easy. Unless big policy measures are taken, it's so difficult to achieve this stable sustainable growth. I think the bilateral relation should have that concept. East Asia 2020 that is to create the good East Asia, and Japan and India should cooperate, and I think that should be integrated in this bilateral relation.

Of course India is a member of the East Asia Summit and joined in last December, so now East Asia needs to be improved that is good for India's development as well and for Japan as well. So in that broader context and framework I think Japan and India should try to work together and that should be the driving force. Naturally some of the challenges or bottlenecks of the bilateral

relation will be identified, economically we should create a bigger market, the energy and efficiency should be pursued, and better environment, environment measures, and better governors is another concept we really think about. From that standpoint what about the issues in Myanmar, between India and Japan we should maybe not just leave the matter as it is. Is it really tenable and just alright for us to just keep Myanmar in tact? Maybe India's policy needs to be changed towards Myanmar and so on rather than non-intervention, but rather we should have a grand goal of East Asia 2020. You have to sometimes intervene and be involved. The current state of Myanmar, should we just leave it as it is? I think that will actually undermine the credibility of East Asia on the whole. Japan has suspended the assistance with Myanmar but if India continues to expand the assistance to Myanmar, I think that might have adverse impact upon the stability and better East Asia in this whole region. I think that might be wrong thing for the two parties.

There are 2 other issues. The non-traditional security issue is another matter related to security. As a student asked earlier, we talked about this so-called hard security and current Japan-U.S. security framework and Japan-Korea or U.S.-Australia and so on. There are different networks being created and then that provides some kind of public goods to the stability of East Asia and this situation will continue. But what about the cooperative security? We can have lots of cooperation in terms of the security – non-proliferation is one area. Japan cannot say that India is a non-nuclear weapon state because that is related to Japan's national principle. But that doesn't mean that if India does not take the rigorous control of the nuclear facilities, that's not desirable because there could be cooperation between the two countries that with control in areas where Japan could extend cooperation to India. So that could eventually contribute to creating better East Asia or anti terrorist measures are the same thing, anti-piracy as Mr. Akiyama talked about is another area where we could further extend our cooperation in that grand context of better East Asia.

I think the Japan-India cooperation needs to be expanded and there needs to be intellectual framework that is to better improve the over East Asia. So this cooperation should become a part or like a habit. Japan-India consultation should become just a normal habit and regular thing. That I think is necessary for us to make it a habit. As Dr. Green earlier told us about this EAC or the East Asia Community, and this EAC in creation of such a community is not important per se. Establishing that institution is not the serious matter but rather what kind of

cooperation is desirable, what kind of format organization is necessary for the better East Asia. I think that should be the grand goal. ASEAN plus 3 is existing organization and East Asia Summit is another one, that's the current framework. Basically these are appropriate frameworks, but as to organization, we don't need to have further discussions or chat any more. I think what is important is so-called functional cooperation, and countries that can extend functional cooperation should have a specific agenda. Naturally in that process the U.S.A. will be involved and Japan-India cooperation will be a part; Japan-China-India cooperation is a part; Japan-US-China-India cooperation I think are also important. That is a kind of functional cooperation is important for economy as well as for the non-traditional security issues as well as the tsunami problems like human securities for example HIV Aids problem or the AVIAN flu and other problems. Regional cooperation could be possible with extended membership I think would create part of the driving force to further enhance the Japan-India relation. Thank you.

(Mr. Tanino) Thank you very much. For the creation of better East Asia various suggestions were made. Allow me to say just one word. Talking about India, its relationship with China and especially for the past 5 years ever since Prime Minister Koizumi assumed his office, there is a lack of high level exchange between Japan and China because of Yasukuni Shrine visit. Because of that, such an important relationship between Japan and China has become the hostage of the Yasukuni Shrine visit. That resulted in the great loss for both Japan and China. I believe it is not just Japan that should be blamed for it. I have a strong opinion against China and its policy but with that I would like now turn over to Mr. Raja Mohan. He is a world renowned journalist. He can go anywhere he wants to in the Indian Government.

(Dr. Mohan) Thank you Mr. Chairman. It's a pleasure to be here. In fact I had the privilege of being here at the initial seminar in 2003 as well as the second one last year in New Delhi. And since we started this series clearly we have come a long way with growing interests both in India as well as in Japan on expanding both economic, political as well as security cooperation between the 2 countries. While there are no big breakthroughs as Tanaka-san said, I think the expanded engagement probably is getting us closer towards that long-awaited breakthrough in the coming months and years.

