



# REALISING THE INDO-PACIFIC: Tasks For India's Regional Integration

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## REALISING THE INDO-PACIFIC: Tasks For India's Regional Integration

### FOREWORD

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Situated as we are in Australia's self-proclaimed 'Indian Ocean Capital', the Perth USAsia Centre has a keen interest in India's strategy toward a region increasingly described as the 'Indo-Pacific'. At its most basic level, the concept of an 'Indo-Pacific' is driven by a need to incorporate India into the Asia-Pacific. Hence the title of this volume, *Realising the Indo-Pacific: tasks for India's regional integration*. Without a continuation of India's economic growth and expanded influence in the region, this construct cannot be realised.

Accordingly, this volume will provide a deeper understanding and assessment of India's much-discussed 'Look East-Act East' strategy and policies related to its implementation.

Integration into the Indo-Pacific will require India to significantly reform many long-standing foreign policy doctrines. In its diplomatic strategy, India long maintained a commitment to global multilateralism, and with the exception of its immediate neighbourhood, has avoided participation in regionalism initiatives. In relation to national security, India's non-alignment prevented full activity in military, intelligence and other forms of security cooperation. Likewise, in response to international economic trends, as a committed multilateralist, Indian trade diplomacy was directed principally at the World Trade Organisation, and its participation in other forms of trade or investment agreements have been relatively limited. More broadly, India has historically styled itself as a leader at the global level – principally as a leader of the non-aligned movement (1950s-80s), and, since the end of the Cold War, as a leader of the developing world (through the G77 and its associated coalitions). It has not positioned itself as a regional leader.

These are long-held and cherished Indian foreign policy doctrines, many dating back to the anti-colonial movement and then to the post-colonial period. They have for decades constituted India's 'identity' as an international actor.

For India to fully participate in emerging designs for an Indo-Pacific regional order – i.e. 'acting', not just 'looking', east – each of these positions will need to be adjusted, reformulated or finessed in some way. Which poses several questions: Can India do it? How will others in the Indo-Pacific accommodate and respond to these changes? And what are the implications for emerging Indo-Pacific concept as it does? We are fortunate to have seven outstanding scholars, four from India and three from Australia, help us think through these and other questions. We are confident that you will find their analysis of use in understanding both the tremendous scope of change that has already taken place in India, as well as the challenges ahead.

In addition to exploring some of India's primary diplomatic relationships in the region, we have also included chapters on cyber and other technological connections, on the evolving trade architecture in the region, and on the maritime space which is the connective tissue of the Indo-Pacific. We are particularly grateful to have an introduction by Professor Stephen Smith, former Minister of Defence and former Minister of Foreign Affairs. Additional thanks goes to my colleagues Reginald Ramos, Lisa Cluett, and Natalie Sambhi (one of the chapter authors).



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## INTRODUCTION

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According to a number of reputable economic forecasts, by the midpoint of this century, the world's top three economies, not necessarily in this order, will be China, India, and the United States. And while it is not always the case that pure economic strength is automatically accompanied by geopolitical or strategic influence, many predict that at the same time, these three countries will be the global heavyweights or superpowers.

At the starting point of this century, many described it or predicted it to be the 'China Century'. This recognised the rise of China, but perhaps implied too much of a decline on the part of the United States. Hence the then commonplace use of the expression, the 'Asia Pacific Century'.

This nomenclature, however, failed to acknowledge what was happening, or could reasonably be predicted to happen, in the Indian Ocean: the rise of India, and the emergence of Indonesia as a global influence, not just a regional leader or a leader of the Association of the Southeast Asian Nations (ASEAN).

As a consequence, Australian diplomacy began to use the expression, the Indo-Pacific, or the 'Indo-Pacific century', to include and acknowledge in particular, these three great or rising powers. Or as one wag put it, to recognise what was happening "from Hollywood to Bollywood."

Australia's former Director General of the Office of National Assessments, and High Commissioner to India, subsequently Secretary of the Department of Foreign Affairs and Trade, Peter Varghese, championed the concept of the Indo-Pacific and its articulation by Australia in our region.

Ministers adopted it, and it was first used in an official Australian Government policy document in the 2013 Defence White Paper.

From Australia's perspective, the use of the Indo-Pacific terminology not only reflects our view of a changing world, it also reminds us that as an island continent and country, our shores are washed by more than one ocean.

Australia's history of settlement, the establishment of Pacific coastal centres and the subsequent population growth of these centres, more often than not mitigates against public policy analysis of that which is occurring in the Indian Ocean Rim.

The Perth USAsia Centre has a vital role to play in this respect.

Deliberately placed in Australia's Indian Ocean capital, its role is to see things through that Indian Ocean perspective. As intended, it complements the work of Sydney's Pacific-based United States Studies Centre.

This publication is part of that work and that contribution, adding to Australia's academic and diplomatic understanding of India itself and its relations with others, the Indian Ocean and Indian Ocean Rim issues.

Australia has for many decades had bilateral relationships of the highest order with both the United States and China.

The Australia-US Alliance has been the bedrock of Australia's Defence and National Security arrangements since World War Two. As well, Australia's economic engagement with the United States, when two-way capital investment is considered as well as two-way trade, is second to none.

Australia's early recognition of China and our adoption of a One China policy by the Whitlam Government in the early 1970s, when it was not necessarily fashionable to do so, has held Australia in good stead, and see us grow our strongest two way trading relationship out of nothing.

We have created both a minerals and resources export industry, and a petroleum resources export industry to North Asia, with by far the biggest volumes now to China.

Our comprehensive bilateral relationship with China is now much more than just trade, and includes cooperation on the array of issues, including long standing defence and military high-level talks and cooperation on military exercises.





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Australia's recognition of India's pending rise as a great power also brought with it the realisation that we had to significantly enhance the level of our bilateral relationship with India, and bring it to a much more substantial level.

Over the last decade successive Australian governments have worked to do just this, adding to the respective work of their immediate predecessor.

Australia and India have always had a lot in common: we are both robust democracies on the Westminster model, both adherents to the rule of law, the law of contract, and respect for intellectual property. We are both world class players of cricket and hockey. We are both members of the G20, the Commonwealth, the East Asia Summit, and the World Trade Organisation.

The last decade has seen a greater proliferation of ministerial and prime-ministerial visits, scientific and commercial exchanges and people to people contact, particularly through education. Australia's efforts in this respect have not been limited to the purely bilateral.

Australia and India have worked hand in hand to reshape the Indian Ocean regional architecture, the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC), now IORA, the Indian Ocean Rim Association.

The name change occurred at the IORA countries' foreign minister's meeting in Perth. India chaired IORA for two years with Australia as deputy. Australia then chaired with Indonesia as deputy, ensuring three significant Indian Ocean maritime powers chaired IORA over a six-year period.

Australia also strongly supported India's Indian Ocean Naval Symposium (IONS), which also met in Perth at Chief of Navy level. India-Australia maritime exercises have been agreed.

But much more needs to be done, on the defence and security cooperation front, on a strategic relationship, and on growing the economic relationship. In other words, a partnership between India and Australia in the Indian Ocean.

India's 'Look and Act East' must be met by an Australia 'Look West'.

The from time-to-time 20/20 frenetic activity in the relationship needs to be sustained with the patience, endurance and longevity of a test match. India, with over a billion people, and a better population demographic than China, is inexorably on the rise. Its trajectory may be a less steep incline, but it will end up in the same place, not a leader of the Non-Aligned Movement, but a great power, and conducting itself in global affairs accordingly.

Issues and challenges which India faces along the way, its relationship with Australia, China, the United States, and others in our region, are admirably covered by this publication, presented to you by the Perth USAsia Centre, Australia's leading Indo-Pacific think-tank.



**Professor Stephen Smith**  
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CHAPTER I.

# Uneasy Triangle: India's Evolving Relations with the United States and China





## I. UNEASY TRIANGLE: INDIA'S EVOLVING RELATIONS WITH THE UNITED STATES AND CHINA

Author: **Dhruva Jaishankar**, Fellow (Foreign Policy) at Brookings India

The United States of America, the People's Republic of China, and the Republic of India are the world's three largest countries by population and will soon comprise the world's three largest economies. Critical inflection points in their origins as modern world powers date from between 1945 and 1950. In the immediate aftermath of World War II, the United States found itself one of two global superpowers, along with the Soviet Union. In 1945, the United States' mainland was left relatively unscarred; its war economy was booming; it had a strong military presence in Europe and Asia; and it had a proven atomic weapon capability.<sup>1</sup> Two years later, in 1947, India achieved independence from Britain; it was born a unified democracy but under the horrific and violent cloud of Partition.<sup>2</sup> By 1950, it had cast off the last vestiges of formal British rule to become a republic, although it retained many of its colonial-era administrative, bureaucratic, and military structures. And in 1949, Mao Zedong ended decades of civil war by declaring the founding of the People's Republic of China and installing a powerful revolutionary government in Beijing.<sup>3</sup> The revolution (or 'liberation') did not end there, but continued with the annexation of Tibet and involvement in the Korean War a year later.

The three countries, along with the Soviet Union and a divided Europe, comprised major concentrations of the world's population. All boasted large militaries, although very different from each other's in character and capabilities. And while China and India were initially impoverished and found themselves subordinate to the larger dynamics of the US–Soviet rivalry, they nonetheless played important roles in the competitive environment of the Cold War.

The evolving global circumstances from 1949 to the present have required India to play, at different times, the roles of mediator, balancer, shared adversary, and promising partner to both China and the United States. Today, New Delhi is possibly at another inflection point, when it will have to fundamentally reassess its relations with Washington and Beijing. Specifically, India faces the possibility of a less open United States and, consequently, one that will struggle to retain its international primacy. India also confronts the reality that China plays an unprecedented role as an influencer in the Indian subcontinent, in the Indian Ocean, and on global issues. Beijing has also become more explicitly resistant to India's continued rise as a great power.

Navigating this new strategic terrain will require New Delhi to continually engage both China and the United States in an equal but differentiated manner. With the United States, India will need to continue pushing for deeper economic and people-to-people exchanges, solicit support on global governance, develop greater coordination and interoperability in the Indo-Pacific, and further enhance cooperation on counterterrorism. With China, India will have to manage its border dispute by negotiating from a position of strength, contest Chinese political and military influence in India's immediate periphery, seek common ground on multilateral affairs, and develop a sustainable and mutually beneficial economic and commercial relationship. Achieving these objectives will require both strategic clarity – and malleability – on India's part.





## 1950–1991: Mediator, Balancer, Adversary

It is rarely acknowledged today, but in 1950, India was the primary intermediary between the United States and Communist China. In the run up to the Korean War, India's Ambassador to Beijing, K.M. Panikkar, played the role of mediator, communicating, among other things, China's unheeded warning about the consequences of American forces crossing the Yalu River. During the subsequent conflict, India was involved in the exchange of prisoners of war between US-led and Communist forces. These actions were a testament to newly-independent India's position as a broker.<sup>4</sup> India had been among the first countries to recognise the People's Republic of China, and contrary to many misconceptions about Indian 'nonalignment', worked actively to establish good relations with Washington in the years after Independence.<sup>5</sup>

This period of relative neutrality and mediation was, however, short-lived. Beginning in the mid-1950s, India's relations with Beijing began to deteriorate. China's accession of Tibet had brought it into immediate contact with India for the first time. The boundary between the two was poorly demarcated in colonial-era maps, and Beijing – motivated both by concerns over Tibetan separatism and a desire to link Tibet with the rest of the country – rejected Indian territorial claims. The revelation of Chinese road building activity in Aksai Chin – territory claimed by India – further fanned nationalist sentiments. A failed Tibetan rebellion, supported by the US Central Intelligence Agency, resulted in the Dalai Lama and many of his followers seeking asylum in India in 1959. These developments, amid a number of other factors, culminated in a short but sharp Sino-Indian border war in 1962. The result was a humiliating defeat for India and the suspension of normal diplomatic relations between New Delhi and Beijing.<sup>6</sup>

India's tensions with China, however, also led to a period of unprecedented collaboration between India and the United States. Some in Washington feared India's fall to communism and Chinese ascendancy in Asia. India's Prime Minister Jawaharlal Nehru even turned to US President John F. Kennedy for help during the border war.<sup>7</sup> But the nascent security cooperation came to an end with the 1965 war with Pakistan, and the United States' suspension of support to both India and Pakistan. In the years that followed, it was Pakistan that emerged as more important to US interests. Among other things, it became a conduit for the administration of Richard Nixon to engage with Beijing as part of its strategy to split the seemingly monolithic Communist bloc. There were direct costs in terms of US relations with India. The Nixon Administration supported Pakistan despite atrocities in what was then East Pakistan, while condemning India's 1971 intervention that culminated in the creation of the new country of Bangladesh.<sup>8</sup> For its part, India prepared for its intervention by signing a Treaty of Peace and Friendship with the Soviet Union, effectively cementing an alliance with Moscow.

After playing mediator and balancer, India suddenly found itself an adversary of both China and the United States. Between 1971 and 1991, India viewed both Washington and Beijing with considerable suspicion, and sided more explicitly with the Soviet Union in matters of defence cooperation and diplomatic coordination. The United States and China were also seen as the chief external sponsors of Pakistan, India's regional rival. During the 1980s, the United States and Pakistan collaborated closely in supporting mujahideen against Soviet forces in Afghanistan. For its part, China transferred nuclear and missile technology to Pakistan, activities about which some in Washington had long been aware.<sup>9</sup> In the early and mid-1980s, China also hardened its position on the boundary dispute with India. While earlier countenancing the possibility of a status quo solution, Beijing became more assertive in its claims to territory south of the



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British-era McMahon Line, which marked the de facto line of control.<sup>10</sup> Nonetheless, despite these conflicting objectives during the late Cold War period, India under Rajiv Gandhi made efforts to reset ties with both the United States and China. The prime minister made important visits to both countries during his tenure. These efforts at improving relations, even from a low base, were only partly successful.<sup>11</sup>

### 1991–2008: Partnerships and Growth

The year 1991 resulted in compounded crises for India, and was arguably a political, diplomatic, economic, and military watershed for the country. India faced a balance of payments crisis and barely managed to avoid default. Its statist and autarkic economy proved vulnerable to shocks, specifically rising oil prices caused by the first Gulf War. The newly-elected national government of P.V. Narasimha Rao was weak, his Congress Party having benefited from sympathy votes following the assassination of Rajiv Gandhi. India's domestic security situation was equally challenging with a separatist insurgency flaring in Jammu and Kashmir, which was being actively supported by Pakistan. Meanwhile, other violent movements festered in Punjab and the country's vulnerable northeast. India was also coming off a misguided intervention into Sri Lanka (1987–1990) which had resulted in over 1,100 Indian military deaths. Finally, the Soviet Union suddenly dissolved, leaving New Delhi without its closest ally since the 1970s.<sup>12</sup>

However, the new, post-Cold War era soon presented opportunities. In the early 1990s, India and China began talks concerning a boundary framework agreement. Essentially, the two countries decided to set their boundary dispute to one side, enabling them to advance other dimensions of their relationship.<sup>13</sup> Meanwhile, India and the United States initiated early defence contacts; however, this came to an end with India's 1998 nuclear tests. The United States led other world powers in issuing sanctions against both India and Pakistan. But after several rounds of negotiation, and

considerable lobbying by India of the U.S. Congress and European powers, the sanctions were lifted by the Clinton Administration. This was in recognition of India's growing appeal as a market, and was helped by steps India took to advance its credentials as a responsible nuclear power.<sup>14</sup>

The United States also helped to facilitate India's progress, particularly after 1999. Initially, this was organic, a product of India's nascent technological prowess and a recognition by some US leaders of India's market potential. During the George W. Bush administration, the objective of facilitating India's rise assumed a more deliberate character. The United States' 'goal is to help India become a major world power in the 21<sup>st</sup> century', a senior US official – later revealed to be State Department Counsellor Philip Zelikow – told journalists in March 2005. "We understand fully the implications, including military implications, of that statement."<sup>15</sup>

Other US officials and advisors offered a clearer rationale. Ashley Tellis of the Carnegie Endowment, in testimony before the House Committee on International Relations, argued:

**"‘Is a strong, democratic, (even if perpetually) independent, India in American national interest?’ If, as I believe, this is the fundamental question and if, as I further believe, the answer to this question is ‘Yes,’ then the real discussion about the evolution of the US–Indian relationship ought to focus on how the United States can assist the growth of Indian power.”<sup>16</sup>**

While India benefited from a conscious decision, even if by a handful of key American leaders, to accommodate and facilitate India's rise, cooperation with China assumed a different character. Following tensions in the aftermath of India's 1998 nuclear tests – which Defence Minister George Fernandes justified, in part, by declaring nuclear-armed China as being India's 'potential threat No. 1'<sup>17</sup> – the countries sought to cooperate on two broad areas of



convergence: trade and global governance. Chinese Premier Zhu Rongji's 2002 visit to India helped lift some of the suspicion, and emphasised the complementarities of the two fast-rising economies. "You [Indians] are number one in terms of software, we [Chinese] are number one in terms of hardware," Zhu told an audience in Bangalore, "Together we make the world's number one."<sup>18</sup>

