



Five Years of India's Act East Policy

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On 16 December 2019, the Institute of Peace and Conflict Studies (IPCS) hosted a discussion on **Five Years of India's Act East Policy**.

This Special Report brings together multidisciplinary opinion on the subject from:

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The Multi-faceted Evolution of the Act East Policy

Ambassador (Retd) Rajiv Bhatia

An analysis of the first five years of India's Act East Policy (AEP) calls for a holistic approach that encompasses its global and regional contexts, its multiple facets, as well as the past it stems from and the future it strives towards.

The AEP operates in tandem with India's domestic politics. These five years witnessed a sharper focus on strengthening the Northeastern link as a weak Northeast can potentially fracture the effectiveness of the AEP. There has been an effort to create greater political visibility of the central leadership, to mark the BJP's presence in the states through the people's mandate, and trigger a massive outflow of funds at a time when insurgency was breathing its last. This implies that in its evolution from looking to acting east, the policy has become conscious of the local contexts it is rooted in and is harnessing those roots to strengthen its effectiveness.

Furthermore, there is also a palpable shift in the AEP today as it repositions its glance towards India's new strategic focus area, the Indo-Pacific. This rhetoric was captured in Prime Minister Modi's speech at the Shangri-la Dialogue and reflected in the attempt to coordinate the Security and Growth for all in the Region (SAGAR) Policy and the AEP by combining the Indian Ocean Dialogue and the Delhi Dialogue. Thus, from the LEP to AEP to the growing importance of the Indo-Pacific, the policy is garnering an acute awareness of the critical geopolitics it is surrounded by, and actively incorporating this in its progression. Going further, it must also cope with a global environment that is experiencing rapid change, spanning from the signing of the Phase 1 trade deal between the US and China, to the growing possibility of Brexit.

The AEP is also multi-faceted and attempts to innovatively branch into the spheres of economics, politics, diplomacy, culture, and strategy. On the economic front, it looks towards improving trade, investment, and connectivity. Moreover, it goes beyond traditional aspects of scientific and technological cooperation to taking into account aspects of the Fourth Industrial Revolution and the use of the Internet. Further, India's decision to not join the Regional Comprehensive Economic Partnership (RCEP) marks a critical strategic juncture for the AEP, given its relevance to the policy. While the decision does cause a temporary setback to India, it may not necessarily prove to be fatal since India genuinely feels that its major partners such as China, ASEAN, Australia, and New Zealand have not been able to give sufficient mutual accommodation.

The Economics of Acting East: RCEP and Beyond

Prof Amita Batra

An assessment of the five years of India's Act East Policy (AEP) calls for a tracing of its evolution from the Look East Policy (LEP) to AEP, and later, to the growing focus on the Indo-Pacific. This does not imply that the three are interchangeable but that they must be viewed as a continuum of the larger role that India wishes to play in the Indo-Pacific.

The initiation of the LEP in 1991 coincided with the economic liberalisation of India, marking a period during which it wanted to learn from the experiences of the already liberalised 'Miracle Economies' of Southeast Asia, thus making the policy a key channel of gathering such lessons. In the early 2000s, the policy acquired contours of regionalism, and India announced several Free Trade Agreements (FTAs) with its regional partners. This included the Early Harvest Programme with Thailand in 2004, and an FTA with ASEAN in trade in goods in 2003. However, the signing of the latter took six years to be implemented, by which time China's FTA with ASEAN was already effective in the region.

During this six-year-long gap, India faced several difficult issues, which included the rules of origin, size of the negative list, and sensitive products in the context of tariff liberalisation. These obstacles were relevant in India's recent decision with regard to RCEP. The delay between announcements of the FTAs to their actual signing reflected a lack of concrete Indian action in terms of preparedness for FTA-induced preferential liberalisation, something that was recreated in covering the distance from 'looking' to 'acting' east.

Nevertheless, India fared well under the trade-in-goods segment of agreements with other ASEAN economies, reflected in an increase in trade with ASEAN after the FTA. However, the rate of growth remains largely the same as it was before the FTA. Moreover, the rate of growth of India's imports from ASEAN is greater than that of its imports from the rest of the world, while its rate of growth of exports to ASEAN has been lower than that of its exports to the rest of the world. This has created a larger deficit in its trade with ASEAN, which contributes as a factor to India's unwillingness to join the RCEP.