There has been much talk about China and India this morning – the rise of China, the rise of India – but I think one point we have not underscored is the new phase of Japan itself that it's very well to talk about rise of India and China, but the fact is in the last few years Japan itself has gone through a dramatic political revolution. And whichever way you look at it, there's no question that Japan is now destined to play a much larger role in Asia and in the world. While the rise of India and China stem from economic factors, Japan has always been for quite some time, been the no. 2 economy. But the significant aspect about Japan's transformation is that the kind of political restrictions that were imposed upon Japan since 1945 are now being broken up, and the unshackling of Japan, along with the rise of India and China, marks the emergence of simultaneously of 3 great powers onto the Asian scene. So it's not just rise of India and China but also the political unshackling of Japan which has already been a powerful economic player. It's often said the rise of one power itself produces instability, but Asia is big enough to absorb 3 rising powers, shall we say, at the same time. Traditional theories, of course, would suggest then this is going to lead to extraordinary instability, but my sense is unlike in the past, today that the rise India, China and Japan is taking place in the context of expanded and deepening economic integration within Asia. That whatever might be the problem on Yasukuni Shrine, Japan and China cannot run away from the fact that both of them are each others largest trading partners. Therefore the economic integration has provided a different basis to think about the rise of India, China and Japan as opposed to the traditional comparison with the rise of Germany and stability in Europe.

In the case of India and Japan, the fact was that India and Japan did not have any direct clash of interests throughout the last 60 years. In fact there have been no negative sentiments towards Japan and India. In fact, Japan has the highest positive ratings of any country in India. But the fact that by the early 60s, I think, both India and Japan ended up on the opposite sides of the Cold War was what prevented political cooperation. And in the 1990s after the Cold War, the efforts that we made to find a new political basis have not fully succeeded, but now I believe that as India's own international relations begin to change, I think a new basis is being created and what I'd like to focus on is really to highlight 5 broad areas where the new convergence is going to emerge between India and Japan in relation to security and political cooperation.

The first area of potential cooperation is the question of Asian balance of power. It's fairly clear that whatever we might seek, neither Japan nor India would want a

uni-polar nation – whether it is America which wants to dominate Asia or China which wants to dominate, neither India nor Japan would want to see a uni-polar Asia. Nor would Japan and India want a bi-polar Asia whether it is rivalry between U.S. and China which we don't want to see, we don't want to see a replay of the Cold War, but we also, I'm sure, don't want to see the condominium between China and the United States. Most of us remember how both India and Japan reacted to Clinton visit to China in June 1998, the talk about Japan bashing and India was afraid of China-U.S. condominium. But fortunately I don't think either of these is going to be possible uni-polar and the only option is really for constructing a genuine multi-polar Asia in which the interests of all the 4 major powers would be taken into account. How can we construct what is going to be the real challenge for us and that would require expanded engagement among all the major powers in Asia?

The second important area, I think, is the one where India and Japan can work together. Much has been said about economics, but I want to bring in a political dimension of economic integration in Asia and especially in India's neighborhood especially the SARC region. As we all know that both China and Japan are going to be joining SARC as observers in the coming months – by next summit, you should have both China and Japan in it – and that traditional geographic distinctions really don't apply especially in relation to South Asia because the two facts stand out. One the notion of South Asia itself is expanding. Now Afghanistan has become a member of South Asia regional cooperation organization and a lot of us are interested in seeing ultimately Burma also become a part of the South Asian economic integration. Therefore here in making this SARC a success, I think Japan can play a very important role. Japan has always taken interest in SARC and we hope they do take more interest so that Japan can contribute positively to the emergence of more rapidly integrating South Asia because Japan is the largest aid donor for all the countries. But a much smarter policy of calibrating this aid as well as trade policies could lead to larger number of incentives for a regional economic integration in South Asia. And equally important I think one issue that is not often seen, Western China is actually a very close neighbor of South Asia. That most people, when they think of China, think of the China's eastern seaboard. But for us, Yun Nan, Tibet and Xinjiang are actually just across our border. They are our neighboring regions where we have had historic, cultural, economic and deep political contact with all these 3 major regions. I think there is a synergy here between China's strategy on west region

development as well as an expanding faster integration in the subcontinent. And the fact is, somebody said this morning, Suman Bery said, geography is history but some parts of geography cannot be changed. In whichever way you look at it, Kalicut is the closest port to Lassa. Lassa's exit point was Kalicut till 1961. The ports of South Asia are closer than the eastern seaboard of China to Xinjiang, Yun Nan and Tibet. Ultimately the logic would suggest that Western China can be brought in – that is Tibet, Xinjiang and Yun Nan must be brought together in a cooperative development with South Asia, and there I think is no contradiction, all 3 of us could be working together to promote this region.

