

DEEPENING INDIA'S ASIAN ENGAGEMENT*

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Interactive
 Session

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Asia continues leading global growth, posting annual per capita expansion of 4 - 4.5 percent. This economic powerhouse now drives most of the world's new growth. The continent stretches across five distinct zones - from East Asia to Central Asia - creating numerous opportunities for stronger trade and investment ties. India's location puts it at the heart of this vibrant region, yet the country has not fully tapped into Asia's extraordinary momentum despite existing commercial relationships.

Asian markets already play a major role in Indian commerce. Regional partners buy 26 percent of India's exports and supply 40 percent of its imports. These numbers show promise, but several obstacles prevent India from capturing greater benefits from Asia's economic surge. Today's global trade tensions make regional cooperation more pressing. With the steep rise in US tariffs, Indian goods are facing rates around 50 percent in some cases - much higher than what Asian markets typically charge.

India has traditionally maintained protective trade policies that offered some shelter from external turbulence. However, this same approach has kept the country out of the supply chains that power Asia's growth engine. Since 2000, India's

trade integration has stayed at roughly half the level of other middle-income nations. While this provides stability, it also means forgoing the productivity improvements and export gains that come with deeper regional links.

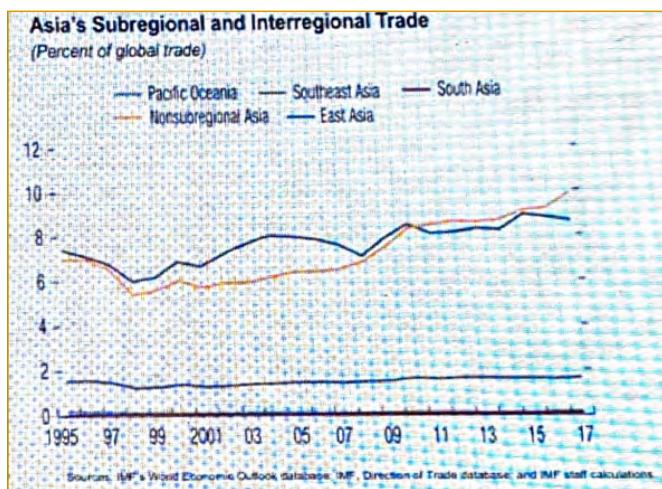


Figure 1: Asia's Subregional and Interregional Trade - Share of Global Trade (Source: IMF, World Economic Outlook Database, as presented in KEC slides)

The numbers reveal South Asia's modest percent share of world trade compared to East Asia's and Southeast Asia's solid high percent. This disparity underscores both the challenge India faces and the untapped potential for growth. Although trade between South Asia and East Asia has been among the world's most

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dynamic over the past three decades, commerce within South Asia itself remains surprisingly limited.

Recent trade conflicts have completely reshaped global manufacturing networks. ASEAN countries emerged as big winners, transforming from simple parts suppliers into major production centers. Nations like Vietnam and Taiwan grabbed significant market share during this reshuffling whereas India's mobile phone industry offers a good example of both success and missed opportunities. The country went from zero to capturing 20 percent of global iPhone assembly in just six years after 2018. Yet this achievement falls short of what was possible given the massive supply chain reorganization happening worldwide.

The Flying Geese Paradigm 2.0 now operates in full swing with China as the lead bird driving investment and technology transfers throughout the region. Chinese firms such as Huawei and BYD have built vast production networks across Asia. These operations create ripple effects that reshape entire manufacturing ecosystems. India's task is to find the right position within these changing supply networks.

Today's complex web of overlapping trade agreements - RCEP, CPTPP, IPEF, and BRICS - creates what economists call a "spaghetti bowl" effect. While complicated, these frameworks also open new pathways for cooperation outside traditional Western-led institutions. The global power structure increasingly looks bipolar, with the US and China as the main poles. This creates both limits and openings for countries like India.