The deficit also reflects that the diversification of India's export basket has been negligible and has, thus, limited participation in the value chain as it continues to export the same goods it did in 2010.

India's primary expectation was that a not-so-advantageous deal in goods would be compensated through a better deal in trade-in-services, which was its priority at the time. This expectation, however, was not met since the trade-in-services deal was signed only in 2015, six years after the signing of the goods deal. Even then, ASEAN continued to play hardball in terms of bargaining for liberalisation in services on account of their limited internal liberalisation.

India's experience in its bilateral agreements with regional countries has been fairly successful. It has gained significantly from the implementation of the 2005 Comprehensive Economic Cooperation Agreement (CECA) with Singapore for trade, investments, and services. This agreement, particularly, saw an increase in bilateral trade, including investments to India. During this period, India also expanded its focus beyond ASEAN by signing significant Comprehensive Agreements with South Korea in 2009 and Japan in 2011, which included the liberalisation of investment and services along with goods. However, the proportion of investments is not significant, and the services agreement with ASEAN has not been implemented. Even when the latter was implemented as part of comprehensive agreements with other countries, it did not prove to be necessarily beneficial to India.

The extension of pan-Asian integration led to the initiation of the Regional Comprehensive Economic Partnership (RCEP) in 2012. RCEP is a convergence of ASEAN's plus-one-FTAs of the six founding members of the East Asia Summit; the ten ASEAN countries; and India, Japan, Korea, Australia, New Zealand, and China. While it is often believed that the RCEP is led by China, in reality, it has always been ASEAN-centric, with the latter's neutrality and dynamics with individual partner countries acting as the central components.

India had been on board since the very beginning, but few differences cropped up during the negotiations. While India desired a differentiated liberalisation track for its FTA partners and non-FTA partners and a completely different, staggered-in-time and tariff-line track for China, other countries expected an overall ninety per cent plus liberalisation. India's differential stance, inflexibility concerning services sector liberalisation, bilateral trade deficits with China and ASEAN, and overall belief that its expectations had not been fairly taken into account led to prolonged negotiations and, eventually, to not joining the RCEP.

Many considered RCEP to be a reflection of India's commitment towards the AEP, through a concretisation of actions leading to a greater regional economic presence and credibility. India's participation would have showcased the policy's dedication towards pan-Asian integration, thus highlighting its role as a relevant part of the Indo-Pacific as well.

participation would have showcased the policy's dedication towards pan-Asian integration, thus highlighting its role as a relevant part of the Indo-Pacific as well.

India will have to work hard on its manufacturing competitiveness and fundamental reforms in the economy to be able to fully take advantage of participating in a trade agreement like the RCEP.

The Geopolitics of Acting East: Past, Present and Future

Dr Udai Bhanu Singh

The Look East Policy (LEP) of 1992 officially turned into the Act East Policy (AEP) at the ASEAN-India Summit in 2014 in Myanmar, and various advancements have taken place within these years. Under the LEP, India's accentuation was more on the South Asian region, while with the AEP, it has proceeded onward to incorporate East Timor, the Pacific Islands, and Australia. Further, New Delhi has made a move towards the Indo-Pacific region with ASEAN at its centre. It has also strengthened its relations with Southeast Asian countries, particularly Vietnam, Indonesia, and Myanmar, with whom it shares strategic relations.

India's Indo-Pacific vision incorporates the entire region from the east coast of Africa to the western Pacific up to the US. ASEAN's centrality can be seen in conjunction with China's decisive way in dealing with regionalism. With an open, free, and inclusive Indo-Pacific, India's emphasis is on leaving the Indo-Pacific open for any country, including China, to join. Some convergence is also seen between India, ASEAN, and the US – with the US renaming its Pacific order as the Indo-Pacific direction; India setting up a separate Indo-Pacific division within the MEA, and ASEAN's 'Outlook to Indo-Pacific'.