Related to this is also the important point that Japan can play an important role in the political transformation of Afghanistan, Pakistan and Bangladesh. All 3 today remain sources of religious extremism and a whole range of trouble and over the long term India cannot manage this transformation on its own. Having Japan, United States and China working with us actually would help us transform the subcontinent. Essentially let's not forget 40% of the world's Muslims live in the subcontinent and the transformation, peace and reconciliation in the subcontinent would alter the whole debate on terrorism, religious extremism and there I think Japan can contribute significantly.

The next set of issues where we could cooperate is the question of democracy. When you mention democracy, of course the Chinese could feel that here is some devious plot unveiling and whether the talk about democracy by India-U.S. these days and Japan it is really a counter to the Beijing consensus. If Beijing consensus is about open market but not open societies that does what India and Japan are planning to do, would it create problems for China. But my sense is, I think, all of us had agreed on open markets. How we get to open societies, I mean, it is discussed in a purely abstract sense then it seems there was a confrontation. But if you think about stability of Nepal, the stability of Burma and that none of us are in a position to force export democracy to other countries. But in the context of Nepal, if you take specific issues of any of these countries unless we all cooperate, you are not going to produce stability. So if you want stability and even in the medium term sense in Nepal or Burma or other places, we need to work together to nudge some of these countries towards democratization, whether not treated as an ideological debate but as a genuine need to move the political processes because all of us are interested in stability.

The fourth set of issues is on maritime security and defense. Akiyama-san has talked about it quite minutely. I don't want to go into the details, but the fact is you

set a confrontation here again. I think this morning Okamoto san talked about maritime Asia was as Continental Asia; China as the old heartland, and Japan, India forming the rim lands of maritime power. But I think this McKinsey framework doesn't really apply because China is a maritime power. There's no question as China's dependence on resources increases, the Chinese navy's presence is going to be vastly seen all around this region, and the eastern seaboard of China is maritime China. Similarly India too has a huge continental dimension because it has huge land frontiers, therefore the old McKinsey thesis is not going to apply to the present context and what we need is really to look over the long term and see that India and Japan need to significantly expand the nature of their defense cooperation. Whatever might be, the current legal restrictions – I think by the time our Defense Minister comes here next month and I think there is this model of expanding Indo-U.S. defense cooperation which includes new missions whether its peacekeeping, disaster relief or a whole range of new ideas including some forts to deal with unexpected situations, and I think India-Japan need to significantly expand the nature of the defense cooperation. Here I think the Japanese have to be a little bolder than they have been not merely in terms of the missions and ideas but also in terms of the defense industrialization. Akiyama san talked about ports, but I think if you look over the long term as Japan expands its own defense capabilities, the mere question of spreading those costs would require cooperation with India and I think this is something for mutual benefit we could look at.

Finally let me speak about my last set of issues in relation to energy security and non-proliferation. Here I would go with Michael Green in saying India might not be part of the NPT but it is always been part of the NPT as a non-proliferation team. I think both in the 2000 NPT review conference as well as the in the 2005 NPT review conference, India has formally supported the objectives of the NPT. So there is no fundamental disagreement, whatever people might say, between India and Japan on the question of non-proliferation. The challenge for us is to find the political devise by which we can work together to promote non-proliferation preventing the spread of weapons of mass destruction in Asia. There I think if we might put in a little more imagination, India and Japan could actually be working together whether it is the PSI, whether it is export controls, whether it is counter proliferation, whether it is working together on a whole range of proliferation-related issues.

Here I would like to just state, I think the important thing for us to remember

both Japan and India often tended to be fundamentalists when it comes to some ideas. But today I think what Bush has done is to transform the nature of the nuclear regime – regime change if you will. There are 3 elements to this regime change that have taken place. One, the 3 broad dimensions to nuclear weapons – one is the nature of deterrence; the use of nuclear energy and third is the non-proliferation. On the question of deterrence, Bush has moved it from mere deterrence based on offensive weapons to a balance between offensive and defense. Japan is already part of it if you read the newspapers today, that missile defense is emerging as an important component. The second aspect is all these years nuclear energy was based on premise of non-use of plutonium. But today Bush is changing that under the advanced energy initiative to a whole new device of thinking about nuclear energy given the high price of oil. There again I think India, U.S. and Japan can cooperate because all of us are interested in breeders, a whole range of new reactors and that again we can work together. And finally if you look beyond the law, it is not – law does not provide security. It is political cooperation, we can't break existing laws and I think that's where India and Japan must need to think beyond the NPT as a legal instrument to actually creating a political basis to work together because we share the interest in non-proliferation and as two responsible democracies and major powers, there's a huge agenda that India and Japan can develop to cooperate on non-proliferation. Thank you.