During the early 2000s, trade relations between India and China took off, from an almost non-existent amount to US\$73.4 billion in 2012.<sup>19</sup> Two-way traffic between the two countries' people also improved, and India and China found common cause in campaigning for greater representation at major multilateral fora. The two countries shared similar concerns about the climate regime proposed by Europe and the United States, leading to the BASIC coalition (Brazil, South Africa, India and China) being formed. Similarly, both sought greater voting shares at the International Monetary Fund, eventually opting to collaborate on the Asian Infrastructure Investment Bank (AIIB) and BRICS New Development Bank (comprised of Brazil, Russia, India, China and South Africa), where they could have a greater say. At the United Nations Security Council, the two countries shared similar concerns about multilateral intervention and the Responsibility to Protect (R2P) commitment.<sup>20</sup>

In the quarter century since the end of the Cold War, India managed to improve its ties with both the United States and China. This involved coming to terms with a period of unrivalled American international power during the 1990s till the early 2000s, as well as the concurrent rise of China, which was historically unprecedented in manner and scale. Nonetheless, it was also a period in which India's international standing improved. Today, India arguably has more resources, more security, and more friends than at any other point in its history.<sup>21</sup> This is not simply a product of good luck, but has resulted from a set of important decisions that were made by successive governments over the intervening

period. India's economy started to grow on the back of liberalisation, a successful services sector, and renewed engagement with the Indian diaspora.<sup>22</sup> National politics became more stable after 1998. The emergence of two major national parties embedded in larger coalitions resulted in several consecutive governments seeing through their full five-year terms. Its 1998 nuclear tests established a successful deterrent, but were quickly followed up by engagement with the international community in a bid to integrate into the nuclear mainstream.<sup>23</sup> India managed to normalise most aspects of its relations with China, and develop a new – and very important – relationship with the United States, with which it now shared both interests and core values.<sup>24</sup>

## 2008–2014: Strategic Autonomy

Throughout the 1990s and early 2000s, as China grew at an astonishing pace, a common underlying belief was that political liberalisation would follow economic liberalisation. The US and Chinese economies would become more enmeshed, generating trust, and dampening potential conflict. But there were periodic reminders to the contrary. The 1995–1996 Taiwan Straits crisis, the bombing of the Chinese Embassy in Belgrade in 1999, and the 2001 Hainan Island incident involving the mid-air collision of American and Chinese military aircraft raised the prospects of greater US–China tensions. India refrained from taking sides, although it joined China in criticism of the US-led campaign in the Balkans.

The period following the 2008 Beijing Olympics and the US financial crisis – and particularly following the ascension of Xi Jinping to China's leadership in 2012–2013 – has renewed the prospect of global competition between the United States and China. While India anticipated the possibility of heightened competition, it initially considered the prospect of equivocating, accentuating its recognition of the importance of good relations with both.



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This was most consciously articulated in a 2012 document, 'Nonalignment 2.0', that was drafted by a group of India's leading intellectuals but based on cooperation and deliberation with members of India's national security establishment. The report's authors noted that, 'China and the United States will undoubtedly remain superpowers. They concluded,

**"Given that India has more interests in 'direct' competition with China, and less with the US, it may be tempting to conclude that the US is a likely alliance partner. But this conclusion would be premature ... Both India and the US may be better served by being friends rather than allies."**<sup>25</sup>

But while cautioning a healthy distance in relations with the United States, the report's authors also advocated a careful balance in relations with China, stating:

**"India's China strategy has to strike a careful balance between cooperation and competition, economic and political interests, bilateral and regional contexts. Given the current and future asymmetries in capabilities and influence between India and China, it is imperative that we get this balance right. This is perhaps the single most important challenge for Indian strategy in the years ahead."**<sup>26</sup>

These broad tenets were often reflected in India's approach to the United States and China between 2008 and 2014.

But this approach faced considerable criticism in India from voices outside of government. Opportunities to advance defence cooperation with the United States were not seized, preventing arms transfers and improved interoperability. Washington complained of India promising but not delivering. There was growing acrimony between India and the United States on issues such as trade, climate change, and cyber security, and a nasty spat between the two governments over the detention of an Indian diplomat in New York proved the chief symptom of deteriorating relations. At the same

time, India's ties with China held but did not see considerable improvement, particularly in matters of bilateral or regional security. China used maps and visas to undermine India's territorial claims, and revised its previously neutral stance on India's disputes with Pakistan.<sup>27</sup> Nor did India see meaningful steps by China to right the trade imbalance in its favour, or to support India's rise as a global power.

### After 2014: Harder Choices

Upon his election in 2014, India's new Prime Minister Narendra Modi moved swiftly to reach out to both Washington and Beijing. His visit to the United States in September 2014 was historic, with Modi feted in the White House and holding a high visibility event for the Indian diaspora at Madison Square Garden in New York. It was followed quickly by an invitation to Barack Obama to attend India's Republic Day, an honour that had never before been extended to a US president. This signalled a newfound willingness of the Indian establishment to be seen publicly as a close friend of the United States. Modi and Obama also signed a Joint Strategic Vision for the Asia-Pacific and Indian Ocean Region. The short document gave a clear strategic underpinning to US-India bilateral relations.<sup>28</sup>

Between 2014 and 2016, India's defence cooperation with the United States intensified significantly along multiple dimensions. The two countries now engage in a large number of staff talks and regular military exercises. They also concluded a long-pending logistics supply agreement in 2016. Military sales have also become more routine, with major defence contracts extending to transportation aircraft, maritime patrol aircraft, and artillery. The two sides have also been working towards joint production and research and development of military hardware. For its part, India has dropped its objections to the United States as a resident power in the Indo-Pacific, this move corresponding with a growing recognition at the senior levels of the Indian government that a strong United States is in Indian interests. India



US President Barack Obama and India's Prime Minister Narendra Modi. Courtesy: MEA [Ministry of External Affairs]

has also deepened security cooperation with US allies, particularly Japan. Along with this, it has started identifying itself in stronger terms as part of a larger Indo-Pacific strategic space.<sup>29</sup>

While momentum grew in relations with the Washington, Modi did not neglect ties with China. Despite specific incidents and irritants before 2014, Modi had inherited a relationship with China that was on a mostly positive footing. The two still had a shared agenda on issues of global governance, including climate change, cyber security, and international financial institutions. The prospects of better economic and trade relations between the two states remained palpable. The border dispute was live but manageable, and India had taken steps to

strengthen its position on the boundary in order to better manage it. This included activating airfields, raising army units meant for mountain warfare, and moving combat aircraft to the Northeast.<sup>30</sup> The biggest dark spot was concern about growing Chinese involvement in the Indian Ocean; ostensibly civilian infrastructure projects that were potentially 'dual use' in that they could be employed just as easily for military as civilian commercial purposes.

Sino-Indian relations were thus a priority in Modi's first year in office, although his China agenda met with a less encouraging response than his US policy. Just weeks before his 2014 visit to the United States, Modi hosted Xi Jinping in India, in his home state of Gujarat. The visit



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was overshadowed by a tense standoff between Chinese and Indian forces at Chumar, where Chinese forces had attempted to advance into disputed territory, changing the facts on the ground. Although Xi's role or knowledge in this matter was never ascertained, it raised doubts in India about China's bona fides, especially as this had come only a year after a similar incident on the border at Daulat Beg Oldi.<sup>31</sup>

The Chumar incident was not the only development to test India-China relations under Modi. Beijing blocked India's entry to the Nuclear Suppliers Group at a critical meeting in Seoul in 2016. It also continued to obstruct efforts to name Masood Azhar, a Pakistan-based terrorist, as a designated terrorist at the United Nations. The advancement of China's ambitious 'One Belt, One Road' infrastructure initiative – particularly the Maritime Silk Road and the China Pakistan Economic Corridor – was not welcomed by New Delhi, which saw this as a strategic project that lacked transparency, sustainability, and accountability, and violated Indian sovereignty. India boycotted the May 2017 Belt & Road Forum in Beijing. The trade imbalance continued to widen in China's favour, with Indian firms becoming increasingly frustrated by lack of access to the Chinese market. Chinese political influence in Nepal, Sri Lanka, and the Maldives – traditionally India's back yard – was seen as nefarious and often conflicted directly with India's desired political outcomes in these countries. The only silver lining was a noticeable increase in Chinese investment in India after 2014.

### The New Strategic Terrain

Today, India's relations with the United States and China look much more precarious than they have since at least the late 1990s. With the election of Donald Trump as US President, doubts began to set in – in India and elsewhere – about the United States' commitment and ability to retain its role in international affairs. Such doubts were not simply a product of Trump's presidential rhetoric, but reflected a growing scepticism among the US public and politicians from both major parties about the costs and benefits of global leadership. This could translate into a less open America, with direct implications for its trade and immigration policies, defence priorities, and outward investment. India, whose priority is to leverage its external partnerships to accelerate its own domestic development, will undoubtedly be affected by the closing off of America.

Of greater concern is that few others can fill the vacuum. China, Japan, Germany, Russia, the United Kingdom, and smaller countries like Canada, Australia, Singapore, the United Arab Emirates, and Israel could increase in importance for India, particularly in niche areas. In the Asia-Pacific, Japan will likely gain greater salience for India.

India will have to continuously engage with Washington in a bid to deepen cooperation on bilateral relations (including trade and investment), on multilateral affairs in a manner that facilitates India's rise, on greater coordination and interoperability in the Indo-Pacific, and on counterterrorism cooperation. In terms of security, this will require continued consultations and information sharing, military exercises, and defence industrial cooperation (including possibly joint research and development) with an eye on interoperability. On the other hand, India is still sensitive to its sovereignty and the perception of its being undermined. It is also deeply sceptical of binding alliances, which it sees as constricting and impractical given India's democracy.





Socializing the US strategic community to these realities will remain a preoccupation of India's strategic establishment.

A bolder and more assertive China will prove just as much of a challenge for India as a recessed United States. In the Xi Jinping era, China has shown greater activity and less risk-averseness with respect to India's neighbourhood, the South China Sea, the Indian Ocean, and at multilateral venues, exposing deeper strategic differences with India. New Delhi will have to remain vigilant about Chinese activities in its smaller neighbours (Nepal, Bangladesh, Sri Lanka, and the Maldives), as well as the Indian Ocean region more broadly. On the disputed border, India will have to keep negotiations open while strengthening its capabilities. It will have to 'Act East' – increase connectivity with Southeast Asia and deepen security partnerships with other maritime powers in the Indo-Pacific – to preserve a balance of power. And it may have to consider asymmetric responses to China's disproportionate power.

But the relationship with China need not be solely a confrontational or competitive one for India. China remains a primary driver of the international economy, and the successful rebalancing of China's economy – a shift from inward investment, manufacturing, and exports to consumption, services, and imports – would naturally complement efforts at boosting manufacturing in India. A continuing

challenge will be convincing China that the successful rebalancing of its economy and its ability to overcome the middle income trap would be facilitated by the success of Indian industrialization and enlargement of the Indian middle class. While New Delhi will continue to seek opportunities with Beijing, along with closer cooperation with Washington, China's assertiveness and actions will be the critical variable in dictating India's strategic orientation.

Over the past quarter century, India has had to adjust to the changing realities of the post-Cold War world and an emerging era of systemic uncertainty. For the foreseeable future, India will have to widen its strategic horizons, place a greater focus on the Indian Ocean, prioritize India's neighbourhood, and deepen security partnerships with the United States and its allies in the Indo-Pacific and West Asia. Seeking avenues of cooperation with both Washington and Beijing, while resisting the encroachment of both over key areas of Indian interest, has been – and likely will be – a continuing preoccupation of leaders in New Delhi. To date, India has proved mostly adept in these efforts. But new developments – including the prospect of a less open United States and new forms of Chinese involvement in India's immediate region – will challenge many of India's longstanding assumptions.

CHAPTER II.

# India in Maritime Asia





## II. INDIA IN MARITIME ASIA

Author: **Darshana M. Baruah**, Research Analyst at Carnegie India

### Introduction

The maritime domain has become a theatre for geo-political competition across Asia. While the seas have always been important for global trade, threats from continental borders kept much of Asia occupied following the Second World War. As countries across the region gained independence and new boundaries were drawn, most Asian nations looked inwards to domestic issues. The maritime domain and in particular the Indian Ocean has been fairly quiet with limited contestations. Absence of strategic competition in the region created a platform for cooperation among the Indian Ocean littorals, mostly in non-traditional threats. Regional institutions such as the Indian Ocean Rim Association (IORA) have created platforms to discuss economic and non-traditional threats as opposed to security and strategic concerns. In the Western Pacific, dialogues under the ambit of ASEAN were a substantial platform to discuss security concerns in Asia-Pacific. However, the security architecture in the region today is changing rapidly. As nations across Asia continue to rise, competition for strategic space is increasing. The maritime space is re-emerging as a key theatre for geo-political competition, challenging the security architecture created after the Cold War.

This chapter examines India's approach to maritime security. In an effort to capture New Delhi's interest and changing policies, there are three sections: the first section examines the changing maritime outlook; the second section aims to highlight India's new engagements in the Indian Ocean and the South China Sea (SCS); the third and final section aims to outline the road ahead for India's role in maritime Asia.

### A Changing Maritime Outlook

Despite a long coastline and a rich maritime history, India has ignored the coastline for the majority of its history. Threats from the continental border kept the Indian armed forces and the bureaucracy occupied with tensions along its northern border. The absence of strategic competition and an inherent maritime role from the British Raj gave New Delhi the space to concentrate on imminent threats emerging along the newly-divided boundary lines. As tensions along the continental border simmered, New Delhi continued to ignore its maritime frontier and concentrate on managing tensions along the border. The Indian Navy's capabilities, its geographic advantages, and the maritime security environment all added to New Delhi's confidence on its maritime policies. However, the security environment began to quickly change, forcing India to review its maritime outlook.

The first shock came with the Mumbai attacks of 2008, popularly known as '26/11'. India was unprepared for an attack of this magnitude approaching from its coast. Pakistani terrorists sailed up to the coast of Mumbai from Pakistan unleashing unimaginable terror on the city. The incident shamed the Navy and Coast Guard, giving the political bureaucracy a rude shock. That a nation boasting a coastline of approximately 7500 kilometres had such significant security gaps in the monitoring, demonstrated the insufficient attention and resources channelled toward India's maritime front.

Following the attack, India boosted its measures to protect and monitor its coastline. Maritime Domain Awareness (MDA) has since become a key priority for the navy. The first phase of the MDA project was to provide seamless cover of India's entire coast. For this purpose, the government has implemented a chain of 74 Automatic Identification System



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(AIS) receivers along the coast, and 46 coastal radars in the mainland and the islands<sup>32</sup>.

Led by the Navy, In 2014 the Ministry of Defence (MoD) launched the National Command Control Communication and Intelligence Network (NC3I), and the Information Management and Analysis Centre (IMAC). This coastal security network

**“collates data about all ships, dhows, fishing boats and all other vessels operating near [Indian] coast, from multiple technical sources including the AIS and radar chain. These inputs are fused and analysed at the Information Management and Analysis Centre (IMAC) at Gurgaon, which disseminates this compiled Common Operating Picture for Coastal Security to all 51 nodes of the Navy & Coast Guard spread across the coast of India”.<sup>33</sup>**

Detailing the role and roadmap for the NC3I and IMAC, the government issued a statement stating:

**“The network provides these stations coastal surveillance information obtained from various sensors such as the coastal radar chain of the Indian Coast Guard and automatic tracking systems as well as electro-optical cameras. The network rides on dedicated terrestrial data circuits, as well as, satellite communication, which helps the stations in remote locations to be networked. The IMAC is the centre where data from various sensors and databases is aggregated, correlated and then disseminated to various stations for enhanced awareness.**

The NC3I network and IMAC are also linked with the prestigious National Maritime Domain Awareness (NMDA) project. In the NMDA project, the NC3I network will function as the communication backbone and the IMAC will continue to be the nodal centre but will be rechristened as the NMDA Centre.”<sup>34</sup>

Additionally, the project also set up Joint Operations Centres at Mumbai, Vishakhapatnam, Kochi and Port Blair, staffed at all hours by the navy, coast guard and marine police<sup>35</sup>. Patrolling and monitoring of coastal waters have increased along with inter-agency coordination exercises between all stakeholders for effective implementation of India's MDA Project. Today, MDA is one of the key areas of cooperation between India and its partners.

Having created a system to enhance its MDA capabilities in its coastal waters, the navy is now looking to expand its MDA capabilities into the wider Indian Ocean. While the 26/11 attacks were directly aimed at India, the Asian maritime security environment began to change post-26/11 too. The rise of tensions in the SCS and East China Sea from 2010 onwards, the docking of Chinese submarines in Sri Lankan and Pakistani ports and increasing commercial activities around India's traditional sphere of influence began to raise concerns and suspicions in New Delhi.