India's ASEAN centrality can likewise be seen in the regular presence of its leaders at meetings such as the ASEAN-India and East-Asia Summits, which are opportunities to consider India's vital and monetary issues. New Delhi's dedicated mission to ASEAN along with an embassy in Jakarta also exemplify ASEAN's centrality. To further strengthen ties, India's dialogue-level partnership with ASEAN was raised to a strategic-level partnership along with the issuance of the Delhi Declaration at the 2018 ASEAN-India Commemorative Summit in Delhi. This summit additionally denoted 25 years of India's exchange-level association with ASEAN.

India's relationship with ASEAN, particularly Vietnam, Indonesia, and Myanmar, has improved with the inception of the AEP. Vietnam forms a key pillar of India's AEP, with collaborations at both bilateral as well as multilateral levels. For instance, in 2015, India and Vietnam released a Joint Vision Statement for the period 2015-2020 under which the strategic-level partnership with Vietnam was upgraded to a Comprehensive Strategic Partnership in 2016. New Delhi has also institutionalised a number of interactions, like meetings at the joint commissioner level under the

MEA, and Annual Secretarial Dialogue at the defence secretary level under the Ministry of Defence.

Other engagements with Vietnam include setting up a satellite tracking station in Ho Chi Minh City; increasing outer space cooperation; joint training sessions at the Jungle Warfare School, Mizoram; and the exchange of the Brahmos missile under advanced technology cooperation. However, in spite of existing naval cooperation, India's recent stance on the July 2019 Chinese aggression in Vietnam's Exclusive Economic Zone (EEZ) where India's ONGC Videsh Ltd has direct interests, portrayed India's unwillingness for active involvement in the region.

India's relationship with Indonesia, too, has strengthened with the AEP. India has identified a number of areas of cooperation with Indonesia, like joint aerial maritime cooperation along the Six Degree Channel; R&D in missile technology and UAVs; space cooperation; and engagement in policy dialogue with think-tanks. Some common areas of concern regarding the Indo-Pacific region can be seen in Indonesia's Global Maritime Fulcrum Policy and India's SAGAR policy, along with participation in the Milan exercises. New Delhi upgraded its strategic-level partnership with Jakarta to a Comprehensive Strategic Partnership during the Indian PM's visit in May 2018. Going further, India feels the need to widen the shipping agreement with Indonesia.

Myanmar, with which India shares an international border, has a number of ongoing projects in the region. Some of them include the Trilateral Highway Project; construction of the 160 km Tamu-Kalewa Road and the 122 km Kalewa-Yargi Road; replacing 69 broken bridges; and the Kaladan Multi-Modal Transport Transit Project, which is specifically designed to link India's Northeast with the Bay of Bengal. However, China's presence in Myanmar is the biggest still in the Southeast Asian region owing to the China-Myanmar Economic Corridor (CMEC) and the dual pipeline from Kyaukphyu to Yunnan province of China.

As a way forward, India, through its support to ASEAN's 'Outlook to Indo-Pacific', can widen its horizons in the region without diluting ties with ASEAN. It can also implement its vision of the Indo-Pacific through AEP. For the AEP to be implemented in the truest sense, emphasis needs to be laid on the development of the Northeast, which is the gateway to Southeast Asia. A separate division has been set up within the MEA to deal with the states in the Northeast, specifically, the ones that share international borders. It is thus imperative to develop infrastructure within the country first, and improve air connectivity to and from the Northeast for trans-national projects to come into place. Cultural connectivity in terms of language, cinema, etc also needs to be taken into consideration for the AEP to come full circle.

Act East in Practice: Gains, Hurdles, and Competition

Ashutosh Nagda

How has the AEP fared in practice over the past five years?

It has identified several new spheres of engagement, has faced and continues to face various hurdles, and has endured strong competition from China. To understand how these have taken place, specific project examples from the five-year period, and a few from the period prior to 2014, can be used.

New Spheres of Engagement

India's engagements under the AEP can be classified into three spheres: tangible, procedural, and prospective. While several initiatives have been undertaken, their progress is mostly limited.