(Mr. Tanino) Thank you very much. Professor Cohen, you are the last speaker for today. He is the godfather of the society of South Asian studies.

(Dr. Cohen) Thank you. Let me also thank the organizers for inviting me back to this session. I was also at the first one a couple of years ago, and it was wonderful to come back to Tokyo then. As some of you know, I lived in Japan for a year, and I taught at Keio University. One of my children was born in Japan in the 1970s and when I returned to the United States I was considered a Japan expert. At least I had spent a year there but without language skills really. I don't claim any expertise on Japan but I do claim affection for Japan. It's a time an Indian specialist, those days I used to look around in Tokyo for other people interested in India and I found both of them – there were really only 2 or 3 people. Now I think you have a large academic interest, there is business interest, political/strategic interest, the relationship as I see as an American has been transformed and it is really growing rapidly. Coming last, everything has been said already but not

everybody has said it. So what I'll do is try to briefly reiterate some of the points I think are important and then try to finish it in time for plenty of discussion.

When I returned to the United States from Japan in 1973 there were several projects underway. I participated in a few of them, and one of them looked at the ways in which the United States, Japan and India could work together. It was like a 6-month project, lots of papers, lots of essays. Eventually nothing happened because there was so little basis for a U.S.-Japan-India cooperation that the project went off badly. Each of our countries was headed in a different strategic direction, so India and the United States were headed in very different strategic directions. When I was here 2 years ago, clearly there was growing interest and I think now we may be at one of those turning points where in fact you can consider seriously the prospect of U.S.-Japan-India interest, and particularly Japan-India relations being transformed in a number of ways. We've talked at length about the economic ties between Japan and India but I do think that it's important to take into consideration questions of nationalism, patriotism and emotion which are also part of the make-up of strategic calculation. Nations often respond irrationally or what seems to be irrationally to symbols and other actions. The Yasukuni Shrine is a good example of this. Americans do this, Indians do this, Chinese and other countries do this, and this has to be a consideration when you are dealing with state craft.

Let me really talk about the future because I'm in Tokyo and begin upon a new book and the book is going to be on India's strategic future. I'm writing the book projecting 5, 6,7 years ahead of time, so discussion of 2010 was appropriate – that's my time frame. When I worked in the State Department as the Policy Planning staff, we were urged to look ahead, only we were urged to look 3 months ahead while my boss George Shultz was looking 3 hours ahead. So I have the luxury now being an academic and I've finished a book on the future of India, I've just finished a book on the future of Pakistan. I think I got it right in both cases, and that leads me to the first big uncertainty facing Japan-India relations. In fact, India's relations with the rest of the world, and that is not so much India's trajectory because I see that as I wrote in my book on India emerging power which is now in a Japanese edition. I'll try and sell some copies of it here. I think India's future is pretty much set as people have described that trajectory. I think it's quite clear that India 5 years, 10 years from now is going to look pretty much the same as it is now only more so. What is a far more unpredictable future for South Asia, for India and ultimately for the United States and Japan is the future

of Pakistan. There is no doubt that my rather gloomy predications about Pakistan published 2 years ago are coming true. I won't give you any specific dates but clearly the regime in Pakistan, the government in Pakistan has its own internal contradictions which may or may not work out but if it does not work them out, then there is going to be another serious crisis in South Asia. I'm not predicting a crisis between India and Pakistan but its one thing that could affect Japan and the United States with very difficult choices, that is how we make a choice between India and Pakistan, how we will be neutral between the two states; if there is a military dimension to this, whether we intervene or we support one another, I don't know. I want to address this question. You are going to get a lot of questions and very few answers from me today.