The second shift in India's changing maritime outlook is highlighted by the 2015 naval strategy. The 2015 strategy was an updated version of the 2007 strategy shifting its tone from 'using' the seas to 'securing' the seas. The strategy underlined India's expanding interests, a new security environment and India's aspirations to be a net security provider. The document used the term Indo-Pacific to define its areas of interest for the first time, a concept which is still being debated in New Delhi. The 2015 strategy also stressed the need to expand India's naval engagements, and collaborate with likeminded partners to shape a favourable maritime environment.

The rise of China, changing power dynamics and an extension of Sino-Indian competition to the maritime domain are the key factors driving India's changing outlook. Prime Minister Modi is committed to consolidating India's maritime ties and collaborating with Indian neighbours on maritime security. There is an acute focus within Modi's government on building new partnerships and deepening existing ties. As a result, India today is more present in the region,



2<sup>nd</sup> International Conference on ASEAN-India Cultural and Civilizational Links, Jakarta in January 2017.  
Courtesy: MEA [Ministry of External Affairs]

both bilaterally and trilaterally. However, while India aims to increase its engagements across the domain, its presence can be divided into the Indian Ocean, SCS and the Indo-Pacific.

## Indian Ocean

The Indian Ocean is the primary area of importance for the Indian Navy. Any developments in this domain directly affect New Delhi's security and strategic interests. The Indian Navy considers itself a leading power and commands a prominent role in the region. New Delhi has been active in initiating regional institutions and platforms to discuss issues challenging the region. India initiated IORA, building a sense of community amongst the littorals of the Indian Ocean. India also initiated the Indian Ocean Naval Symposium (IONS);

a platform for regional Navies to gather and discuss security issues. IONS aims to enhance inter-operability and facilitate an understanding of regional challenges; traditional and non-traditional security threats. Apart from IONS, India bilaterally conducts a range of exercises with a number of navies across the Indian Ocean. At the multilateral level, the navy hosts exercise MILAN for interaction among the Bay of Bengal littorals.

In the non-traditional security sphere, India prides itself in being the first to respond to natural calamities in the region. India's preparedness to deal with natural disasters at the regional level was tested during the Indian Ocean Tsunami in 2004. Caused by a 9.1 magnitude earthquake in Indonesia, the tsunami affected most nations in the Indian Ocean region. The destruction and dislocation of



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the affected areas was at a significant high and underlined the need for disaster management in the IOR. The Indian Navy's ability to respond to its neighbouring countries despite high casualties at home marked a new beginning in India's High Availability Disaster Recovery (HADR) capabilities. The Andaman and Nicobar Islands, geographically closer to the Indonesian archipelago than to the Indian mainland, was the worst hit in India. The southern coast of India was particularly affected by the tragic loss of life and property. The Indian Navy, with support from the other forces and agencies, was able to respond to the situation both at home and abroad. Indian relief and support ships arrived in Sri Lanka within 12 hours and the Maldives within 24 hours. India was able to send help and assistance to Indonesia, also. The navy's ability to respond in a short time displayed its level of preparedness when the region was caught unware. There were no preparations with poor disaster management mechanisms leading to massive destruction. After the initial effort of relief and rescue, India also extended help in restoration and construction of critical infrastructure.

The Bay of Bengal is considered one of the most disaster prone areas in the world. Cyclone Nargis that hit Myanmar in 2008 was another significant natural disaster in the IOR. The region came together in relief and restoration operations for the country. India deployed ships and sent emergency relief including medical teams, support staff and cash assistance of US\$200,000. The property loss from the cyclone in Myanmar is estimated around US\$10 billion.<sup>36</sup> Similarly, India led evacuation efforts during the 2015 Nepal earthquake. The 7.9 magnitude earthquake caused widespread casualties with over 7,000 dead, and loss of property. India was at the forefront of HADR as well as restoration missions. During cyclone Roanet which hit Sri Lanka and Bangladesh in 2016, India again came forward in its HADR missions affecting its immediate neighbours.

In Southeast Asia, India sent ships and relief materials during 2013 typhoon Haiyan which hit the coast of Philippines.

Outside of natural disaster management, Indian forces are also well prepared for evacuation of citizens from conflict torn zones. One of the recent and notable exercises was 'Operation Rahat' to rescue citizens from war torn Yemen in 2016. India's success during Rahat led to requests from nations globally for assistance in evacuating their own citizens. The operation led to the evacuation of 4,714 Indian and 1,947 foreign nationals from 48 countries.<sup>37</sup> Rahat echoed a resounding success placing India as a leader in HADR operations at the region. India has also played critical and leading roles in the Maldivian water crisis in 2014<sup>38</sup> and the Nepal earthquake of 2015.<sup>39</sup> On Search and Rescue, India deployed extensive resources for the search of Malaysian Airline MH 370 across the Andaman Sea, Bay of Bengal and the Indian Ocean.<sup>40</sup>

While India continues to take a lead in the Indian Ocean region, its outlook has changed in one front. New Delhi today is willing to break out of its traditional hesitations and build new partnerships to shape the regional security environment. For far too long, India ignored the changing dynamics in the maritime domain, relying on its geographical advantages. While New Delhi watched closely as new actors began to enter the Indian Ocean, the political class undermined its strategic implications. As China began to gradually expand its footprints across the Indian Ocean, New Delhi was certain Beijing is far from challenging India's influence in the region. By the time India began to look at the developments closely, China had made port calls in Sri Lanka, deployed nuclear submarines to Karachi, strengthened its security and economic ties with nations such as Bangladesh, Myanmar, Maldives, and Mauritius, and begun building economic corridors along its continental and maritime borders. Although there is no debating the capabilities of the Indian Navy as opposed to new players in the Indian Ocean, this advantage can be quickly overcome.

The current Indian government understands the urgency in responding to the security changes in the Indian Ocean to secure its strategic





interests. New Delhi today is keen to explore new collaborations and partnerships to address the changing regional security environment. Today, the Indian Navy has considerably stepped up its engagements with the other littorals and cooperation with these navies has become a critical part of India's maritime strategy. There is a political will within this government to explore new possibilities and push ahead with old ideas. New Delhi's decision to include Japan as a permanent participant to exercise MALABAR, India's bilateral exercise with the US, White Shipping Agreements on data sharing with countries across the region, a logistic support agreement with Washington (LEMOA), a greater MDA interaction and an increase in trilateral formats and discussions are all examples of a new maritime thought in India. Five years ago, many of these new initiatives were unthinkable under the gambit of Indian foreign policy. Today, New Delhi is willing to step out from its self-imposed restrictions, break out of its traditional approach and embrace new ideas and possibilities. Along with a greater political will, the changing security architecture has forced India to re-examine its maritime policies. However, despite such a shift in its maritime approach, India's actions on the ground are far from substantial when considering the magnitude of changes occurring in its neighbourhood. India will have to decide on its strategy and chart out a road map to retain its prominent role in the Indian Ocean region. There are massive bureaucratic challenges that could seriously slow down the positive momentum of India's regional engagement. New Delhi still struggles to articulate its interests and define its threats- which could help the Indian Navy chart out a coherent strategy to play its role in the Indian Ocean. Despite positive changes, India is struggling to develop the Andaman and Nicobar Islands, a geo-strategic asset that is in urgent need of development and investment. Such an approach signals a lack of a strategic vision, despite India's political will to play a stronger security role in the Indian Ocean region. However, if India continues to tap into this momentum, engage with friends

and partners and re-imagine its terms of engagements, New Delhi can emerge as a foundational pillar of new security architecture in the maritime domain.

## South China Sea

While the Indian Ocean is an area of primary interest to the Indian Navy, the South China Sea (SCS) is a close second. India has traditionally maintained its distance from the SCS dispute and refrained from making direct comments on the issue. The current Modi government has taken an active but limited approach to the issue. While New Delhi previously did not raise this issue at an international level, it now discusses the destabilising nature of the dispute at bilateral meetings with countries not involved in the dispute and at regional forums such as ASEAN. India was also one of the first countries to issue a statement in support of UNCLOS and established norms when Beijing refused to recognise the verdict by the UN tribunal court in July 2016. One of India's biggest contributions is its maritime dispute resolution with Bangladesh. Just like the Philippines, Bangladesh took its boundary dispute with India to the UN tribunal court and the court ruled in favour of Dhaka. India lost a significant amount of its claimed waters but accepted the verdict, setting precedence on dispute resolution behaviour in the maritime domain.

New Delhi has increased its defence and political engagements with the ASEAN nations, from giving lines of credit, to patrol vessels and setting up satellite tracking stations in Vietnam. However, despite its new approach to the SCS dispute, the region has been disappointed in India's role in balancing a rising China. Strategically, India has little to gain by confronting China over its actions in the South China Sea. New Delhi has turned down calls from Washington to join Freedom of Navigation patrols in the SCS but has reaffirmed its commitment to join such exercises under the UN. India recognises its limitations in the Western Pacific and is unlikely to be at the forefront of challenging Beijing in those waters.



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India is more likely to continue its support and engagement with the ASEAN littorals rather than joining extra regional powers in challenging China in the SCS. India will continue to focus on capacity-building mechanisms with nations such as Vietnam and the Philippines. In addition, it will focus on maintaining and perhaps increasing its presence in the SCS as a response to the hostile maritime environment in those waters. India must continue its policy of deepening engagements and continuing its presence in the SCS as it looks to shape new regional power dynamics.

### Conclusion

India's maritime policy has gone through significant changes in the last three years. Although slow to react, New Delhi is picking up the pace in its naval engagements. There is, however, a need for a clear response to the changing environment in India's area of interest. While India may be picking up the pace, it may not be enough to match the rapid changes occurring in its neighbourhood.

Along with increasing its engagements, India will have to explore and debate ideas such as facility-sharing in the Indian Ocean, burden sharing, the need for a white paper and perhaps a new Indian Ocean strategy. Regional players such as the US, Australia, Singapore, and Japan are keen to see New Delhi play a stronger role in the region and are willing to support a stronger Indian role. India must find a way to exploit the opportunities available and tap into the momentum in order to achieve its strategic interests. But first, it must define the role it wants to play and identify its threats and competition, old and new. New Delhi today is in a position where it can discuss and renegotiate the terms of engagements as it steps out of its past hesitations and invests in new partnerships. However, If New Delhi fails to act on its intentions, it might struggle to retain a dominant position in the Indian Ocean region and create a favourable position within the Indo-Pacific.

CHAPTER III.

# Strategic Convergence as Uncertainty Abounds: New Delhi's Ties with Tokyo and Canberra





### III. STRATEGIC CONVERGENCE AS UNCERTAINTY ABOUNDS: NEW DELHI'S TIES WITH TOKYO AND CANBERRA

Author: **David Lang**, Research Analyst and Managing Editor at the Australian Strategic Policy Institute

Since his election in 2014, Prime Minister Narendra Modi has brought energy and dynamism to India's international engagement, imbuing it with an appropriate sense of purpose for these interesting times. Modi has been an indefatigable diplomat, racking up the air miles while on a mission to expand his country's strategic horizons and secure India's place as a key global power. He has boosted India's annual defence budget, and pledged to modernise the country's armed forces. Modi has labored to carve out a role for India as a net security provider in the Indian Ocean, along with a greater presence in Asia-Pacific, having reoriented the 'Look East' policy of the 1990s into an activist 'Act East' initiative. As part of that effort, he has sought to deepen partnerships with a range of nations, particularly Japan, Australia, and Vietnam, and has spearheaded India's exceptional outreach to the United States.

The Prime Minister's actions have been driven by an acute awareness of how strategic rivalries are heating up across the Asia-Pacific. While visiting Japan in September 2014, Modi reflected that, "Everywhere around us, we see an 18<sup>th</sup> century expansionist mind-set: encroaching on another country, intruding in others' waters, invading other countries and capturing territory."<sup>41</sup> Two months later in a speech to the Australian Parliament, Modi contended that, "historical differences persist [in the region] despite growing interdependence. The oceans are our lifelines but we worry about access and security in our part of the world more than ever before."<sup>42</sup> His interventions were oblique references to the destabilising and assertive campaign Beijing has pursued over recent years; New Delhi has watched with increasing alarm as China has pressed on India's northern border and projected power into the Indian Ocean.

This paper takes stock of India's strategic convergence with Japan and Australia at a time when a new US administration has cast a long shadow of uncertainty across the Asia-Pacific. With a question-mark over the shape of US-Asia policy and in the face of China's ongoing campaign to reshape the Asia-Pacific in its vision, America's regional allies and partners must now work to boost their own security by underwriting a liberal and prosperous order and stable balance of power in the Asia-Pacific. To do so they must nurture the region's nascent multipolar architecture by evolving the US-centric San Francisco alliance system into a modern, resilient security web that spans the Asia-Pacific. The trilateral between India, Japan and Australia is an example of the sort of interest-based engagement Washington's allies and partners should focus on. The paper advocates a range of diplomacy and defence-focused options to expand and entrench the trilateral, and also looks at potential 'plus-one' cooperation with the United States.

#### India and Japan: confluence and consequentiality

While the strategic relationship between India and Japan has been tightening for the past 17 years, prime ministers Modi and Abe have come together to build one of the region's warmest and most consequential bilateral relationships.

#### The Modi-Abe bonhomie

Japanese Prime Minister Shinzo Abe has long advocated for closer relations between Japan and India. In his 2006 book, Abe claimed (somewhat astonishingly) that it "would not be a surprise if in another decade Japan-India relationships overtook Japan-US and Japan-China ties."<sup>43</sup> The following year, while on a state visit to India during his first term as prime minister, Abe delivered a historic address to the Indian Parliament where he spoke of the "need



Japanese Prime Minister Shinzo Abe and India's Prime Minister Narendra Modi. Courtesy: MEA (Ministry of External Affairs)

for the Indian and Japanese governments to join together to shoulder more responsibility as guardians of navigational freedom across the Pacific and Indian oceans.<sup>44</sup> His vision was based on shared values and interests. Prime Minister Abe has long been fond of saying that Japan-India relations have the greatest potential of any bilateral relationship in the world.<sup>45</sup> And so the political stars were aligned when Abe was again serving as Japan's Prime Minister and Narendra Modi was elected to high-office in 2014.

Prime ministers Modi and Abe have made haste to fulfill the potential of Indo-Japanese strategic and economic relations. In the process they have built one of the most compelling leader-level relationships in the Asia-Pacific. On paper they have a reasonable amount in common. Both are conservative nationalists. Both lead populous, important countries. Both came to power pledging substantial economic reform to get their nations 'back on track'. Both are driven by a desire to restore national pride, and see their countries as actors of consequence in the Asia-Pacific. And both are troubled

by their respective territorial disputes and escalating strategic rivalries with China: Japan is locked in an ongoing tussle with Beijing over the Senkaku/Diaoyu Islands in the East China Sea, while Delhi's attention is directed towards simmering tension with Beijing at the Line of Actual Control in the Himalayas, a hangover from the 1962 Sino-Indian war. On the basis of shared interests, values and concerns, along with a notable absence of any historical baggage, Modi and Abe see each other as kindred spirits working to adapt their nations to Asia's shifting strategic landscape.

### Boosting the bilateral

The strategic connection between India and Japan has been tightening since the turn of the century. A 'Global Partnership' agreement signed in August 2000 provided the foundation upon which the bilateral relationship could get back on track following India's nuclear tests in 1998. Early in his first term as Prime Minister of Japan, Shinzo Abe and his Indian counterpart, Manmohan Singh, announced a 'Strategic and Global Partnership', setting a strong upwards



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trajectory for the relationship. Meaningful security cooperation was pursued across the next seven years, including the Malabar naval exercises (with the US, Australia and Singapore) in 2007, a joint declaration on security cooperation in 2008, the establishment of '2+2' foreign and defence ministers' meeting in 2010, and the start of the Japan-India maritime exercise in 2013. Though, as has been noted, "this period [through to 2014] was also marked by a degree of hesitation, with Indian reticence about multilateral exercises in the Indian Ocean and Japanese attempts at assuaging China's concerns."<sup>46</sup>

Prime ministers Modi and Abe have overseen the most recent boost to Indo-Japanese cooperation, which came in 2014 when the relationship was elevated to a 'Special Strategic and Global Partnership'. Annual premier-level consultations have increasingly delivered substance to undergird such ambitious rhetoric. During their 2014 summit, Modi and Abe signed a Memorandum of Cooperation and Exchanges in the Field of Defence to "upgrade and strengthen"<sup>47</sup> the bilateral defence relationship. At the end of the 2015 Modi-Abe summit, an ambitious joint statement – India and Japan Vision 2025 – was released to recognise the leaders' intention to develop the relationship into a "deep, broad-based and action-oriented partnership, which reflects a broad convergence of their long-term political, economic and strategic goals."<sup>48</sup> The convergence was even more pronounced at the 2016 talks, where India's 'Act East' vision was married with Japan's 'Free and Open Indo-Pacific Strategy'. The big-ticket item emerging from those talks was a long-sought agreement on civil nuclear cooperation, a development which augured well for India's nuclear energy sector and was a sizable diplomatic victory for Delhi given that it is not a party to the major nuclear disarmament treaties.<sup>49</sup>

While a long sought-after deal on the US-2 aircraft remains elusive, the notes struck by both prime ministers at premier-level consultations since 2014, and filtered down

through ministerial and official exchanges, have reflected the warmth and opportunity upon which Japan and India have built an increasingly important strategic partnership.