India's Viksit Bharat aspiration is now a structural imperative which requires transformational change beyond standard economic management approaches. India must build homegrown capabilities in tomorrow's industries: clean energy systems, advanced computing, aerospace, electric vehicles, health sciences, and farm technology. This demands lasting reforms, expanded science and technology education, and smart industrial policies that create world-class domestic capabilities. Possibilities for regional finance partnerships could be explored, for instance, blended finance from Singapore, which is India's top foreign investor. This can speed up India's renewable energy goals. Singapore has set aside special funds for green projects in ASEAN and wants similar programs for India through facilities like FAST-P.

Partnerships with ASEAN nations go beyond money to include technology sharing in clean energy and electric vehicles. India's northern and eastern states offer competitive labor costs that could draw manufacturing investment as companies spread out their production. Processing critical minerals presents a new opportunity where India could become a regional hub by working with resource-rich countries like Australia and Indonesia, plus technology providers such as Japan and South Korea.

A case is also to be made for the development of mid-tech industries in India most of which are labour intensive in nature. Figure 2 shows that India has missed the bus on some of these

sectors as compared to its Asian counterparts like China and Vietnam.

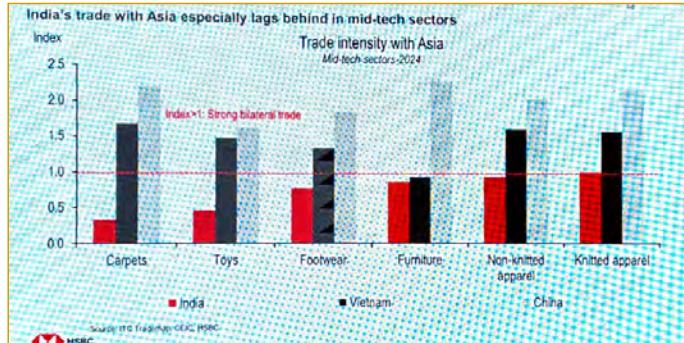


Figure 2: India's trade intensity with Asia for mid-tech sectors, 2024; Source: slides presented at KEC

The expansion of these sectors requires reform agenda, spanning both external & domestic dimensions. External reforms focus on cutting tariffs, signing trade deals, welcoming regional investment, allowing exchange rate flexibility, and shifting attitudes toward regional partnerships. Internal reforms target deregulation, Special Economic Zone upgrades, factor market liberalization, and creating budget space for infrastructure spending.

In conclusion, some key policy takeaways are as follows:

- Join Regional trade agreements like CPTPP, RCEP etc. to connect with ASEAN and Northeast Asia, gaining access to supply chains in a region with 45% of world population that's growing from 18% to 30% of global output.
- Build bilateral partnerships with South Korea, Japan, Australia, and Taiwan for technology transfers, joint research, and talent exchanges in areas like green hydrogen and

semiconductors.

- Create critical mineral hubs by partnering with Australia, Indonesia, and Papua New Guinea for raw materials, and South Korea and Japan for technology.
- Welcome targeted Chinese investment in renewable energy and electric vehicle supply chains, with rising local content rules to develop domestic skills.
- Use Singapore's finance tools to speed India's 500 GW renewable energy target, drawing on institutional funds from Temasek and GIC.
- Execute comprehensive reforms including lower tariffs on intermediate goods, flexible exchange rates, reduced regulations, better SEZs, and liberalized factor markets.
- Focus on mid-tech manufacturing where India lags regional competitors but has wage advantages, especially in northern and eastern states.
- Leverage Hong Kong to improve India-China business relationships while keeping strategic independence.

Going forward, two powerful trends will reshape regional relationships: artificial intelligence uses and climate adaptation needs. How India responds will decide its place in Asia's evolving economic networks. The country's young population, technology strengths, and geographic position provide solid foundations for deeper engagement. But capturing this potential requires coordinated reforms and smart partnerships that balance integration with



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independence. Success would let India benefit from Asia's ongoing dynamism while helping regional stability and prosperity during major global changes. The chance for such positioning

may be shrinking as other regional economies move faster to grab opportunities from supply chain shifts and technology advances.



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