Secondly I think that the nuclear deal that has just been completed is very important and could transform U.S.-Indian relations. Let's take the negative case. What if it does not go through? What if Congress modifies it or it fails to go through in some significant way? I think we then see a period of mutual recrimination between the United States and India, and of course Japan would be caught between a friend and an ally, and it's not quite clear what Japanese policy would be and certainly Japan is especially interested in the maintenance of the nuclear suppliers group than on proliferation treaty. It has been at the core of these 2 sets of agreements. And a failed U.S.-India agreement would put Japan and the United States in a very difficult position and perhaps slow down the rate of normalization between all of our countries. I don't predict the failure. I do think that if the politics are handled right in Washington and also in New Delhi it may go through although in modified form.

What might be more difficult in fact if it's a successful agreement? What if U.S. and India do reach an agreement on the nuclear energy supply on India's weapons program and so forth? Then a whole series of questions are raised and my book is going to be examining these as well. In one case if the U.S.-Indian relations reach a new plateau, how does this affect Japan's cooperation with the Indian navy and access to the Persian Gulf? If India is seen as if not an ally to the United States, at least a closer partner to the United States, there are all kinds of military and naval implications for this relationship. And of course Japanese law is quite clear about the degree to which the Japanese Naval Self Defense Force can cooperate at sea. And you may well see, as others have commented, reconsideration of Japan's maritime role with a guide to India and possibly even the United States. Again that's a question I'm just beginning to research on my book. So if you want an

answer I should be happy to come back in about 4 years and give you my answers. But I do think it would confront Japan with a series of choices and questions regarding cooperation not so much with the U.S. but also with the Indian naval forces because that lifeline is absolutely vital for Japan. Right now you see a competition for bases literally at the mouth of the Persian Gulf between India and China in partnership with Iran and Pakistan, and ultimately Japan has to be concerned about how that competition plays itself out and what its role would be vis-à-vis India and of course the U.S. navy.

Secondly as I just mentioned this, but if the nuclear deal does go through and India becomes if not an ally but certainly a closer partner to the United States and to other countries on a range of subjects, how does this affect India-Japan cooperation on terrorism and piracy? Right now the Japanese and the Indian coastguards are cooperating on these issues, but what about if you get significant acts of piracy and potentially the seizure of a super tanker, and usage of an instrument of mass destruction which is everybody's nightmare? Perhaps sailing into Singapore and blowing up, that's a very serious issue, so I think that raises questions for Japan – should Indian navy continue to expand and continue to grow possibly with American assistance, buying some American ships for example.

Thirdly, it has already been mentioned briefly but I think it's an important point. Will Japan, India and the United States cooperate in defense production? There are a lot of opportunities for cooperation in defense production, but of course Japanese law prohibits this. And will Japan modify its laws to permit the joint production and joint research and development of, say, non-military technology or to use technology such as airlift? This is where India needs a lot of technical assistance. The U.S. cannot do it itself. So far the Israelis have played a crucial role in providing assistance to the Indian Defense Industry. Will the U.S. step indirectly? Will we become a major defense partner to India and will Japan play a role in this in some significant way?

Fourthly, there is a whole range of nuclear issues that will emerge, should the agreement go through successfully. And we could spend a full year here and in fact this is probably worth a separate meeting. These really fall into 2 categories – first of all would Japan be one of those countries that would want to sell reactor technology to an India that did sign on to literally all the provisions of the NPT without being able to be an NPT signatory. It is clear that the French and the Russians would probably do this, and maybe the Australians. With the Japanese nuclear industry which is going to have surplus capacity, so would they be

interested in building a reactor as well in India? Here again what the U.S. does with India will probably shape what the French or the Russians and perhaps Japan does with a guide to providing civil nuclear technology. More problematic and a question I have been raising with my Indian friends, is the other side of the nuclear issue – that is military side. India's present strategic plans call for what is called a triad – a 3-based nuclear strategy – land-based; sea-based and missiles (they are air delivered systems). If India puts its nuclear weapons out to sea, where will they go? Will they stay in the Arabian Sea, the Indian Ocean? Will they come sailing around here, and what would Japan's response be to, say, an Indian nuclear powered submarine carrying nuclear weapons sailing around to the other side of China? I'm not sure but in 4 or 5 or 6 years we may be confronted with that kind of capability. Does this trouble Japan, does Japan support it, how does China respond to this? I posed this question to people here and they haven't really thought about it, but I think that it's a question that the Indians themselves will have to clarify because one of the concerns that many Americans have and not just of the non-proliferation type, is how far reaching the India nuclear deterrent will be. Will it reach the United States? Will it reach Europe? Will it reach this side of China? Or will it be confined to South Asia? Don't know, but it is a question worth asking our Indians friends about.