### India and Australia: striving for substance

The strategic relationship between Australia and India has warmed considerably over the past decade as Delhi and Canberra have increasingly acknowledged the potential of their alignment. Translating rhetoric into reality is the next challenge.

India and Australia have much in common: both are English-speaking Westminster-style democracies, both champion the rule of law, both are Indian Ocean maritime powers, and both maintain an interest in a stable and secure Asia-Pacific. Delhi and Canberra also sustain deep economic relations with China, along with abiding anxieties around how Beijing wields its growing power. There are also a range of other issues that drive the relationship forward, including, among others:

**"a mutual recognition of the value of cooperation in Indian Ocean maritime security; mutual objectives to build institutions and a sense of regionalism in the Indian Ocean; shared interests in peace and political stability in Southeast Asia; opposition to violent extremism; [and] shared interests in the security of sea lines of communication and principles of freedom of navigation."**<sup>50</sup>

The nascent strategic relationship between India and Australia has been boosted by some important state visits and defence and security agreements over the past decade. In November 2009, then Australian Prime Minister Kevin Rudd travelled to New Delhi where he signed the Joint Declaration on Security Cooperation between Australia and India. The pact identified eight key areas of cooperation (and outlined consultative mechanisms) on decidedly low-sensitivity security interests, including law enforcement, terrorism, disaster management





Australian Prime Minister Tony Abbott and India's Prime Minister Narendra Modi hugging. Courtesy: MEA (Ministry of External Affairs)

and transnational organised crime. But it was during Narendra Modi's first year in office that the relationship between Australia and India really began to develop a strategic hue.

The high-water mark for the strategic relationship came in the form of reciprocal state visits in quick succession in 2014. Australian Prime Minister Tony Abbott was received in New Delhi in September 2014; he was Modi's first state guest. The two leaders signed an important pact on civil nuclear cooperation, and Abbott was effusive in his praise of India, calling it "the world's emerging democratic superpower", "a model international citizen", and a "friend to many" that "threatens no one."<sup>51</sup> Come November, Modi visited Australia for the G20 summit in Brisbane, after which

he continued on what was the first visit to Australia by an Indian Prime Minister in 28 years. He spoke of a "natural partnership, arising from our shared values and interests, and our strategic maritime locations,"<sup>52</sup> and noted Australia as one of India's "foremost partners" in the Asia-Pacific. One of the visit's most notable outcomes was the signing of the Framework for Security Cooperation, which instituted annual prime ministerial summits, regular maritime exercises and training, and collaboration on defence technology, counterterrorism and disarmament, among other areas. All in all, the framework set out a plan to mature Indo-Australian defence and security engagement, and stood out as important symbol of an evolving strategic relationship. The first biennial AUSINDEX



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naval exercises –focused on anti-submarine warfare –took place in the Bay of Bengal in September 2015.

### Fulfilling the partnership's potential

While the strategic relationship has been boosted by high-level political and rhetorical investments over the years, practical defence cooperation and meaningful military-to-military engagement remains underdone. The energy that imbued the strategic relationship after reciprocal prime ministerial visits in 2014 has waned. In part, that might be down to Malcolm Turnbull replacing Tony Abbott as Australia's prime minister in September 2015; compared to his predecessor, Turnbull has had fewer opportunities to show his enthusiasm for India. Regardless, the lack of substance in the security and defence relationship today speaks to the challenges of trying to build and sustain meaningful bilateral collaboration even when both partners share values, interests and concerns.

According to Hall, Australia's 2016 Defence White Paper highlights how the defence relationship with India has matured this century "in ways that better recognise its possibilities and its limits. The language it uses about India is warm, but realistic, and emphasises interests rather than ideals."<sup>53</sup> Credible representations and interest-driven agendas are important factors to forge more consequential strategic ties between the two nations. The active international agenda that has been pursued by Modi since 2014 presents an opportunity to build the momentum that is absent today.

### India, Trump and nurturing minilateralism

Donald Trump's ascension to the Oval Office has unnerved Washington's regional allies and partners, who wait to see what 'America First' – his nationalist, isolationist and protectionist campaign platform –has in store for the Asia-Pacific. His arrival must stimulate India and others to think anew about how to boost their own security, and limit regional instability,

as the Trump Presidency unfolds and an immutable strategic transformation continues to play out across the Asia-Pacific.

### Evolving Asia's security architecture in the time of Trump

Policymakers in capitals across the region had reason to be anxious about Trump's campaign rhetoric. Throughout the race to the White House, Trump openly questioned the utility of Washington's world-wide web of alliances. He branded NATO as "obsolete"<sup>54</sup> and unloaded on Asian allies like Tokyo and Seoul, pillorying them as security free-riders who should pay more and do more for their own security. Trump expressed his scepticism of multilateralism, instead noting his preference for transactional deal-making on a bilateral basis. After the Trans-Pacific Partnership –the 12-nation trade pact that formed the economic arm of President Obama's rebalance to Asia – was rubbished by Trump through the 2016 campaign, the agreement was binned as one of the new President's first official acts. The early outline of the Trump administration's foreign policy indicates a welcome degree of moderation; NATO is again recognised as having utility, and China was not declared to be a currency manipulator, for example. Asia has welcomed a number of senior administration officials including Vice President Mike Pence, Secretary of State Rex Tillerson, and Secretary of Defence Jim Mattis, all of whom have sought to deliver to allies' messages of reassurance. At the very least, however, it appears that President Trump is set on rejecting a whole host of entrenched assumptions about the leadership role Washington plays in the world. In doing so, he seems poised to turn decades of strategic orthodoxies on their head.

Reliability and presence lay at the heart of Washington's potency and credibility as a strategic actor. Indeed, uncertainty around America's leadership role could metastasise into regional instability and could even pose a threat to the post-war global order over which the US has presided. Such developments have the potential to accelerate the decline of



America's relative strategic weight in Asia, a process that has been unfolding since the turn of the century. The goal of America's regional allies and partners, then, is to stave off US disengagement in Asia's strategic affairs and underwrite both a liberal and prosperous order and stable balance of power in the Asia-Pacific.

One way to contribute to such an objective is to evolve the 'hub-and-spokes' alliance model. Over recent years, some of America's Asian allies have sought to cultivate closer ties not just with Washington, but also with other US allies in the region. Given the current uncertainty around the contours of Washington's commitment to the region, efforts should be made to evolve the US-centric San Francisco system into a modern, resilient security web that spans the Asia-Pacific. While allies and partners want to see the US maintain its strong regional relationships and role, they must also invest more in their relationships beyond Washington. Given its ambition and consequence, India has a role to play here. Asia-Pacific powers should develop new networks in minilateral formats, not involving Washington or China, drawn together based on interests and around a shared set of liberal rules and norms.

Fostering this sort of regional security architecture carries some distinct benefits. First, it allows players to hedge their bets on US disengagement by distributing risk across a diverse set of investments. Second, it affords players a chance to buy into a cooperative security position stronger than they could sustain on their own. Third, divvying up leadership, power and influence serves to further draw out the region's emergent multipolar flavour as Pax Americana fades. Fourth, US allies and partners get to do their part to uphold shared regional security interests, in turn sending an important signal to the Trump administration that they are willing and able to share the burden, rather than free-ride. Fifth, such networks would serve to build habits of cooperation and communication, showing that allies and partners are capable

of working together without Washington's involvement or imprimatur. And sixth, the sheer range of players involved on interest-based projects—along with the exclusion of the US—helps to undercut suggestions that such endeavours are part of a US-led conspiracy of containment or encirclement against China.

A concerted effort to nurture a robust network between US allies and partners across the Asia-Pacific is intended to supplement the hub-and-spokes model—not supplant it—in order to enhance regional resilience, security and stability.

### **The not-quite-quadrilateral: India, Japan, and Australia**

The nascent trilateral between India, Japan, and Australia is a prime example of the sort of interest-based grouping that could lie at the heart of an evolved regional security architecture. The trio's foreign secretaries first met in Delhi in June 2015 for a frank dialogue on regional challenges, where they focused on maritime security issues. The meeting highlighted not only "a shared understanding of China's rise and the challenges of regional security," but also "their collective willingness to play a greater role in Asia-Pacific security matters."<sup>55</sup> The group's second meeting followed in Tokyo in February 2016, and its third was hosted in Canberra in April 2017.

The alignment between India, Japan, and Australia reflects the interests, values and concerns which animate their respective foreign policies today. They share a fundamental interest in maintaining peace and stability throughout the Asia-Pacific, along with a commitment to the values of democracy, freedom and the rule of law. All have been concerned by the assertive steps Beijing has taken in recent years to militarise the South China Sea, along with the ongoing project of unilaterally forcing a shift in the regional status quo. It is on top of this broad strategic convergence that India, Japan and Australia can look to energise, orient and mature their trilateral engagement.



## REALISING THE INDO-PACIFIC: Tasks For India's Regional Integration

With three meetings now under their belt, Delhi, Tokyo and Canberra should boost the status of their dialogue. An easy win lays waiting in convening a meeting of the group's respective foreign ministers. Such a gathering would be intended to complement the officials-level meeting already in place, providing an opportunity to acknowledge the importance of hierarchy in Asia, to build relations between the three chief diplomats, and to serve as a symbol of the trio's shared agenda in interesting times. (Such a move should be within the realm of possibility—the India-Japan-US officials-level trilateral was boosted to a Foreign Ministers' meeting on the sidelines of the UN General Assembly in 2015, continuing at the officials-level the following round.<sup>56</sup>) There is also scope for a meeting of defence officials or ministers, in order to build a parallel track of engagement to accompany the foreign affairs effort (though admittedly bringing a harder edge to the trilateral grouping). Regional forums like the East-Asia Summit could provide useful opportunities for agenda-setting and position-coordination among the group, as well as for discussions on the sidelines between prime ministers.

Beyond these diplomatic activities, the three should also look to develop military-to-military contacts. Such work could start with decidedly low-sensitivity defence activities. The three maintain strong and capable navies, which naturally opens the door to a focus on maritime activities. Cooperation through humanitarian assistance and disaster-relief contingencies would be politically straight-forward, as would information-sharing on white- and grey-shipping in the Pacific and Indian oceans. All three navies are well-placed to conduct anti-submarine warfare activities in order to further develop a theatre-wide operating picture and illuminate shared maritime interests; such exercises might also have air and underwater surveillance components. Air defence and surface warfare are other useful activities for the trio, as would be joint efforts to build contacts and capacity among other navies in the region, particularly with Indonesia, Vietnam and the Philippines. Building practical

military cooperation between India, Japan and Australia would be an important step for the nascent trilateral, presenting opportunities to build interoperability, shared understanding, professional relationships and trust.

Maturing the diplomatic and defence activities of the India-Japan-Australia trilateral would position it as an exemplar of cooperation between US allies and partners. Indeed, the group's strength lies in the fact that the US is not involved, so their activities are less likely to automatically arouse suspicions in Beijing. While the trilateral is aimed at sustaining a favourable balance of power and evolving the region's security architecture, there may be a perception that it is aimed at Beijing. Indeed, at the time of the first trilateral meeting, Australian Department of Foreign Affairs and Trade Secretary Peter Varghese rejected that the group represented an "anti-China front."<sup>57</sup> While the three should disabuse those proffering such a theory, to the extent that the troika's activities feed into China's calculus about how it uses its growing power as a stakeholder in the regional system is a positive corollary.

While the strategic convergence between India, Japan, and Australia is based on a range of complementary factors, it is important not to lose sight of the fact that the three countries are very different beasts. While the trio coalesce around a set of shared interests, their broader conception of their individual interests will rarely be homogenous; indeed, they may never perfectly align. Delhi, Tokyo, and Canberra have different order-building traditions and maintain different strategic visions for the Asia-Pacific. Each perceives a different mixed-bag of benefits and risks that would come with deeper trilateral engagement, thanks to their varied histories, philosophies and outlooks. Such differences will naturally burden diplomatic and defence initiatives among the three, so to understand and accommodate them is to give the trilateral the best chance of success.



The India-Japan-Australia trilateral is proposed here as a contribution to evolving the region's security architecture in order to maintain a stable, liberal and prosperous order. It is necessary, however, to recognise the reality of multilateral security cooperation in the Asia-Pacific. Lyon argues that there is actually less to it than we might otherwise think: "Whatever cooperation does exist is clustered at the confidence-building end of the spectrum; actual agreements to come to each other's aid in the event of an attack don't exist."<sup>58</sup> Elsewhere Lyon writes about how Australia might improve its lot as Asia's strategic balance shifts. He notes that building bridges with US allies and other key players in Asia is an option, but that those bridges will require "heavy-duty engineering in terms of shared commitments—not merely in terms of others' commitment to us, but vice versa."<sup>59</sup> While it is difficult to imagine any combination of India, Japan, and Australia today committing to help meet each other's varied security concerns, their nascent interests-based trilateral cooperation should merely be considered a starting point for more meaningful activities of the sort that contribute to regional stability. Should a more fractious regional security environment spur the three parties to deepen their cooperation, such developments would be built on the symbolic meetings and exercises outlined above, which speaks to the importance of lining up a realistic and practical agenda for this young trilateral.

### The Quad 2.0

No discussion about the India-Japan-Australia triumvirate can possibly be complete without exploration of the US as a 'plus one' partner. The Quadrilateral Security Dialogue, or Quad, has a storied history, having emerged in 2007 buoyed by cooperation in response to the 2004 Indian Ocean tsunami. On the sidelines of the ASEAN Regional Forum in May 2007, US Vice President Dick Cheney convened the inaugural (and only) official meeting of the Quadrilateral countries with Prime Minister Singh of India, Prime Minister Abe of Japan and Prime Minister John Howard of Australia. The September 2007 iteration of the annual India-US Malabar naval exercise saw it momentarily evolve into a large multilateral endeavour in the Bay of Bengal involving the US, India, Japan, Australia, and Singapore. Beijing registered its irritation at the proposal at various times across 2007,<sup>60</sup> and Australia's newly-elected Rudd government unilaterally withdrew from the group in 2008 for fear of agitating China.

But that was then. China's recent years of bellicosity and brinksmanship have increasingly hardened the strategic outlook and tightened the alignment between the one-time Quad partners. As a result, the spectre of the Quad has been raised time and time again: by Abe in a piece for *Project Syndicate* in 2012<sup>61</sup>, in Modi's consultations with Abbott in 2014,<sup>62</sup> and with US President Barack Obama in 2015<sup>63</sup>, and by Admiral Harry Harris<sup>64</sup>, Commander of the US Pacific Fleet, to name but a few high-profile interventions. In Tokyo recently for the 2017 '2+2' foreign and defence ministers' meeting, Australia's Defence Minister Marise Payne noted that Australia is "very interested in a quadrilateral engagement with India, Japan and the United States". Shortly after this intervention it was reported that New Delhi was set to reject Australia's request to observe the July 2017 Malabar exercise for fear that such an invitation would rankle Beijing.<sup>65</sup>



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Reviving the Quad has a range of costs and benefits. While it would be a way to demonstrate to Beijing that its recent assertive behaviour has been out of step with its neighbours' expectations, there is also a real risk that Beijing will again characterise the initiative as containment, encirclement or as an 'Asian NATO'. Member countries should resist such claims and transparently make the case, through words and actions, that the grouping has been reconvened based on its members' shared interest in a stable, open and prosperous regional order in which a responsible China works to the established set of rules and norms upon which Asia has grown.

Regional dynamics make it necessary for America's allies and partners in Asia to conceive of creative ways to underwrite their own security. The trilateral between India, Japan, and Australia is a proactive burden-sharing activity for three of Asia's maritime democracies to express coalescing interests and contribute to regional stability. Pending the character of China's contributions to the region and Washington's appetite for strategic signalling that comes with such baggage; meaningful cooperation between India, Japan and Australia would provide a sound foundation upon which to launch the Quad 2.0.



CHAPTER IV.

# India's ASEAN relations





## IV. INDIA'S ASEAN RELATIONS

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### Introduction

This year marks the 25<sup>th</sup> anniversary of India's dialogue relations with the Association of Southeast Asian Nations (ASEAN). However, India's shared history with the nations of Southeast Asia extends back centuries, with vestiges of linguistic and religious influences evident throughout the sub-region today. During the Cold War, India and several Southeast Asian states were founding members of the Non-Aligned Movement and ardent supporters of other multilateral regimes such as the United Nations. In more recent times, India and Southeast Asia's interests converge further as the Asia-Pacific region appears increasingly multipolar and strategic competition grows more distinct. In fact, the growing usage of 'Indo-Pacific' is a reflection on the part of regional states that the linkages and interactions between the Indian and Pacific Oceans have created a single maritime entity. While the 'Asia Pacific' remains an important region, the 'Indo-Pacific' is an even better construct for analysing India-ASEAN relations with the Indian Ocean being India's primary area of maritime interest and the Pacific Ocean bearing heavily on Southeast Asia's trade and security.

