

Focus 55 - Broadening Horizons of India's Act East Policy: Future Avenues

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Abstract

The Act East Policy of India, announced in 2014 presented some significant differences from the previous Look East Policy. It aimed to look further east, towards the Pacific and beyond Southeast Asia. However, India's exit from the Regional Comprehensive Economic Partnership (RCEP) raises questions regarding where India's Act East Policy is really headed to. This paper reviews current aspects of the Act East Policy and makes an effort to point out current avenues – particularly focusing on ASEAN and Australia and their importance within the Policy.

<u>Keywords</u>

Act East Policy, ASEAN, Future Avenues



Introduction

India's Look East Policy (LEP) has yielded a rich dividend. India's trade with the Association of Southeast Asian Nations (ASEAN) constitutes about 9% of India's total global trade. The Free Trade Agreement (FTA) between India and the ASEAN, as well as the bilateral treaties between India and specific ASEAN member countries have created an enabling environment for the smooth development of multilateral and bilateral economic cooperation. In 2014, at the East Asia Summit in Myanmar, India's LEP was transformed into India's Act East Policy (AEP). India's AEP aims to focus on its extended neighbourhood in the Asia-Pacific region.

The objective of the Act East Policy has been to promote economic cooperation and cultural ties, as well as develop strategic relationships with countries in the Asia-Pacific region. Another goal is to continuously engage at bilateral, regional and multilateral levels and provide enhanced connectivity with the states of the North East Region (NER) – for in fact, the NER is of utmost priority for the AEP. This is very much evident with the rise of several projects such as the Kaladan Multi-modal Transit Transport Project, the India-Myanmar-Thailand Trilateral Highway Project, and many others providing an interface between Northeast India and the ASEAN. Under the Act East Policy, India focused not only on the ASEAN but also on other regional forums such as Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), the Asia Cooperation Dialogue (ACD), the Mekong Ganga Cooperation (MGC) and the Indian Ocean Rim Association (IORA).¹

During the ASEAN-India Breakfast Summit in Singapore on 15th November 2018, major stress was laid on some of the main tenets of India's Act East Policy (besides the economic elements): ASEAN Centrality; ASEAN's consensus-driven approach; and support for an open and inclusive regional security architecture. India and ASEAN are cooperating in the fields of counter-terrorism – by sharing best practices and information under the existing ASEAN led mechanism; cyber-security – by building capacity and policy coordination along with the implementation of the ASEAN Cybersecurity Cooperation Strategy; and, lastly, in the area of maritime cooperation – via mechanisms such as the Expanded ASEAN Maritime Forum (Singh, 2018).

SADF Focus N.55

2

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¹ Press Information Bureau, Government of India, Ministry of External Affairs.



India - ASEAN Economic Relations: A Detailed Assessment

Economic partnerships between India and the ASEAN have been deepening day by day. In 1992, India's total trade with ASEAN was less than US\$ 5 billion. Twenty-five years later, in 2017 ASEAN became India's 4th largest trading partner, accounting for 10% of the total trade whereas India was ASEAN's 7th largest trading partner. While the ASEAN-India Free Trade Area has been fully functional since July 2015, India had also actively engaged in the Regional Comprehensive Economic Partnership (RCEP) negotiations involving both the ASEAN and its six FTA partners. For India, the RCEP negotiations did not yield any fruitful results, due to which it had to exit the partnership last year.