Finally there is the larger issue which was touched upon earlier of U.N. reform. India that became closer to the United States I think would be a candidate for open American support for the Security Council seat. Of course, as Dr. Green has already pointed out, we have publicly supported the Japanese case. I don't think U.N. reform is going to happen soon. Clearly a number of countries don't want to see its reform, but I do think that there will be another attempt especially if the U.S.-India agreement is successful to raise this issue again and bring India and of course bring Japan to the Security Council possibly as full members, possibly as less than full members. These are all questions, and I don't have many answers to them, but I think that they are important questions that we'll be talking about 4 or 5 years from now, and I hope to be with you again to be able to provide some answers to those questions. So let me stop at that point. Thank you very much.

(Mr. Tanino) Thank you very much. I think we used up all the time but still this is a rare good opportunity, so we still would like to entertain 2 questions from the floor. So we would appreciate that you would be willing to extend the time by a little bit. You can ask any questions but please be brief in your questions. Thank

you.

(Mr. Ota) Thank you. I have 2 questions. First my question is to the Ambassador. In Japan and India there is Parliamentarian's League Association. What's the significance of this Parliamentarian's League? Is it effective? Or is there any good outcome?

(Mr. Tanino) May I ask once again your name?

(Mr. Ota) My name is Ota.

(Mr. Tanino) So you are asking it to me? Well the Parliamentarians League does this diplomacy, not just government or the Ministry of Foreign Affairs engaged in diplomacy, but the Parliamentarians and their leagues and federations involved in diplomatic activities. It's good that they, the Parliamentarians, play an important role. Like Japan, the Republic of Korea Parliamentarian's league was active and there was this bipartisan Parliamentarian's League of Japan working closely with China, and Dr. Taro Nakayama is the leader of Japan-India Parliamentarian's regular meeting to have exchange between them regularly as politicians. Maybe my answer was too formal.

(Mr. Tanino) The second question about Mr. Bolton what about U.N. reform. The question is to Mike? So we'd like to entertain one more question from the floor.

(Ms. Sash) My name is Thomas Braza Sash and I am a researcher in Waseda University Pacific studies. I would like to take advantage of Professor Cohen's presence here and I would like to ask something that is relevant to all the questions that you raised, and we are sharing the same questions with you. We are looking today U.S. policy changing. We knew that for decades U.S. policy towards the nuclear possession figure was actually negative, and suddenly we are looking U.S. changing this policy and making India a nuclear paradise in my personal opinion. We are looking how the emerging power of Chin is challenging and I think that is more a challenge of threat than a challenge of economic power or anything else. And in Asia there is a big misunderstanding about this transition of the U.S. policy. So Prof. Cohen I would like to ask you frankly, could you tell us your personal opinion about the new Bush administration policy, what

do you think is their intention? What is their policy today for Asia? Thank you.

(Dr. Cohen) Mike Green could probably answer that more authoritatively but let me say that I've been arguing myself in my publications, many of which are on the Brookings website. But going back to at least 1990, maybe the 1980s, I've argued for a half way house for India between NPT and no NPT, that is get them in the tent as much as you can for all the reasons the Bush administration has stated. I thought, "what was tragic and totally mindless was the attempt by previous administrations?" – I won't mention which it was because my boss used to work for one of them – but basically the Clinton administration to force India to get rid of its nuclear weapons and sign the NPT. This was a totally unrealistic goal and what it did was it accelerated India's push towards nuclear weapons. So in a sense, American policy in the past was partly responsible for accelerating India to being a nuclear weapon state. If I had to rewrite history, I would have rewritten much of what we did then. But I do think that the Bush initiative was the right initiative in principle. In practice, I might have negotiated it differently, but I am not in the government. So on the whole therefore I supported it. There'll be a letter out – actually it's out today – by a group of us in the Washington area and elsewhere in support of the administration's policy. What will happen, of course, is that congress has to do some legislation and then maybe some changes in modification. If they change it too much, the Indians will back off and say "Sorry, we don't want the agreement." Then the Indians will go round the U.S. and go to the French, the Russians and possibly the Australians, which have done that already and say "well the Americans have approved it, at least the President has approved it, sell us the uranium, sell us the fuel", which I think would be the worst of all worlds in a sense that would contribute rapidly to the breakup of the nuclear suppliers group.