Both India and Southeast Asia (collectively as ASEAN and as individual Southeast Asian states) stand to benefit from closer cooperation. India's desire to further engage with the region is predicated on growing its economy and expanding its strategic influence. India remains non-aligned but seeks greater influence commensurate with its size, reflected in its desire, for instance, to join the United Nations Security Council as a permanent member. In terms of immediate neighbourhood, India seeks to counter pervasive Chinese influence. India's leader, Prime Minister Narendra Modi, was elected on platform of economic development and good governance, and so domestic

imperatives provide further impetus to 'look east', particularly southeast.

While some Southeast Asian states are formal allies of the US or share close relationships with China, building ties with another significant regional player such as India is critical for the grouping to maintain its strategic autonomy and a balance of power in the region, as well as securing a source of investment and trade. Another key driver of closer India-ASEAN relations is the growing uncertainty about the extent to which the US will continue to play a key role in security and economic matters. For now, the Trump administration appears keen to engage with some Southeast Asian countries and is participate in regional architecture such as the East Asia Summit, but whether that attention will be sustained over the long-term remains unknown.

This chapter will outline the major areas of strategic and economic engagement between India and the ASEAN grouping. The first third summarises India's 'Look East' and 'Act East' policies, the middle third discusses India-ASEAN cooperation in building Indo-Pacific regionalism, the last third will explore India's key bilateral relationships with Indonesia, Myanmar and Vietnam, before concluding with some of the challenges for the 'Act East' policy ahead.

### Look East, Act East

The end of the Cold War brought about the necessary structural and ideological shifts to foster closeness between India and Southeast Asia. Importantly, each gravitated towards the other cautiously, building more economic, strategic and political connections. Indian leaders also recognised that cordial ties with its Asia-Pacific co-inhabitants would also be a boost for any aspirations toward greater global significance.



India's aspirations to engage ASEAN, and Southeast Asian nations, was articulated as part of its 'Look East' policy of 1991. More broadly, the 'Look East' policy was designed to boost India's relevance in a post-Cold War world. At that time, individual Southeast Asian states saw India as a source of investment opportunity as well as potential arms and technology supplier.

India's relationship with ASEAN has evolved multiple times, beginning with Sectoral Partner of ASEAN in 1992, Dialogue Partner in 1996 and Summit Level Partner in 2002.<sup>66</sup> In 2004, India became a signatory of the ASEAN Treaty of Amity and Cooperation, and in 2012, India and ASEAN released a vision statement. In 2015, India opened the doors to its dedicated ASEAN mission in Jakarta. Since the early 2000s, India-ASEAN ties have evolved into a

formal arrangement with the signing of various agreements including on free trade. In fact, dialogue and cooperation spans areas including trade, investment, people-to-people links, maritime issues, transport, infrastructure, technology, R&D, terrorism, tourism, climate change, education and IT, among many more.

India's ability to build its diplomatic presence in the region has been supported by its interactions with ASEAN. While steadily maturing from 'sectoral dialogue partner' in 1992, India has met the 'Look East' policy's aims of becoming a part of regional architecture. Further achievements on its diplomatic scorecard include founding membership of the East Asian Summit in 2005 and the declaration of India and ASEAN's strategic partnership in 2012.

19<sup>th</sup> ASEAN – India Senior Officials Meeting in April 2017.  
Courtesy: MEA (Ministry of External Affairs)





## REALISING THE INDO-PACIFIC: Tasks For India's Regional Integration

Other factors that have contributed to closer ties with Southeast Asia include India's growing diplomatic standing. One important step in that regard was the warming of US-India ties, manifested by the signing of the US-India Nuclear cooperation agreement in 2005. The Obama administration was also keen for India to become a more active player in the region, with then-Secretary of State Hillary Clinton calling on the subcontinent as early as 2011 to not just "look east but act east". The US also encouraged allies to form closer partnerships with India, in recognition of the latter's balancing potential.<sup>67</sup>

Under Modi, India's 'Look East' policy transformed into an 'Act East' policy, first mentioned by the Indian leader at an ASEAN Summit in November 2014, in Myanmar.<sup>68</sup> The latter is marked for being greater in geographic scope and more intense in strategic engagement with partners, with the aim of further increasing India's clout as a significant regional and global player. While Southeast Asia was front and centre of the 'Look East' policy, it remains important alongside other key players: Japan, China, Australia, South Korea, New Zealand, and the Pacific Islands. That said, Modi's announcement of the revamped policy at an ASEAN summit carried unmistakable symbolism. It is a reflection of how critical a role the institution plays in India's broader relationship to the region. The 'Act East' policy is further characterised by its focus on "connectivity, culture and commerce" as well as encouraging security and economic development in northeast India.<sup>69</sup>

There are a number of burgeoning linkages between India and ASEAN as an institution, but for the purposes of this paper, those most related to building up Indo-Pacific regionalism will be considered: economic and trade, infrastructure connectivity, defence and security, and multilateral diplomacy.

### Economic ties

India's floundering economic conditions during the early 1990s provided the initial push to search for opportunities in other parts of Asia. Since then, there have been several important developments in India and ASEAN's trade and economic ties. In 2003, leaders signed the ASEAN-India Framework Agreement on Comprehensive Economic Cooperation, which formed the legal basis for further agreements, including the ASEAN-India Free Trade Agreement (AIFTA), signed by India in September 2014. AIFTA sees tariff liberalisation of 90% of products and also facilitates the movement of professionals and further investment between the subcontinent and Southeast Asian economies.<sup>71</sup> In 2015, Indian investment into ASEAN totalled US\$1.6 billion.<sup>72</sup>

Despite these developments, ASEAN trade with India is characterised as "relatively low" compared with other dialogue partners.<sup>73</sup> One former Indian diplomat suggests that a mindset among the Indian economic ministries and private sector favours the "developed world" while not yet accepting "the potential of the erstwhile 'South'" which encompasses Southeast Asia, Africa and Latin America.<sup>74</sup> Although intra-regional integration remains challenging, the ASEAN Economic Community, which seeks to create a more tightly integrated region, was launched in December 2015, providing another avenue for Indian engagement in the region. In its nascent stages, it remains to be seen how this single regional market worth US\$2.6 trillion as well as the Regional Comprehensive Economic Partnership, the FTA negotiated between ASEAN and its six FTA partners (of which India is one), will play out.



## Indo-Pacific Economic Corridor

The idea of economic corridors is gaining greater traction in states and between them, with India and Southeast Asia being no exception. The benefits of such corridors include complementarity with existing movement of people and goods and the growth of specific sectors.<sup>75</sup> The Indo-Pacific Economic Corridor (IPEC) is a reflection of increasing salience of perceiving the Indian and Pacific regions as a more interconnected entity: the Indo-Pacific. While nascent, the corridor can provide another focal point for economic integration should larger falter, as we have seen with the TPP. The challenges for such a corridor are not unique, however, and reflect ongoing issues in between India and Southeast Asia, namely, cost and difficulty of transport infrastructure construction, security in India's northeast and underdevelopment of the ASEAN Economic Community.<sup>76</sup>

An initiative like the IPEC could reinforce national approaches such as the Global Maritime Fulcrum vision advanced by Indonesia's President Joko Widodo. As part of the vision, Indonesia will intensify connectivity between its archipelagic islands by upgrading existing maritime infrastructure and building more airports, highways and railways. It further envisions Indonesia becoming a critical regional gateway, even more than it currently is, between the major oceans of the region. There is this opportunity to leverage the appetite of both India's and Indonesia's policymakers to cooperate in these areas from facilitating information sharing all the way to joint ventures.

## Multilateral Diplomacy

For India, closer relations with ASEAN is also one avenue for greater engagement with ASEAN-centric regional architecture such as the ASEAN Regional Forum (ARF) and ASEAN Defense Ministers Meeting Plus (ADMM+). Support from ASEAN states is also essential for entry into other significant infrastructure such as the East Asian Summit (EAS). India was a founding member of EAS, which was launched in 2005. Other ASEAN-centric fora of which India is a member include Extended ASEAN Maritime Forum. India's participation in these fora provide further legitimacy for the values and order-building processes they support. As mentioned earlier, India signing of ASEAN's Treaty of Amity and Cooperation is both functional an undertaking to promote peace and stability, and at the same time, symbolic as an acceptance of ASEAN's pre-eminent role in Indo-Pacific norm-setting.

The Indian Ocean Rim Association (IORA) is another important regional grouping for India and Southeast Asia—four out of ten ASEAN members (Indonesia, Malaysia, Singapore and Thailand) are members. With its focus on Indian Ocean affairs and a rotating chairpersonship, the grouping is an opportunity to build cooperation on economic issues, women's empowerment and maritime security in India's strategic backyard. By virtue of geography, current membership does not include China, the US or Russia, so avoids some of the traditional competition India experiences in other significant fora.<sup>77</sup>

While at times IORA and ASEAN-led groupings can be unwieldy, it remains important for India and Southeast Asia to invest in both building closer ties with bilateral partners and deepening engagement in fora. The crisscrossing network of Indian and Pacific Ocean bilateral and multilateral interactions are mutually reinforcing and help to keep shared objectives on the agenda.



## REALISING THE INDO-PACIFIC: Tasks For India's Regional Integration

### Defence and Security

India's ability to expand its engagement with Southeast Asia was enabled by its post-Cold War military modernisation. In particular, the development of a blue water navy has allowed the sub-continent to expand its program of naval exercises to include Southeast Asian partners.

India's boost to its 'Look East' policy is also a response to China's evolving role in the region. As China seeks closer ties to partners in the Indian Ocean region [India's strategic backyard] to preserve its interests in open sea lanes of communication, India has in turn reached out to partners like Indonesia on maritime issues such as illegal fishing. Likewise India maintains an interest in partnering with other Southeast Asian states regarding trade routes in the Western Pacific, as it seeks to build ties with Japan. That said, it should be emphasised that India's desire to build more varied ties in the region also includes better ties with China.

In terms of multilateral defence cooperation, India has been holding naval exercises known as MILAN in the Nicobar and Andaman Islands since 1995, which have grown to include South China Sea littoral states: Brunei, Cambodia, Indonesia, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. The exercises also include non-ASEAN partners such as Australia and Bangladesh. The exercises focus on humanitarian and disaster relief but also improve communication and familiarity between personnel.

Another key area of cooperation between India and ASEAN is counterterrorism. There have been a number of violent groups that have existed in the Indian subcontinent and in Southeast Asia which have employed terrorist tactics over the decades. While India's 2008 terrorist attack in Mumbai made global headlines, India's military and police forces have dealt with terrorist tactics in fighting insurgencies and separatist movements since independence, particularly in the country's northeast region. In Southeast Asia, groups like Jemaah Islamiyah in Indonesia

and the Abu Sayyaf Group in the Philippines have made headlines with bombings and beheadings. To address those threats, India and ASEAN signed a joint declaration in 2003 which outlines closer cooperation in a number of areas including building ties between law enforcement agencies, improving intelligence sharing, and strengthening capacity building efforts.<sup>78</sup>

With the rise of the Islamic State, there is greater concern that citizens are travelling to the Iraq-Syria theatre and could return to fight on the home front with new tactics and recruitment techniques. At the 2016 IISS Shangri-La Dialogue, India's Defence Minister Manohar Parrikar stated unequivocally, "terrorism remains the foremost challenge to our region".<sup>79</sup> In response, the ASEAN Defence Ministers Meeting Plus (ADMM+), of which India is a member, includes an exercise on maritime security and counter terrorism, the most recent iteration of which was held in Brunei and Singapore in May 2016.<sup>80</sup>

### Key Bilateral Relationships

Aside from its aims to engage ASEAN as a regional bloc, India also enjoys growing relationships with individual Southeast Asian states. While India enjoys unique relationships with each of its ten Southeast Asian partners, this paper will consider the three most important—Indonesia, Vietnam and Myanmar—based on their geopolitical significance and level of engagement with India. Indonesia is the largest of its regional brethren and is located at an important geopolitical nexus between the Indian and Pacific Oceans. Myanmar is the only Southeast Asian state to share a land border with India, which brings attendant security issues in addition to competition with Myanmar's other significant neighbour, China. Similarly, India-Vietnam ties are affected by the latter's tensions with China in the South China Sea and another useful lens through which India's ambivalent relationship with China plays out through complex regional interactions.



Indonesia President Joko Widodo and India's Prime Minister Narendra Modi. Courtesy: MEA (Ministry of External Affairs)

## Indonesia

Indonesia is the largest Southeast Asia state and historical de facto leader of ASEAN, and it is located at the intersection of the Indian and Pacific Oceans. On the surface, Indonesia is an ideal partner for India's ambitions, provided the states work cooperatively and not competitively. Since 2005, the countries have had a strategic partnership which has been deepened through a series of high-level visits and the signing of multiple memoranda of understanding. In fact, a December 2016 meeting of the India-Indonesia Eminent Person's Group recommended elevating the relationship to the level of a New Comprehensive Strategic Partnership.<sup>81</sup>

For Indonesia, India represents a source of investment for its dire infrastructure. While China is an important source of investment for the archipelago, there are added complexities with part of China's claimed nine-dash line

area overlapping with Indonesia's EEZ. No such maritime complications exist with India; maritime boundaries between their continental shelves were delimited in the 1970s. What remains is great potential for the two countries to lead on Indian Ocean issues as well as capitalise on the mirroring agendas of Joko Widodo (also known as Jokowi) and Modi as champions of economic growth and good governance.

India's and Indonesia's geography relative to the Indian Ocean make them apt partners for maritime cooperation. As mentioned earlier, Jokowi's Global Maritime Fulcrum vision aims to build maritime connectivity and infrastructure, but it is also aimed protecting Indonesia's maritime resources and reinvigorating its maritime cultural identity. Modi is also interested in the blue economy, and while efforts have been directed towards India's African partners, there is potential for further cooperation with Indonesia in this regard.





## REALISING THE INDO-PACIFIC: Tasks For India's Regional Integration

In the first months of 2017, Indonesia hosted a series of summits focused on the blue economy, including the World Ocean Summit in February, and Indian Ocean region, importantly, the IORA Leaders' Summit in March.<sup>82</sup>

India and Indonesia have the potential to expand defence cooperation. India and Indonesia have conducted biannual coordinated patrols (INDINDOCORPAT) in the Six Degree Channel in the Andaman Sea since September 2002.

During his state visit to New Delhi in December 2016, Jokowi held a joint press conference with Modi during which they announced greater efforts to prioritise defence and security relations. In February 2017, it was announced that India and Indonesia would conduct their first ever air combat exercise, as further evidence of growing ties between their armed forces beyond naval engagement.<sup>83</sup>

Also significant is Indonesia's position as India's largest ASEAN trading partner, with bilateral trade valued at US\$15.9 billion in 2015–16.<sup>84</sup> Jokowi's December entourage also included a high-powered business delegation to boost economic engagement, while the President himself met with Indian CEOs to encourage further investment.<sup>85</sup>

### Vietnam

India–Vietnam ties have grown over the years from a Joint Declaration on the Framework of Comprehensive Cooperation signed by their foreign ministers in 2003, to a strategic partnership brokered in November 2007 to a “comprehensive strategic partnership” announced during Modi's visit to Hanoi in September 2016. In accordance with these agreements, the countries have hosted a number of strategic dialogues and high-level visits by leaders. Vietnam's Prime Minister, Nguyen Tan Dung, visited New Delhi in November 2014. Bilateral cooperation has largely centred on economic and defence cooperation, with key developments responding to events in the South China Sea.

In strategic terms, Vietnam plays an important role for India's objectives in guarding sea lanes of communication and establishing a presence in the South China Sea. In October 2011, India and Vietnam signed an agreement to let the former's state-owned oil company conduct greater exploration in Vietnam's EEZ in the South China Sea. That has been followed by another agreement regarding an increase of oil blocks in the same area.

Bilateral trade relations have grown, although remain modest. India is one of Vietnam's top ten trading partners, with the volume of bilateral trade surpassing US\$9 billion.<sup>86</sup> Indian investment in Vietnam has remained steady, with major sectors including energy, mineral exploration, agro-processing, sugar manufacturing, agro-chemicals, IT and auto components.<sup>87</sup> Both leaders called on greater two-way investment during Modi's Hanoi trip.

Another important source of bilateral cooperation is India's burgeoning defence export industry. During his visit to Hanoi in September 2016, Modi also agreed to increase a line of credit for Vietnam to US\$500 million. After the sale of the BrahMos supersonic missile to Vietnam stalled, it was reported in January this year that India is now “actively discussing” the sale of a medium-range surface-to-air missile defence system, known as Akash, to Vietnam.<sup>88</sup> The capability allows Vietnam to target drones and helicopters to a range of 25km. The benefits also flow both ways; Vietnam's role as a buyer gives India's defence industry a global boost, with one scholar noting that ‘Made in India’ defence program is “likely to be viable only if there is a significant export component to it”.<sup>89</sup> India's military has also expanded training with its Vietnamese counterpart. Currently, India trains Vietnamese submariners on Kilo-class submarines but from 2017, defence cooperation will extend to India's air force training Vietnamese pilots on Sukhoi Su-30 fighter jets.