The 2016 Project Development Fund (PDF) is a primary example of India's engagement in the region. India created the PDF to facilitate investments and broaden its manufacturing base in the region. Four projects were identified specific to the CLMV (Cambodia, Laos, Myanmar Vietnam) countries: one each in Cambodia and Vietnam, and two in Myanmar. Three of these four projects focus on setting up of hospitals and educational institutes, resembling India's ongoing Quick Impact Projects (QIPs, initiated in 2012).

In the last five years, India has made the most progress through its procedural engagements, especially with ASEAN countries. Two of the most prominent developments in this are the appointment of a separate Indian ambassador to ASEAN in Jakarta, and the establishment of a dedicated MEA division to ASEAN multilateralism. India also made an important diplomatic overture by inviting the ten ASEAN heads of state for the Republic Day celebrations in 2018, which also marked the 25th anniversary ASEAN-India dialogue relations. While all of these are important developments, the focus here was more on process rather than delivery.

India has pitched digital connectivity as a flagship programme under the AEP with an eye on stronger prospective engagement. Under this, New Delhi offered a line of credit (LoC) worth US\$ 1 billion in 2015 but no ASEAN country took to the offer. India then narrowed it down to CLMV countries and provided a grant of US\$ 40 million in 2018. Here, too, it encountered limited success.

This begs the question: Why have India's overtures within the AEP found limited success? The answer lies in the policy hurdles that continues to face.

Hurdles

India is seen as having an institutional capacity problem, which is a combination of confusion, non-responsiveness, and lack of delivery. In the context of the AEP, two examples enunciate this hurdle. The first concerns India's digital connectivity grant to CLMV countries, within which Laos had sent formal requests for projects under the credit line. But no progress was made as EXIM Bank, the disbursement agent, had no telecom consultant on its panel. This highlights the confusion and non-responsiveness demonstrated by India. The second example is the Kaladan Multimodal Project which illustrates New Delhi's lack of delivery. This US\$ 484 million project was initiated in 2003 with a deadline of 2014-15. The project is reportedly in its final phase now, and is scheduled to be completed in 2020-2021.

The lack of tangible engagement, steady institutional capacity, and slow delivery together create a perception of Indian deficiency in actualising the AEP.

India's recent engagement on the Quadrilateral Security Dialogue (QSD or Quad) highlights the lack of political will. While the Quad is not part of the AEP, it is an important aspect of New Delhi's engagement in Southeast Asia. Right after the Quad meeting in November 2019, three of the four member countries brought out press releases on the subject. The US and Australia mentioned the "Quad," which India refrained from. Instead, it chose to term it as "India-Japan-United States-Australia consultations." This showcases both India's reluctance to demonstrate active participation, as well as a lack of coherence within the Quad.

Competition

China is seen as India's primary competitor in Southeast Asia, with India occupying the 'challenger' position. However, India seems to be no match for China's regional engagement. As of November 2016, China and India's trade with ASEAN amount to US\$ 345 billion and US\$ 58 billion respectively, or a 7:1 ratio.

Additionally, Beijing's project implementation capacity is better than New Delhi's. The Chinese-initiated China-Myanmar Crude Oil Pipeline project, with a length of 793 km, was commissioned in 2009 and operationalised in 2015. This project is in the vicinity of India's Kaladan Multi-Modal Project. Further, under Beijing's big-ticket Belt and Road Initiative (BRI) ASEAN is estimated to have signed projects worth US\$ 737 billion.

India as Balancer?

New Delhi is often touted as a regional balancer to China. However, it is, at best, a middle power that can balance the existing big power rivalry in the region.

The Cold-war era of big power rivalry between the US and the erstwhile USSR provide useful context in this regard. At the time, both these major powers provided their respective partner countries with money, security, project implementation help, and market access (limited in the case of the USSR). Their equal standing made them organic balancers to each other.

Today there is an imbalance in the power struggle between the US and China. The US provides its partners with security and market access, and China provides its partners with money and project implementation. This creates a gap that middle powers like India can seek to fill. New Delhi's ability to provide these four elements, albeit in a limited way, makes it a supplementary power, rather than a balancer.



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