(Dr. Mohan) I just want to add something. The best way to understand the U.S. policy to India at this point, when it is clearly a period of great change. I think the simplest way of comparing is the Nixon-Kissinger initiative towards China during 71/73. It was at that time Kissinger famously said "you can't ignore a billion people with nuclear weapons". I think what Bush has been saying the last 2 years is that you can't ignore the world's largest democracy armed with nuclear weapons and IT and whatever you want to put into that soup, that you cannot keep this large mass of people outside the so-called mainstream, just as Nixon and Kissinger recognized that keeping China out of the international system. As they tried, the

American policy between 45, 47, 49 to 71 was to keep. Even Britain and China didn't exist. From that dramatic transformation in 71 and 73, you recognize China as a force in the international scene and engage it on a reasonable basis, which is exactly what the Bush administration is doing now. And I think that judgment is based on the recognition, that whether it is demographics, whether it is economics, whether it is the change of balance of power in the world, as you looked ahead, you required a different relationship between India and the United States. And I think it's as simple as that and I think here Bush administration is willing to recognize a structural change unfolding in the world and has created a policy that responds to the structural change taking place in the world, which is that both India and China are on a relative rise in the international system, while Europe and Russia are on a relative decline. That requires transformation of the nature of the institutions in the world. I think it's a perfectly classic realist response to a changing world situation. But to those who believe in existing structures, everything was frozen in 1945 and that can't be changed. I think they are living in an unrealistic world – what Bush is doing I think is the right thing. Second, in response to what Prof. Stephen Cohen was saying, I think the Americans have judged one thing right. They recognized India's nuclear weapons are not going to disappear; two, they have also recognized India's nuclear weapons are not a threat to American security. Therefore, they have constructed a regime which is to assist India on similar nuclear cooperation without assisting India in its nuclear weapons capability. If that policy too changes someday, if the Americans are willing to give us nuclear submarines, we'll take it surely. And that will be part of a much larger relationship between India and the U.S., and I don't see at this point either the Americans or the Chinese or Japanese have to worry about our submarines floating in. Just as Chinese submarines come to our seas, someday surely our submarines will also come here, and I think that is built into the logic of the transformation of China's and India's standing in the world.

Closing Session

(Mr. Tanino) Thank you very much. Now time is up and I think we would have to conclude today's symposium. As a Chair, if I may, I would like to take 5 minutes or so to make a summary of this session today.

(Dr. Narayan) Thank you, Mr. Tanino. I think we have had an excellent

exchange from the morning. A lot of very distinguished speakers and a lot of excellent views that have been presented here. And I think this initiative of having this annual conference on India-Japan challenges and prospects is something which has really brought the thinkers and the academics and the students and the businessmen together for the last 2 or 3 years, and I am sure that the organizers would be looking forward to taking this forward in a similar way next year also as I continue in India, and I'm just looking forward to that. Having said that I think of the important point if I were to look at the economic side of the arguments today, I think 2 or 3 important points stand out. One important point really underscored by Dr. Bery is that improved relationship requires really an understanding of the value creation for both of us, in the sense that India-Japan economic partnership, trade partnership and joint growth partnerships would develop once there is a clear recognition by what is to be gained in this. And I think, at the moment between Japanese business and Indian business, we are still on a discovery phase because while the Korean businessman has discovered in India the opportunity of investing and the opportunity of growing and the opportunity of marketing, the Chinese businessman has discovered in India a huge market for technology, for the consumer goods etc., I think it is still a discovery phase for the Japanese businessman to discover in India what are the kind of goods he'd be able to produce and sell in India for the Indian market. Where this discovery has been made as you are looking at the automobile sector where the discovery has been made, whether it is Suzuki or Toyota or Honda, the growth is happening. Where the discovery is yet to be made I think the growth is not happening. It is visa-versa as well, the Indians would like to discover in the Japanese market opportunities for software opportunities, for the knowledge process outsourcing opportunities for pharmaceuticals, opportunities for generic drug development etc. and again this is not happening. So I think this knowledge creation, this understanding is the first step towards developing the economic growth.

I do think the second major area I think that went into a backburner today, and that is energy. I think energy security is going to be extremely important for Asia particularly as this is the largest energy importing region and it's going to continue to be so. Japan, India and China are going to be horrendous energy consumers in the future and it is very important that a common energy architecture emerges, and that architecture could well be or could certainly be not dependent on coal and should not be dependent on oil except to the extent that as oil purchasers they can

command some kind of aspects for the pricing of oil. I don't see for example why Brent crude oil should be a market when 45% of all the oil that is produced is purchased in Asia, and why there should not be an Asian market, a Tokyo market or a Beijing market or a Mumbai market for crude oil the prices of which are determined by the purchasers and not necessarily by the suppliers. And the kind of competition that is occurring between the countries for control over equity oil I think could well be replaced by collaborative or cooperative arrangement.