## Myanmar

Engagement with Myanmar is a further opportunity to bridge India's ties with ASEAN—it is the only Southeast Asian partner to share a land border and shares deep historical and cultural linkages with the Indian subcontinent. Not only does Myanmar's relatively recent emergence into the international community provide greater opportunity for strategic engagement, its burgeoning annual GDP growth forecast to be approximately 8% in 2017 is attractive for economic ties.<sup>90</sup> In 2015–16, bilateral trade was worth US\$2.052 billion, with India being Myanmar's fifth largest trading partner.<sup>91</sup>

India has also deepened its relationship with Myanmar through other sub-regional initiatives such as the Mekong Ganga Cooperation (MGC), which seeks to increase contact and cooperation between India and the five Southeast Asian states that live alongside both river basins, and the Bay of Bengal Initiative for Multi-Sectoral and Technical Economic Cooperation (BIMSTEC).

Myanmar also holds potential to grow trilateral ties to include Thailand through improving land connectivity. As one scholar notes, the 1,360km road will link Northeast India and Southeast Asia and "easily connect" with projects that link Kolkata port with Mizoram, transforming them into "economic highways with special economic zones".<sup>92</sup> Challenges to these projects must account for difficult terrain, which slows construction and maintenance during harsh climatic conditions, and security, due to an unstable northeast in India.

However, the major challenge for India's engagement with Myanmar is China's increasing presence. More than in any other Southeast Asian state, Myanmar is a front for competition in strategic influence.

## Challenges for 'Act East'

In macro terms, some observers see India's 'Act East' policy as a success in enabling India to build tighter relationships with existing partners, rejuvenate those with old friends such as Australia, and normalise ties with China.<sup>93</sup> India's engagement (specifically with ASEAN, and its Southeast Asian bilateral partners) also appears to meet the goals of further enmeshing India into regional architecture, improving its standing as a country of consequence, and as a leader in the Indo-Pacific system.

One of the strengths of the 'Act East' policy is the leverage it gains from marrying up with parallel visions in partner states, such as Indonesia's Global Maritime Fulcrum. This has made it easier for regional leaders to promote cooperation with one another by emphasising the dividend to domestic audiences and enticing investment in common outcomes. However, such a coordinated strength could also be a weakness. Once upon a time, the US pivot to Asia was seen as a complementary strategy to 'Act East', epitomised by the 2015 US-India Joint Strategic Vision for the Asia-Pacific and Indian Ocean Region which sought to align both countries' approaches.<sup>94</sup> The Trump administration has already expressed its distaste for adopting concepts of its predecessor; it is unclear whether the administration will utilise such a formal agreement as a roadmap for bilateral ties. The push for India's membership of APEC, not to mention the program of engagement such as trilateral consultations, may fall by the wayside. The case of US-India ties is but one example of potentially lost opportunity, where one partner's domestic politics can shape the trajectory of a shared strategic vision.



## Conclusion

Looking to the future, India and Southeast Asia will continue to build ties amid ever-complex regional challenges which range from security issues to environmental pressure, domestic political upheavals and strategic competition between major players. India and its Southeast Asian partners have an enduring interest in the peace and stability of the region, particularly sea lanes of communication. As developing states (Singapore being the exception) with young populations with the need for further economic growth, India and the sub-region find

common ground in wanting greater connectivity, two-way trade and investment, and collective bargaining power at regional fora. With relative uncertainty about the US' role in the Indo-Pacific region, which make take a few years to take shape, as well as its position on issues such as climate change and free trade, it will be up to the region's more active and activist players—India and ASEAN—to work together in sustaining diplomatic focus on these issues as well as push for tangible results.

CHAPTER V.

# Transformation through Cyber-innovation: The Great Indian Technological Leap





## V. TRANSFORMATION THROUGH CYBER-INNOVATION: THE GREAT INDIAN TECHNOLOGICAL LEAP

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### Introduction

November 8, 2016 marked a crucial moment for the Indian economy, as the Government of India (GoI) decided to demonetise Indian Rupee (INR) 500 and 1000 currency notes, faced with the dual threat of unaccounted cash hoarded by India's corrupt and counterfeit notes from across borders. Without getting into the merits of this gigantic initiative, we start with this episode because it captures several paradoxes in India's growth story: a society running on cash, yet leapfrogging into the new world with extensive smartphone penetration; people waiting in lines to withdraw money from ATMs but several private wallets and digital solutions already present to help with efficient and quick transactions; a state struggling with the geographical reach of new currency notes but responsive and capable enough to develop digital payment wallets and gateways for the benefit of its citizens. These paradoxes reveal both gaps and opportunities. While India's last mile delivery systems are broken, they present huge opportunities for innovators to leapfrog such limitations.

Indian and foreign companies have made good use of these opportunities, as seen from India's digital transformation over the past decade. Exponential mobile internet penetration post-early 2000s and the steep fall in prices of feature phones and smartphones contributed significantly to this transition. The number of Indian mobile phone subscribers crossed the 1 billion mark in October 2015, a feat achieved by China in 2012.<sup>95</sup> Around the same time, i.e., first quarter of 2016, India touched 220 million smartphone users, surpassing the United States and becoming the second biggest smartphone market.<sup>96</sup> The total number of internet users in India was around 462 million by June 2016, but of these, 371 million were

mobile internet users.<sup>97</sup> Of India's 153 million social media users, 130 million access it through mobile apps.<sup>98</sup>

The above data speaks to both India's capabilities and limitations. The simple and almost plug-and-play character of mobile internet has resulted in its year-on-year growth at 56% during the first half of 2016, as compared to other means of internet access, including broadband, where the year-on-year growth is much less at about 30%. Moreover, about 71% of the estimated 371 million mobile internet users are located in urban areas.<sup>99</sup> Smartphone penetration is still below 30% of the total potential user base and unless this can be expanded in a bigger way, even mobile internet penetration is bound to hit a cul-de-sac sooner than later. Even assuming that mobile internet penetration expands, particularly in rural areas, there will necessarily be training costs involved in sensitising users to the promises as well as perils of the internet. In short, India's digital expansion is ripe for both proactive and regulatory policy interventions.

As argued in this chapter, it is not just India that would benefit from such regulatory intervention. As the world becomes increasingly digital, both the greatest opportunities and the biggest threats emanate from the digital and technological space. Technology centrality is central to both governance and economic growth, and India's experiences with placing 'digital' at the core of its growth story could be a potential game-changer in the region and beyond. As innovation becomes the buzzword around which economies of the future are conceptualised, what India says and does in the cyberspace domain has profound implications for the entire world, and particularly the Indo-Pacific region.



This chapter is an exploration of three separate yet interconnected dimensions – economic, diplomatic, and security – of the great Indian technological leap. The economic dimension of this leap details the role of cyberspace innovation in India's growth story, and in overcoming economic barriers to governance. The diplomatic dimension explores the possibility of techno-diplomacy, facilitated by the exportation of tech-enabled solutions from India as well as India's pro-active stance in setting the international standards within the technological realm. The security dimension identifies concerns related to securing national interest and individual rights, as both are critical to the prolonged success of cyberspace innovations. In addition to describing some of the measures taken by India along these various dimensions, the core argument of this chapter is that policy initiatives that strengthen India's economic, diplomatic and security dimensions of India's technological leap are crucial to achieve a higher degree of influence in the global conversation on cyber, innovation and technology – an end goal that India clearly aspires to.

## Digital India

Over the past decade, Indian policy circles have begun paying attention to the development of digital and cyberspace innovation capabilities to drive domestic growth and the revitalisation of governance. The erstwhile Planning Commission constituted a Committee on Technology Innovation and Venture Capital in September 2005, recognising that new technology would be the driver of growth in India. Focusing specifically on technology startups, this committee observed in its 2006 report that a sound venture capital funding system would thrive only when an ecosystem for innovation coexisted with a fiscal and regulatory framework that encouraged risk taking by financiers.<sup>100</sup> In tune with this outlook, the committee offered several important recommendations to ease regulatory hurdles for venture funds and to promote a culture

of innovation, driven by universities and research centres.

This report has been followed by a period of massive upscaling in the Indian technology space. Between 2010 and 2014, venture capital and private equity funding went up from a meagre US\$13 million to US\$18 million. In 2015 alone, capital worth US\$9 billion was infused into Indian start-ups. The NASSCOM start-up report of 2015, estimates more than 800 tech start-ups being set up on a yearly basis, and projects the number of tech start-ups at 11,500 by 2020.<sup>101</sup> Ecommerce – a real game-changer for the Indian economy – has been growing at a compounded annual growth rate of 34% from 2009 onwards, with the 2015 figures at about US\$22 billion.<sup>102</sup> From the 2013 figures of US\$2.9 billion., ecommerce is projected to grow to US\$101.9 billion. by 2020.<sup>103</sup> Today, Indians plan their travel and book tickets online, regularly shop at online marketplaces, use digital wallets for cashless transactions and make use of online aggregators for cab and hotel bookings and food delivery. Sharing economy and crowdsourcing models, made popular by companies such as Uber, Airbnb, Kickstarter, and Oyo Rooms, has immense potential for a nation with huge resource crunches and inequality in asset ownership.

Digital innovation is also changing the rules of the game in two areas central to the well-being and growth of citizens: education and healthcare. Several Indian start-ups are committed to cutting edge work in delivering educational content, particularly for K-12 students by training them for competitive exams, and conducting online assessments. In addition to making learning more visual and experiential, these solutions are a boon in a setting where public schools have severe limitations and private schools are excessively priced. Though not at the same scale, Indian start-ups are also innovating around big data solutions to improve health delivery and preventive care, and make health insurance solutions more accessible.<sup>104</sup>



## REALISING THE INDO-PACIFIC: Tasks For India's Regional Integration

It is not in the B2C space alone that Indian companies are using cyberspace and digital to innovate. While some of the Indian IT service companies – behemoths in their space – have been accused of being late in the game when it came to developing software products and strengthening their capabilities in a world increasingly moving to the cloud, new Indian startups are gradually making inroads into the enterprise software domain. Companies like Fractal and MuSigma have invested in data analytics solutions, helping enterprises better their internal processes, enhance their productivity and tap bigger markets. In a validation of domestic competence and capabilities, Gol relied on an Indian startup – Lucideus – to create the entire cybersecurity framework for a recent digital payment solution, Bharat Interface for Money (BHIM).<sup>105</sup>

Policy interventions have also increasingly started playing an important role in the growth of India's digital economy. Gol has responded to the sudden spurt in creative and innovative activity and the potential market size that India's start-ups can tap into, by offering tax concessions to start up ventures, and announcing an INR100bn. government fund for financing tech start-ups.<sup>106</sup> The Securities and Exchange Board of India has also relaxed the listing norms for start-ups, making it easier for them to raise capital from the public. To address skilling shortages, a major problem when a mere 2.3% of the Indian workforce has formal skills training, Gol has been promoting the Skill India Mission.<sup>107</sup> The most important components of this program are providing a massive unskilled workforce with skills valued by the industry, helping potential employers tap into a skilled and certified talent pool for their

India's Prime Minister arriving in Hanoi, Vietnam in September 2016. Courtesy: MEA (Ministry of External Affairs)







organisations, and harnessing India's youth power to fill the gap of skilled professionals in an ageing developed world. The multi-skill institutes established on public-private-partnership mode under this program have been mandated with the task of imparting IT skills to the workforce. Tech giants like Intel and startups like Olacabs have partnered with Gol, seeking to impart skills needed for employability in a digital economy.

Gol and the governments of various states are also betting big on the promise of information and communications technology to transform governance and citizen-State interaction. Several studies have shown a positive correlation between ICT infrastructure and GDP growth. As per the World Bank, 10% growth in mobile and broadband penetration can increase GDP by 0.81% and 1.38% respectively in developing countries.<sup>108</sup> In realisation of this fact, the Digital India program, launched by Gol in July 2015, is built on nine pillars: broadband for all rural and urban areas; universal access to mobile connectivity; public internet access program; e-governance; e-delivery of services; information for all; domestic electronics manufacturing; IT for jobs; and early harvest programs. A projected expenditure of INR1,130 billion. is involved, but the returns can also be immense.

But the digital transition has not been without its share of concerns and worries. India has a long way to go before the benefits of digital transition trickle down to a majority of its population. With the Gol's flagship National Optic Fiber Network project (to connect all villages with a 100 megabits per second broadband line) proceeding tardily at present,<sup>109</sup> not everyone is connected to the internet through broadband or even a mobile phone. Fewer than two in five Indian businesses have an online presence, and a residential broadband service costs between six to ten times the cost in China. To address the lack of access, particularly in rural areas, some zero-rating proposals including the controversial Facebook free basics, were mooted. The essential idea

was to provide access to a limited number of websites for free, thus helping users in inaccessible regions gain a basic preview of the internet's offerings. Unfortunately, regulatory ambiguity coupled with vocal citizen activism caused premature termination of zero rating proposals without a serious conversation on basic internet and novel ways to provide that to citizens.

Regulatory blockages has been a big concern in other areas of the digital economy too. Certain States have come down upon cab aggregator services for offering ride-sharing services, citing obsolete laws and regulatory frameworks. Gol has gone about regulating the inflow of foreign direct investment in online retail in an erroneous manner. Its basic strategy has been to cap the possibilities of this model to the same level as physical retailers and place restraints on the ability of online retailers to use data analytics to the fullest. In all fairness, regulators world over are grappling with some of these issues. But, for a country that aspires to leapfrog using cyber innovations, India has not taken any great institutional measures towards recasting its regulatory institutions as facilitative actors.

Several Indian "unicorns" are on cash burn mode, and have accumulated considerable losses over the years. In the 2014-15 financial year, Flipkart, Snapdeal, and Ola – three big Indian startups – reported losses of INR20bn, INR13.28bn, and INR7.96bn respectively.<sup>110</sup> Paytm, a digital wallet and e-commerce startup, saw its losses escalate 312% over the previous year to touch INR15.34 billion.<sup>111</sup> The total value of startup deals more than halved in 2016, coming down to US\$4 billion, rendering capital access more precious than before.<sup>112</sup> These may appear to be market concerns at first glance but when scrutinised more closely, present a cautionary tale for Indian policy makers too. India cannot afford to hedge all her bets in the start-up revolution led largely by young private entrepreneurs and venture capital funds backing them. It is imperative to have a longer vision to build an innovative society.



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The National Innovation Policy and the Intellectual Property Rights Policy have recognised the need for a broader innovation ecosystem and emphasised the importance of measures such as tinkering labs for school children and faster patent grants for inventors. But these measures require an attitudinal shift in the mentality of people before they can achieve some success. A traditional society that has largely been driven by a linear notion of progress and career advancement, India has not thus far been able to create a critical mass of high-quality scientific and technological research institutions that would attract the best of talent. This is also why the country has lagged in framework technologies and products- with most Indian companies limiting their sights to market-based innovation. Unless these concerns are addressed soon, India's opportunity to make the most of the digital revolution will stand seriously hampered.

### Techno-Diplomacy and the Indian Potential

In a world shaped by constant adoption of new technologies, the technological capabilities of nations will continue to play an increasingly important part in international relations. The control of specific technologies and the role of technology in conducting foreign policy will no longer be the sole domain of governments. In this context, this section focuses on two sub-themes: India's unique technological solutions that may benefit the global community generally and the Indo-Pacific region specifically; and India's role in global technology governance.

India has been a major beneficiary of the internet and mobile revolution, which has transformed services, processes, and workflows across sectors. The wholehearted embrace of this revolution by governments in India has enabled significant and unique innovations in the country. The most important initiative in this area is the Unique Identification project (Aadhaar). The world's largest identification project, with more than a billion-people enrolled, Aadhaar is set to become the most important enabling platform for the

provision of government services. The platform itself is based on biometric authentication, and allows access to both public and private players. Aiming to reduce costs and increase efficiency in service delivery, the government is incentivizing the development of applications connected to the Aadhaar system. Based on open API models, these include the Unified Payments Interface (UPI), e-Know Your Customer model (e-KYC), and the Aadhaar Enabled Payment System (AEPS), among others. This 'Indiastack' system, has already begun taking shape. It seeks to not only make governance more efficient and transparent, but also facilitate greater digital transactions between individuals or enterprises.

What is even more encouraging is that institutions like the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI) are embracing these developments. The RBI's Vision 2018 document commits to moving towards a cashless economy through promotion of electronic means.<sup>113</sup> Meanwhile, SEBI has allowed digitising equity and mutual fund investments through the eKYC system.<sup>114</sup> Taken together, these innovations have the potential to become game changers for the national economy. India therefore, has truly unique technological innovations and capabilities to offer to the world. Its partners in the Indo-Pacific region can gain from India's experience in designing and implementing these solutions in a vast economy across a massive demographic space.