	TOTAL	EXPORT	TOTAL IMPORT			
Country	2016-17	2017-18 (Apr-Oct)	2016-17	2017-18 (Apr-Oct)		
Brunei	42.88	29.88	627.85	286.50		
Cambodia	105.06	64.15	36.10	29.60		
Indonesia	3488.12	1982.48	13,427.99	9,402.25		
Laos	25.72	11.24	207.38	125.27		
Malaysia	5,244.86	2,788.34	8,933.59	5,211.17		
Myanmar	1,107.89	511.19	1,067.25	540.28		
Philippines	1,482.52	900.85	494.62	465.15		
Singapore	9,564.48	5,623.90	7,086.57	4,038.78		
Thailand	3,133.44	1,978.47	5,415.40	3,916.5		
Vietnam	6,786.56	4,236.23	3,320.56	2,573.2		
Total	30,961	18,126.72	40,617.31	26,588.93		
India's Total	275,851.71	166,469.58	384,355.55	257,527.60		
% share	11.22	10.88	10.56	10.32		

Table 1: Total Export and Import Statistics between India and ASEAN Countries (Source: Times of India)

An important ingredient for boosting economic engagement includes making Indian companies a part of regional value chains and production networks. In order to achieve this, at the ASEAN-India Summit in 2015, the Indian Prime Minister had announced a Project Development Fund aimed at catalysing Indian economic projects in Cambodia, Lao PDR, Myanmar and Vietnam (Press Information Bureau, 2016). This fund was endowed with an initial corpus of Rs. 500 Crore, which is now up and running, with potential sectors identified and pre-feasibility studies to be undertaken soon. In addition, the Department of



Commerce financed over 14 trade promotional events in the ASEAN Member States under its Market Access Initiative at a <u>cost of Rs.767 crore during 2015</u>.

Private sector engagement has also been one of the key areas of focus. The ASEAN-India Business Council (AIBC) was set up in March 2003 in Kuala Lumpur to provide an inclusive forum to major private sector players from both India and ASEAN countries for business networking. AIBC recently organised the 3rd ASEAN-India Business Summit in November 2018, headed by the Malaysian chapter in Kuala Lumpur.

India has engaged with ASEAN at both regional and sub-regional levels by signing economic cooperation agreements with its different members. A framework agreement on comprehensive economic cooperation was signed in Bali in October 2003 between India and the ASEAN. It was expected to eliminate tariff barriers among all members and eventually establish a free trade area in goods, services and investments. This was followed by a final agreement on trade in goods signed in Bangkok in 2009 and another on services and investments signed in New Delhi in 2015, but not all barriers have yet been removed. Bilateral agreements with various members such as Thailand, Singapore, and Malaysia have also been signed, all of them aimed at deepening economic integration with the region (Bhogal, 2018).

A few Southeast Asian countries such as Singapore, Malaysia and Thailand have emerged as major export destinations for India. The main export items to Singapore include mineral fuels, oils and bituminous substances, ships, boats and floating structures. Indian imports from Singapore include organic chemicals, nuclear reactors, boilers, machinery and mechanical appliances, electrical machinery and equipment and parts, among others. India also imports agricultural products from Malaysia. Since there are trade complementarities between India and Southeast Asian countries in areas such as agriculture, machinery and minerals, among others, trade relations have continued to expand, except during the East Asian crisis in 1997-98 and the global financial crisis of 2008-09.



industry	2012	2013	2014	2015	2016	2012-2016
Agriculture, forestry and fishing	8.7	4.6	4.7	3.5	4.4	25.8
Mining and quarrying	(0.7)	0.4	(0.1)	0.2	2.9	2.7
Manufacturing	109.4	66.2	34.2	(131.4)	20.2	98.6
Services	7,193.7	2,036.9	1,177.4	1,089.3	1,021.1	12,518.4
Of which:						
Wholesale and retail trade; repair of motor vehicles and motorcycles	633.9	192.1	25.1	131.5	199.0	1,181.6
Transportation and storage	(451.5)	(17.0)	36.6	0.4	41.0	(390.5)
Finance and insurance	5,619.6	1,067.6	771.5	525.7	(578.4)	7,405.9
Real estate	9.1	1.3	428.7	296.0	276.2	1,011.4
fotal	7,311.1	2,108.1	1,216.2	961.6	1,048.6	12,645.5