The third issue, I think, which got put a little bit on the backburner today and on which we hope that the further conferences would develop is really this view of environmentally sustainable development. I relate it also to the poverty issue, the equitable development in India or in China and certainly the extent to which we can create an architecture by which equitable development takes place so that everybody ---, the problem in a democracy like India. As ambassador Tanino said a little while ago, that if you see that development is taking place and you are not part of that development, then you get frustrated very soon. And this is a problem if you are an open democracy; it's a problem with media; it's a problem with having 100 channels of which 23 channels supply news to you every day, and this is the problem in India. I think it is very important that alternatives are brought in from wherever to make sure that this happens. And this is an opportunity, I don't know what kind of opportunities, small and medium enterprises; export oriented industries; skill up gradation, whatever, and I think there is a great opportunity, which is happening here.

So in short I would say yes, there are huge opportunities for China not just for Japan-India partnership to happen but for this entire Asian region to grasp an integrated opportunity for trade and economic development, but at the moment the Japan-India partnership is still discovering where it can go forward. And I think that after these 2 or 3 years, there is much more awareness than there was about 3 years ago, and I think that a breakthrough in real investment on both sides would probably happen in the next couple of years and look forward to that and am looking forward to the next conference. I once again thank the organizers for this great opportunity, thank the panelists for a wonderful presentation and thank the audience for having very patiently listened to all of us. Thank you.

(Mr. Tanino) Thank you very much. Because we are running out of time, I will only say a few words.

We talked about sushi and samosas. You know that the samosa is what the

Indian people eat at their meal. But think of that, if you go to certain size cities in Japan, you will find out Indian restaurants reflecting rising interest in the Indian diet. And on the other hand if you go to Delhi for instance, there are only 4 or 5 Japanese restaurants whereas there are 400 Japanese restaurants in Beijing. There are so many unknowns. Because we tend to compare India with China, I have to say that relatively speaking, the awareness on recognition on India is somewhat limited. Because we still have the remnant memory of the Japanese businesses who had a hard time in India a long time ago, so that because of that memory of the controlled economy back then and those are the ones who are now in the top management of many businesses.

And also there is some geographical distance between Japan and China. You leave here in the morning and you have the business meeting and then come back within the day. But when it comes to India it's longer than that. If I tend to be critical, I would say that when I'm watching Japan-India relationship, we have the representative or Ambassador Mansingh but I wonder whether constantly Japan is perceived in the scope of the Indian diplomacy. There are changes, yet they tend to look toward the United States, Russia and China, and from time to time they might turn their eyes to Japan. I hope that the situation would improve. Since 1995 until 1998, I was there representing Japan and I realize that the sense of time is so different and I really like it because the Japanese are so impatient. We shouldn't be upset whatever happens, and that's the first lesson that we learned. And there is the second lesson, we should never rush or we should not sweat; and we should never give up. These are 3 don'ts, but after coming back to Japan I realized that there is another lesson that I drew out of my experience, that is they are so optimistic. Because I came back to Japan right after the aftermath of the burst bubble economy, therefore the Japanese society was so dismal and everybody was so pessimistic, so I really longed for optimism and I really missed the optimism in India. Then at the same time, they are very much warm-hearted and they have a very friendly feeling to Japan. For instance when the Showa Emperor passed away, India is probably the only state where the people went into mourning for 3 days, and there are episodes after episodes. It is not U.K. nor the U.S. but Japan that they have such a warm feeling toward. It may be presumptuous for me to state this, but such sociable and optimistic people are the ones that we should deal with in proving that Japan is really internationalized. It is often criticized that the Indians are too talkative, infrastructure is under-developed, but let's set that aside. Rather than just calling for India to change, we are ones that have to

change as well. When such transformation really takes place, then, Japan can really establish solid and long lasting partnership with India.

Talking about global partnership, it's such a broad theme. We have many government representatives who are present here today and its up to them to put substance to the globalization, but at the same time we are also responsible on the part of the civil society to put substance onto globalization, and in the context I sincerely hope that the symposium today had made a contribution even in a small way in deepening your understanding for globalization. If that was the case, then I'm sure that those organizing Ministries including the Foreign Affairs Ministry, their efforts will be rewarded.

Last but not least I would like to thank the interpreters for their contribution as well. Thank you very much. Its 5 o'clock sharp, with this I'd like to close this Symposium.

End of symposium.