As mentioned above, technology governance is no longer the sole domain of national governments. It is a two-way street where international debates and national policies shape each other in equal measure, and the role of (and coordination between) stakeholders across industry, civil society, and government become critical. In this scenario, as India continues to grow, the way it responds to technology changes will be extremely important for two reasons. Firstly, the sheer economic potential of the country, which by 2022 is slated to be the largest in the world in terms of population.<sup>115</sup> Secondly, much of India's



economic growth is dependent on its adoption of new technologies and of business models that are derived from them.

Historically India's approach to debates on technology has been quite complex. On one hand, India has generally taken a leadership position on traditional technology debates, especially nuclear technology. On the other hand, on many of the major issues that have cropped up in the last two decades, India's position has tended to be reactive. There has however been a perceptible shift in this attitude over the last three years, highlighted below.

Given their military and moral implications, the development of Lethal Autonomous Weapon Systems (LAWS) has generated an intense and growing debate in the international community. India, however, has seemed to be a reluctant party to this debate. When discussions on LAWS began under the aegis of the Convention on Certain Conventional Weapons (CCW), India's role, for the most part, was perfunctory. It is only at the most recent Review of the Conference of Parties to the CCW that India made its stand clear and outlined the issues important to it.<sup>116</sup> With the CCW starting a more formal process, India has finally begun taking on a more prominent role, evidenced by its elevation as the chair of the Group of Governmental Experts (GGE) on LAWS.<sup>117</sup> This is indicative of a new resolve to push itself onto the global technology high table.

Similarly, until recently, India punched far below its weight in discussions on internet governance. In spite of being one of the biggest digital economies in the world, India had never aimed for a leadership role. In the last couple of years however, India has begun waking up from this stupor. In 2016, India hosted the annual Internet Corporation of Assigned Names and Numbers (ICANN) summit<sup>118</sup> and was included as a member of the UN GGE, assessing developments in information and telecommunications technology within the context of international security.<sup>119</sup> India will also host the 2017 session of the Global Conference on Cyber Space (GCSS), becoming

the first non-OECD country to do so.<sup>120</sup>

This newfound energy is welcome for two significant reasons.

Firstly, the Indo-Pacific region is home to the most dynamic digital economies and companies in the world. With countries such as India, China, Australia and Singapore and their upward development trajectory, the potential for future growth is immense. The future of the internet will therefore be decided by the positions taken by the nations of this region. This is especially true of India, which not only has an immense, untapped digital market, but is also the third biggest start-up hub in the world.<sup>121</sup>

Secondly, the Indo-Pacific will be home to two of the biggest internet markets in the world, China and India. These two countries, however, represent two very different ideological approaches on cyberspace governance. China has been pressing for 'national boundaries' in cyberspace, with each country having complete control over its 'territorial' internet. India, on the other hand, supports a multi-stakeholder model, where the government constitutes only one among several stakeholders who have a stake in how the internet is to be governed. The multi-stakeholder model both preserves the fundamental ideal of the internet and provides the necessary regulatory space for open digital economies.

A more assertive India which is willing to take on a bigger international role therefore provides a fillip to the idea of a democratic internet as opposed to the walled-off cyberspace that China advocates. This in turn aligns neatly with both the interests and ideals of not only India, but other democratic states in the Indo-Pacific, especially Australia and Japan.

## Balancing the Digital Impact

The immense benefits of the digital age, however, should not disregard the potential negative implications. Increasing digitization makes both national security and individual rights considerably more vulnerable. In this



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context, given the size and complexity of India's digital economy, its national cyber security infrastructure is underdeveloped. Currently it is an odd mix of at least half a dozen organizations with ill-defined jurisdictions. While the Indian Computer Emergency Response Team (CERT-In) is the designated frontline agency, protection of critical national infrastructure falls under the jurisdiction of the National Critical Information Infrastructure Protection Centre (NCIIPC), which in turn works under the National Technical Research Organisation (NTRO). Meanwhile the three armed services have their own CERTs. The banking sector has a dedicated Information Sharing and Analysis Centre (ISAC), and on top of this, the government has announced the establishment of a cyber security response team specifically for the financial sector. The result of such a disparate structure therefore, is that India has no integrated national framework to respond to cyber-security incidents.

The lack of such an incident management structure has been highlighted by multiple cyber-attacks and data breaches in recent years, including on the Indian Navy's Eastern Command in 2012,<sup>122</sup> and the top-secret Scorpene submarine program.<sup>123</sup> More concerning than the attacks themselves is the apparent inability of the Indian state to evolve a response to such threats. The attacks mentioned above, along with a handful of others, are among the few that are known, primarily due to third parties. When, in October 2016, information about India's biggest data breach in the banking sector – about 3.2 million debit cards were compromised – came to light, it also emerged that customers were kept in the dark for quite a while about the security vulnerabilities.<sup>124</sup> The government itself refuses to divulge information regarding any cyber-attack. This makes it hard to accurately judge the true extent of Indian cyber-space vulnerability.

Though a few tentative steps have been taken to rectify this in recent years, including the drafting of a National Cyber Security Policy in

2013, the creation of the position of National Cyber Security Coordinator in 2014, and the fast tracking of the National Cyber Coordination Centre in 2016, these fall far short of what is required at this stage.

In this scenario, there exist immense possibilities for collaboration among the countries of the Indo-Pacific on cyber-security. The rapid development of a malevolent Chinese cyber presence poses a significant threat to all its neighbours. With this in mind, India's inadequate cyber-security infrastructure, India has much to learn from the other members of the region. Australia and Japan especially, are significantly ahead of India in this sphere. While India has already signed information-sharing agreements with both countries,<sup>125</sup> there exists significant scope to expand cooperation. Continuous exchange of best practices, trained personnel, and technology, coupled with open digital economies, would deepen the relationship between the countries of the Indo-Pacific.

Concurrently, India's data protection and privacy regime is below par. Without a unified regulatory framework, reliance is placed on disparate legislations that have limited application. Intellectual property laws, consumer laws, financial and healthcare sector regulations and communication network regulations,<sup>126</sup> all deal with data protection in some form or the other. With the proposed 'Privacy Bill'<sup>127</sup> stuck in bureaucratic quagmire, the *Information Technology Act* of 2000 continues to be the primary legislation for privacy and data protection issues.

The Act penalizes acts such as unauthorised access to a computer network and illegal downloading of data; imposing civil or criminal liability, depending on the nature of the offence. A 2008 amendment to the Act provides for monetary compensation for failure to protect sensitive personal data. This has been reinforced by the Information Technology Rules of 2011,<sup>128</sup> which introduced globally recognised principles like consent, use principle, collection



limitation etc in India. However, with limited scope and application insofar as they cover only body corporates and certain kinds of data ('sensitive personal'), coupled with an inadequate enforcement apparatus, these rules are far from the framework that India needs.<sup>129</sup>

Similarly, the Aadhaar system is not without its share of concerns. The collection and recording of personal data, including biometrics, has been executed arguably in disregard of established security and privacy standards. Indeed, a massive number of citizens were enrolled without any legal or best practices framework in place.<sup>130</sup> The enrolment exercise started in September 2010 but the framework legislation came into effect only by 2016. By this time, a billion people had already been enrolled. Moreover, the applications of this identity number have increased manifold from when the project was originally conceptualised. Many of the new applications require the central authority to share some of the Aadhaar data with 'requesting entities', i.e. private operators who have developed solutions on top of the database. While this could pave the path for several efficient solutions, the gateway for data sharing needs to be safe and secure. Whether it is so at the moment is a matter of concern.

Serious concerns have also been raised regarding the absence of any security breach notifications to the public. This is particularly crucial considering the realm of information gathered includes core biometric features. Even assuming the Aadhaar legislation<sup>131</sup> sufficiently safeguards the gathered data when kept in the custody of the nodal unique identification authority, misuse of such data by truant private actors is a real possibility. This is especially significant given the government's plan to diversify the use of Aadhaar via the Indiastack initiative. As there exists no opt-out mechanism for citizens under the Act, once data is parted with for purposes of enrolment, there is no turning back.

Consequently, in light of the inadequate statutory framework, the concerns that have arisen here have ended up at the judiciary's

doorstep. However, in the absence of clearly formulated laws, even court decisions dealing with data protection and privacy have been *ad hoc* and inconsistent. While the Supreme Court has stated that Aadhaar cannot be made mandatory,<sup>132</sup> the Aadhaar Act and the frenetic rollout without waiting for further judicial guidance circumvents this directive. Further, the constitutional status of a right to privacy is still ambiguous, with the matter pending before the Supreme Court.<sup>133</sup> There is also no law dealing with the right to privacy against private parties, though the Supreme Court has admitted a petition, challenging Whatsapp's updated privacy policy, that may lead to a development in this direction.<sup>134</sup> Though the decisions of the court in these cases will be significant, we can reasonably assume that it will be a while before the final judgments are delivered.

The growth and development of the Indian economy is contingent on how India's data protection regime is shaped. That India's lack of data security laws is a major impediment in the India-EU Free Trade Agreement, is illustrative of the problems brought on by the absence of a robust framework. Moreover, the idea of digital itself is undergoing severe transition as we speak, with more big data and analytics models evolving as a result of artificial intelligence enabled solutions. At a time when governments and industries are competing to present huge volumes of data in indiscriminate fashion to number-crunching algorithms, it is important to evaluate where India and the Indo-Pacific are headed in terms of outcomes. Do we wish for a common future where the privacy of residents of this part of the world are safe and secure and there exists full awareness of how, and in what way, the data shall be analysed and used? Or do we allow ourselves to hurtle unplanned into a future where nations in this region battle with each other to establish supremacy of domestic standards? There is much that India can gain through cooperation with countries in the Indo-Pacific, especially the likes of Australia and Singapore, which have comprehensive information privacy and data protection policies. The earlier we do so, the better.



## Conclusion

Predictions are rife that humankind is fast approaching 'technological singularity' – the moment when humanity stands surpassed by intelligent machines.<sup>135</sup> In such an increasingly tech-dependent world, the future of nations will surely hinge on their ability to both innovate and keep pace with global conversations on technology. Given the dispersed nature of the digital sphere however, such innovation, and its effects, will not be concentrated in any single country. This necessitates closer cooperation among the global community in general, and the countries of the Indo-Pacific in particular. Only through such cooperation can India and other nations in the region live up to their digital potential. The stances of the countries of the Indo-Pacific, and India particularly, will increasingly determine the future of cyberspace and technological innovation. It is imperative therefore that these countries begin taking on leadership roles in the global debates on new technologies. While India has begun doing this recently, there exists greater scope to shape global dialogues in a direction beneficial to the countries of this region.

With India being one of the largest economies of the world and an innovator for increasingly relevant ideas such as an open cyberspace and responsible innovation, India's principal role in the Indo-Pacific would be to foster and facilitate this cooperation. India can, and must, drive such cooperation, to both shape international dialogues, and create an enabling environment for its innovation exports.

But for the benefits of India's transformation to percolate to the rest of the globe, India needs to have regulatory frameworks that respect individual rights and liberties in the digital space, and promote inclusive growth. A consequentialist view of technology where ends justify the means will not help because India's growth will at best be viewed with scepticism and at worst, openly distrusted.

CHAPTER VI.

# The Regional Comprehensive Economic Partnership (RCEP): India's economic bridge to Asia







## VI. THE REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP (RCEP): INDIA'S ECONOMIC BRIDGE TO ASIA

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For many years, India has been a relative outsider to the Asian economic region. Despite its geographic proximity to the fast-growing economies of East Asia, its trade and investment ties with the region remain under-developed. Nor has India been an active player in the intergovernmental architecture for economic cooperation. It is absent from many of the region's major economic organisations, and is not densely embedded in network of bilateral free trade agreements (FTAs) which now dominate the Asian trade system. As Asia has for several decades being the most dynamic region of the global economy, India is arguably missing the economic opportunities that would come from deeper engagement with its eastern neighbours.

The Regional Comprehensive Economic Partnership (RCEP) trade agreement promises to end India's economic isolation from Asia. The RCEP is one of two mega-regional FTAs – the other being the Trans-Pacific Partnership (TPP) – which have been under negotiation in Asia in recent years. It promises a new approach for the regional trade architecture, by establishing a multilateral trade bloc between Association of Southeast Asian Nations (ASEAN) and its 'Plus Six' FTA partners. And unlike the TPP, RCEP offers an 'Asian' model for trade liberalisation, based on inclusivity, multilateralism and sensitivity to developing country concerns. RCEP negotiations had made slow progress since they began in 2013, but with the collapse of the TPP have recently attracted renewed attention. Backed by Chinese leadership, the RCEP negotiating parties have committed to finalising talks by the end of 2017.

RCEP provides India an historic opportunity to 'bridge the economic gap' with East Asia. It embodies a type of trade reform which is more consistent with India's economic interests; offers opportunities for Indian firms to integrate

with regional production networks in Asia; and will for the first time formally include India in the regional economic architecture. But to take advantage of RCEP, the Modi government will need to adjust many long-standing trade and foreign economic policies. It will need to manage challenging domestic policy reforms, shift its trade diplomacy from a global to regional focus, and strike a balance between competing economic and geopolitical imperatives. As talks move toward completion in 2017, RCEP will prove a test for whether the Modi government can economically re-orient India towards new partners in Asia.

### India's relative absence from the Asia-Pacific economic region

The Asia-Pacific is the most dynamic region of the global economy. For three decades, the widely lauded Asian economic miracle has delivered a consistent – and with minor exceptions, largely uninterrupted – period of high-speed growth, industrialisation and urbanisation. Like Europe's reconstruction following the Second World War, Asia's recent economic dynamism has not been a purely national effort. Its economies did not grow through closure and protectionism, but rather a process of progressive opening, liberalisation and integration. There was also a regional flavour to this process, with cross-border production networks – in industries as diverse as consumer goods, electronics, agro-food and machinery – linking Asia's economies through inter-industry trade and investment ties<sup>136</sup>. These production networks created mutually-beneficial division of labour, based on 'production sharing' between countries with complementary endowments of capital, labour, natural resources and technology<sup>137</sup>.



Despite its geographical proximity to Asia and the Pacific, India has not been an active participant in Asian economic regionalism. For much of its post-Independence history, India adopted import-substitution economic strategies that closed its economy to foreign trade and investment. This pattern was reversed by the gradualist liberalising reforms that have taken place since 1991, which have rapidly opened India to the world economy. However, India's economic integration with Asia continues to be relatively under-developed.

Trade illustrates this pattern. Due to the density of inter-industry links in production networks, most economies in Asia display a strong trade bias towards regional partners. Asian countries typically conduct around half of their total trade with the ASEAN+6 group (Table 1). In comparison, only one-quarter of India's two-way trade is with Asia; while the US, EU and Middle East are relatively more important partners. Nor is a significant share of the Indian economy coupled with the Asian region. ASEAN+6 trade is equivalent to a paltry 8.4% of India's GDP, reflecting the fact that few of its industries are integrated with regional production networks. Indeed, India's trade ties with Asia are weaker than those with other regions, despite the fact it shares land borders and low-cost maritime links with many Asian countries.

**Table 1.** Asian economies' trade integration with ASEAN+6 group, 2015

	ASEAN+6 two-way trade (USD billions)	ASEAN+6 share two-way trade (%)	ASEAN+6 trade share GDP (%)
Australia	252.2	65.0%	19.8%
China	1365.2	34.4%	12.2%
India	187.3	28.6%	8.4%
Indonesia	188.3	64.3%	21.5%
Japan	598.6	47.9%	14.7%
Korea	452.7	47.0%	33.4%
Malaysia	235.1	62.5%	80.0%
Singapore	356.3	55.4%	123.8%
Vietnam	191.7	58.7%	98.4%
<b>ASEAN</b>	<b>1345.0</b>	<b>59.7%</b>	<b>54.8%</b>
<b>World</b>	<b>9859.5</b>	<b>29.7%</b>	<b>13.2%</b>

Source: Author's calculations, from UNCTADStat Database.



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India-Asia investment links are similarly under-developed. Overall, India has a relatively low level of inward FDI – with FDI stocks equivalent to 12.7% of GDP in 2015 – when compared to other economies of similar development levels (Table 2). Relatively little of this foreign investment comes from Asia, with only 10.5% of India's current FDI stocks are from Asian

Organization (WTO) speaks to this stance<sup>138</sup>. Since independence, it has also maintained a position of non-alignment in foreign policy, which has seen it avoid participation in regional blocs beyond those in its own neighbourhood of South Asia. Unfortunately, the consequence has been the exclusion of India from the architecture for Asian economic integration.

**Table 2.** FDI stocks of select economies in developing Asia

	FDI stocks from Asia (USD millions) [2012]	Asia share total FDI stocks (%) [2012]	Total FDI stocks share GDP (%) [2015]
Cambodia	6,012	76.2%	81.6%
China	786,252	58.5%	10.9%
India	23,006	10.5%	12.7%
Indonesia	59,178	28.0%	25.7%
Malaysia	38,427	25.4%	40.1%
Philippines	4,402	17.0%	19.9%
Thailand	53,400	28.8%	44.8%
Vietnam	17,285	85.0%	52.8%

Source: Author's calculations, from UNCTAD Bilateral FDI Statistics Database

countries. This is despite the fact that Japan, Singapore, Hong Kong, and mainland China are some of the global economy's most important capital exporters. Other regional economies perform far better, with Thailand and Indonesia having attracted twice the amount of investment from Asia despite being much smaller.

Given developmental similarities and geographic proximity, what explains India's weak economic ties with Asia? Part is to do with India's economic openness as a whole, as its trade and investment regimes are comparatively less liberal than elsewhere in the region. But its lack of ties with Asia specifically reflect India's poor political integration with the regional economic architecture. India has long been a 'committed multilateralist' in trade diplomacy, focusing its efforts on global-level institutions rather than regional clubs. Its longstanding record of leadership and developing country activism in the World Trade

Organization (WTO) speaks to this stance<sup>138</sup>. Since independence, it has also maintained a position of non-alignment in foreign policy, which has seen it avoid participation in regional blocs beyond those in its own neighbourhood of South Asia. Unfortunately, the consequence has been the exclusion of India from the architecture for Asian economic integration.

India is absent from many of the key regional economic organisations. It is not a member of the Asia-Pacific Economic Cooperation (APEC), which has since the early 1990s functioned as the region's main discussion forum for economic policy coordination<sup>139</sup>. Nor is it a member of the ASEAN Plus Three grouping, the main vehicle for financial cooperation since the Asian financial crisis of 1998<sup>140</sup>. Its principal connections are as a dialogue partner of ASEAN (since 1992), and its founding member status in the ASEAN Regional Forum (1994) and East Asia Summit (2005). However, ASEAN and the EAS are mixed issue organisations that are not specifically dedicated to economic matters; while the ARF is a security dialogue with no economic functions at all. Significantly, India was not a party to negotiations for the TPP agreement; and as it is not a member of APEC, nor would it have been eligible to apply for accession. As a result, India is rarely



represented when discussions on the shape of regional economic cooperation occur.

India's integration with the regional trade system is also weak. For many years, Asian governments favoured multilateral trade policies, which promoted liberalisation either globally through the WTO or regionally via APEC. However, during the 2000s, regional governments changed their trade policy strategies. Bilateral FTAs – agreements which preferentially lower trade barriers between only two countries – increasingly came into favour. In the year 2000, the Asia-Pacific was home to only four bilateral FTAs. But the end of 2015, 52 bilateral FTAs had been negotiated between Asia-Pacific governments, and a further 50 were signed with parties outside the region<sup>141</sup>. These agreements dramatically overhauled regional trade system, from one based on multilateralism to one characterised by a patchwork of over 100 overlapping bilateral agreements<sup>142</sup>.

India has not been an enthusiastic participant in this emerging bilateral architecture. It currently only has agreements with Japan, Korea, Malaysia, and Singapore (Table 3). Beyond these, it relies on its 'Plus 1' FTA with the ASEAN bloc to govern most of its Asian trade. Ongoing FTA negotiations with several regional economies have dragged on for several years, particularly talks with Australia and Indonesia that have been underway since 2011. This reflects the fact that India's trade strategy has not actively targeted the Asia-Pacific region, instead favouring FTAs with partners in its South Asian neighbourhood such as Nepal, Sri Lanka, Afghanistan, and the South Asian Association for Regional Cooperation (SAARC). This puts India at a disadvantage when attempting to build trade and investment ties with Asia. As FTAs are positional goods – which offer preferential market access only for members—Indian firms face discrimination when competing with firms from countries whose governments are more densely embedded in the bilateral network.

**Table 3.** Bilateral FTAs of select Asian economies, 2016

Country	FTAs with Asia-Pacific partners					Non-Asia FTAs	Total FTAs
	US	China	Japan	Korea	Others		
Australia	✓	✓	✓	✓	Malaysia, NZ, Singapore, Thailand	1	10
China				✓	Australia, NZ, Singapore, Thailand	6	12
India			✓	✓	Malaysia, Singapore	7	12
Indonesia			✓			1	3
Japan					Australia, Brunei, India, Indonesia, Malaysia, Mongolia, Philippines, Singapore, Thailand, Vietnam	4	15
Korea	✓	✓			Australia, India, NZ, Singapore, Vietnam	6	14
Malaysia			✓		Australia, India, NZ	2	7
Singapore	✓	✓	✓	✓	Australia, India, NZ	5	14
Thailand		✓	✓		Australia, Laos, NZ	2	8
Vietnam			✓	✓		1	4
ASEAN		✓	✓	✓	Australia, India, NZ	0	6

Note: All are also either members of the ASEAN FTA [1992] or have a 'Plus One' FTA with the ASEAN bloc.  
Source: Author's compilation, from ADB ARIC FTA Database.



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Relative exclusion from the Asian economic region is a missed opportunity for India. It is poorly connected with the regional production networks that have for several decades driven growth in the manufacturing sectors of Asian economies. It has not been able to take full economic advantage of the huge Asian markets – for exports outwards, and investment inwards – that sit on its doorstep. It is also absent from the key intergovernmental organisations, depriving the Indian government a voice in discussions for how the rules supporting economic integration are developed. Given its geographical proximity to Asia, and complementarity with several regional economies, India would stand to gain considerably if its trade and investment ties with Asia could be strengthened.

### RCEP: India's economic bridge to Asia?

The RCEP agreement has the potential to rectify these problems. Launched in 2013, RCEP is one of two recent 'mega-regional' FTAs in Asia – the other being the TPP – which are designed to offer a platform for multilateral trade cooperation. But unlike the US-led TPP, RCEP is very much a made-in-Asia initiative. It is centred on the ASEAN bloc and its six current FTA partners, and offers a model of trade liberalisation calibrated to the needs of developing economies. From India's perspective, it also offers a unique opportunity to integrate with Asia's economic powerhouses. Three features make RCEP an ideal Indian bridge to Asia: its membership model, approach to liberalisation, and multilateral architecture.

First, RCEP is the first economic institution in Asia which has been built on Indo-Pacific lines. Historically, regional economic cooperation has been premised on an *Asia-Pacific* model, based on the developing economies in Southeast Asia, the industrial powers of Northeast Asia (Japan, Korea and China), and developed economies on the Pacific Rim (such as Australia and the US). This conception of who constituted the region was first enshrined with the formation of

APEC in 1989<sup>143</sup>, and continued through to the TPP agreement signed in 2015. By corollary, this regional model excluded India. RCEP breaks with this tradition by instead favouring an *Indo-Pacific* membership model<sup>144</sup>. The negotiating parties include ASEAN and the 'Plus Six' countries with which it currently has FTAs: Australia, China, India, Japan, Korea, and New Zealand. RCEP therefore includes India but excludes the US.

### **This historic shift from an Asia to Indo-Pacific membership model is especially significant for India.**

At its most basic, it means India will be a founding member of a key piece of the regional economic architecture, providing a long-overdue institutional recognition of its status as a key economic power. RCEP also has full regional coverage of all Asian countries. This is important when RCEP is compared to the TPP, which despite being officially open to all APEC economies did not count China, Korea or most of the ASEAN states as members. RCEP is therefore a genuinely 'Asian' institution, which will provide an inclusive and cohesive multilateral platform for regional trade. Membership of RCEP will open the door for Indian firms to join regional production networks, and for the first time compete on an equal footing with others from Asia.

Second, RCEP is specifically tailored to developing country interests. Unlike the TPP, RCEP eschews many of the 'WTO Plus' reforms that are favoured by developed country governments. These regulatory measures – such as Investor-State Dispute Settlement (ISDS), tough intellectual property protections, and labour and environmental standards – pose very high reform costs for developing countries. RCEP instead focuses on the more conventional trade matters of tariff reduction and market access. While negotiations are presently ongoing, the RCEP parties have indicated a goal of focusing primarily on trade in goods, trade in services and investment promotion (Table 4). The agreement will also have provisions targeted at developing economies that are



not traditionally a matter for FTAs. These include an upgrading of existing mechanisms for economic and technical cooperation to narrow developmental gaps within the region, alongside special and differential treatment for the least developed members.

Third, RCEP provides a multilateral platform for economic engagement with Asia. The proliferation of bilateral FTAs during the 2000s has posed what trade economists call the 'noodle bowl problem'<sup>147</sup>. Rather than having a single integrated system, the region is now

**Table 4.** Key provisions for inclusion in RCEP agreement

Issue	Intended provisions
Trade in Goods	Progressively eliminate tariff and non-tariff barriers to substantially all trade
Trade in Services	A comprehensive, high-quality agreement which substantially eliminates restrictions and discriminatory measures
Investment	Promote, protect, facilitate and liberalise cross-border investment
Economic and technical cooperation	Extend existing initiatives in ASEAN+1 FTAs, with aim of narrowing development gaps in region
Special and differential treatment	Special and differential treatment in agreed commitments, consistent with differing developmental levels of members
Other provisions	Inclusion of intellectual property, competition, e-commerce and dispute settlement provisions

Source: RCEP Parties [2013], Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership (<https://dfat.gov.au/trade/agreements/rcep/Documents/guiding-principles-rcep.pdf>)

Given that RCEP has lower reform ambitions than the TPP, some have criticised it as not going far enough in liberalising trade<sup>145</sup>. But from an Indian perspective this is an advantage, as it greatly lowers the reform costs. India has long advocated for developing country interests in international trade negotiations<sup>146</sup>, and has been particularly vocal in opposing intellectual property rules that may threaten its burgeoning pharmaceuticals industry. The absence of labour, IP and ISDS provisions in RCEP greatly lowers the bar for developing economies and makes the agreement more palatable to domestic constituencies. It also means the principal focus will instead be on lowering barriers to goods and services trade. This is precisely where India stands to make the greatest gains: by developing its export oriented manufacturing and services sectors.

fragmented into many bilateral deals with widely differing content and rules. This leads to trade diversion, where economies can gain (and lose) export markets due to the marginal effects of FTAs rather than the underlying patterns of comparative advantage. Businesses face increased transaction costs, as they must ensure compliance with literally dozens of different rules for each of their key markets. These costs are especially prohibitive for small and medium enterprises, which lack the capacity to secure the necessary commercial and legal advice.



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The multilateral approach embodied in RCEP is a perfect fit with India's trade priorities. Rather than having to negotiate many bilateral deals, India can access Asian markets through a single integrated platform. It firms will no longer suffer the trade diversion problems which come with being a relative outsider to the network of bilateral FTAs. Its industries will be able participate in regional production networks where value chains are spread across multiple markets, especially in the manufacturing and agro-food industries. India's dynamic service sectors will find opportunities in providing the flexible business services that help tie these transnational networks together. It will also be able to pool resources with other developing countries during RCEP negotiations, which will help deliver better outcomes – tailored to developing country needs – than if forced to secure bilateral FTAs on its own. RCEP provides India a unique opportunity to strengthen its ties with Asia while preserving its long-standing commitment to trade multilateralism.

### Trade Reform in India: The constraints and costs of looking east?

RCEP is a major economic opportunity for India. It offers a model of economic integration – based on multilateralism, an Indo-Pacific conception of the region, and a developing country-friendly approach to trade liberalisation – that suits India's economic interests. If successful, it will also be the first-time India has been founding member of a key piece of the regional economic architecture. However, and despite its seemingly good fit with India's economic interests, RCEP will impose significant costs and constraints for Indian policymakers. Major changes to longstanding trade and foreign policy positions will be required for active participation in the ongoing negotiations.

India's readiness to engage in trade liberalisation is an issue. While RCEP has far lower ambitions than the now-defunct TPP, it still demands major reforms. The negotiating parties have declared a goal of achieving 'high quality' outcomes in the core areas of goods, services and investment liberalisation. This will likely involve the elimination of nearly all (>95%) of tariff lines. This is far more than India has conceded in any of its previous FTAs. For example, the ASEAN-India FTA eliminated only 80% of normal track tariff lines, and only 10% of sensitive track products<sup>148</sup>. During 2015 and 2016, the key sticking point in RCEP negotiations was the issue of India's willingness to cut tariffs. Indian negotiators insisted on a three-tiered structure for tariff reductions that would shelter its industries from Asian competitors, particularly China.<sup>149</sup> While this request has now been shelved, it reveals India is less ready to liberalise tariffs than other members of the bloc.

RCEP will therefore be a key test of the reform capacity of the new Modi government. While liberalising economic reforms are a key plank of the government's platform, many analysts have argued that India's fractured political system domestically constrains its ability to deliver on this agenda<sup>150</sup>. This is especially pronounced in trade: many Indian industries remain heavily protected, and under RCEP will face stiff competition from China and other industrialising economies in Southeast Asia. Disagreements within the Indian bureaucracies over the scope and pace of reform have also made it difficult to find a consensus position to present during external trade negotiations.<sup>151</sup> Ultimately, the gains of RCEP will likely outsize the losses, and thus offer net benefits for the Indian economy. But negotiating political compromises between the winners and losers of trade liberalisation is not something at which previous Indian governments have proven successful. If the Modi government achieves this, it will mark an historic change in the country's domestic trade politics.





Myanmar State Counsellor Aung San Suu Kyi and India's Prime Minister Narendra Modi in October. Courtesy: MEA [Ministry of External Affairs]

RCEP will also require a reorientation of India's economic diplomacy. It has long been committed to multilateral trade at a global level, advocating for developing country interests for several decades through the General Agreement on Tariffs and Trade and WTO negotiations rounds.<sup>152</sup> It has also taken a leadership role as a trade coalition builder, working with Brazil to establish the G20 and G33 developing nation blocs following the WTO's Cancun Ministerial conference of 2003.<sup>153</sup> The global orientation of its trade policy is reflected in the relatively low priority which has been accorded to bilateral and regional FTAs, with India having signed fewer of these agreements than many of its peers in Asia (Table 3). Active

participation in RCEP will require this position to change. While India can retain a commitment to trade multilateralism, it must transition from a having a global to a regional focus.

Such a 'regional turn' in Indian trade policy is not without complications. At its most basic, the Indian government must redirect scarce negotiating resources – and the political capital required to push through domestic reforms – from the WTO to RCEP processes. Many also blame the current crisis in the WTO on the proliferation of bilateral and regional FTAs, which are argued to have sucked energy out of the Doha round. While mega-regional agreements like RCEP attempt to maintain



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the pace of trade liberalisation while the WTO is stalled, their existence also implicitly recognises that global level trade reform is impossible in the current political and economic climate. If India shifts from lukewarm to active participation in the RCEP negotiations, it will to some extent mark an acknowledgement of this reality, and a step back from its commitment to developing world advocacy in the WTO. Whether India is willing to give these longstanding positions up and 'go regional' on trade is an open question.

Finally, there is also the complicating matter of geopolitical alignments in Asia. RCEP's development was intimately bound up with the TPP, the other mega-regional FTA launched in recent years. The TPP and RCEP were competing proposals, with differing memberships and trade reform ambitions. Significantly – if somewhat unfortunately – they were also dragged into the matter of China-US leadership rivalry. The US government described the TPP as the "economic wing" of its 'Pivot to Asia' policy, while President Obama argued it would ensure the US and not China would "write the rules of the road" for the region.<sup>154</sup> In contrast, China has been the principal advocate and driver of RCEP, which has been widely understood as an Asian and developing country-friendly alternative to the TPP. Governments in the region thus faced a situation where they had to choose between competing US- and China-backed trade proposals.<sup>155</sup> Participation in the mega-regionals was as much about signalling allegiances between the two major powers in Asia as it was about trade policy preferences.

Indian involvement in RCEP is therefore an inherently geopolitical act. While ostensibly 'ASEAN-centred', since negotiations began in 2013 the RCEP process has been led by China. China has also exploited the collapse of the TPP to stake its claim to regional leadership on RCEP. At the APEC Summit in November 2016, Xi Jinping called on partners to support a Chinese drive to complete the RCEP negotiations by the end of 2017.<sup>156</sup> Active participation in RCEP means backing a set of regional arrangements in which China is both the lynchpin for economic integration, as well as the political driving force behind institution-building. For India, this is not a straightforward move. Given its longstanding (albeit recently questioned)<sup>157</sup> commitment to non-alignment, and its often-tense bilateral relationship with China, RCEP is an awkward fit with India's broader geopolitical considerations. India's RCEP strategy will therefore require striking a balance between economic, security and diplomatic imperatives.

From India's perspective, RCEP is both an opportunity and challenge. It will require significant changes in both its domestic trade politics and international posture. But it also offers an historic opportunity to end India's relative economic isolation from Asia. RCEP promotes a form of trade liberalisation – based on traditional market access exchanges – which are consistent with India's interests as a developing country. It embodies an Indo-Pacific vision which gives India a central position in the Asian economic architecture. Its multilateral approach will provide a platform for Indian firms to participate in the regional production networks that have driven Asia's economic dynamism. As RCEP negotiations move to completion in 2017, India, for the first time, finds itself at the epicentre of discussions over the new shape of Asian economic regionalism.

# Endnotes





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### ENDNOTES

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