Table 2: Indian FDI flows in ASEAN, by industry, 2012–2016 (Millions of Dollars)

Meanwhile, India received nearly US \$13.8 billion as foreign direct investment (FDI) from ASEAN economies in 2015-16. The major Southeast Asian economies investing in India are Singapore, Malaysia and Thailand. Over 99 per cent of total FDI inflows into India are from Singapore, with other Southeast Asian countries accounting for less than one per cent. The India-Singapore Comprehensive Economic Cooperation Agreement has provided an impetus to the growing partnership between the two countries. Conversely, Indian outflows to ASEAN economies were recorded at US\$ 1.2 billion in 2015, up from US\$ 0.6 billion the previous year.

	2010	2011	2012	2013	2014	2015
FDI Inflows into ASEAN from India	3.80	-1.96	6.63	2.10	0.61	1.25
FDI Outflows from ASEAN into India	3.02	1.76	5.29	2.59	6.14	6.97
Source: ASEAN Investment Report, 2016; FDI Statis	tics for diffe	rent years fro	om DIPP We	bsite		
Note: FDI Outflows from ASEAN into India only incl Singapore, Philippines, Malaysia, Thailand, Myanma					ies namely I	ndonesia,

Table 3: Investment flows between India and ASEAN in US\$ billion, 2012-2015



Role of Bengal in India's Act East Policy

In the case of several connectivity projects, be it the BCIM Economic Corridor or the Kaladan Multi-modal Transit Transport Corridor, it is observed that such projects that connect India with Southeast Asia majorly cross Bengal. Thus, West Bengal can be identified to be of vital importance for India's Act East Policy.

West Bengal is situated in Eastern India and shares its borders with Jharkhand, Bihar, Odisha, Sikkim and North Eastern States. The State also shares international borders with Bangladesh, Bhutan and Nepal. The Bay of Bengal lies at the south of the State. West Bengal has a long international border and occupies an important strategic location in Eastern India. Locational advantages suggest that it should play a crucial role in India's pursuit of increased trade with other Asian countries. As West Bengal is close to Bangladesh, Myanmar, Thailand and a number of other East Asian and South East Asian countries, it has the potential to become a gateway for India's 'Act East Policy'.

Kolkata, the capital of West Bengal is interestingly connected to many international maritime and road connectivity projects. For example, the BCIM economic corridor hopes to connect Kolkata with Kunming, crossing Bangladesh and Myanmar as well. Apart from this Bengal is very much connected to the Asian Highway Network, the Kaladan Multimodal Transit Transport Project, and the Zolkawtar/Rhee Route. It is also anticipated that Kolkata will play a massive role in the New Silk Road trade route (Bengal Chamber of Commerce and Industry, personal communication 2018)².

There are several reasons why Bengal is considered as a pivot in India's AEP – ranging from its strategic location to connectivity infrastructure and also its maritime potential. On a strategic line, Bengal is considered to be a gateway to Southeast Asia and Northeast India, and also as a connecting hub for mineral-rich Indian states like Jharkhand, Orissa and Chattisgarh. Bengal also acts as the port of entry for landlocked states of Central India and other nations such as Nepal and Bhutan. As far as connectivity infrastructure is concerned, Bengal has the 3rd largest road network in the country, with major reach to national inland waterways. Having two international airports, one at Kolkata and the other at Bagdogra along with international maritime connectivity via the Kolkata and Haldia port, Bengal features exemplary global connectivity.

SADF Focus N.55

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² Source derived from an internal report of the Bengal Chamber of Commerce and Industry (not publicly available).



The Sagar Port (under construction), the Tajpur Port (proposed to be built by 2020) and the small Kulpi port, will only boost Bengal's trade figures. The Government of India has declared the entire stretch of the Ganges between Haldia and Allahabad as National Waterway-1 (NW-1). The Waterway spans across a distance of 1,620 km. The 560-km Haldia-Farakka stretch of NW-1 has been developed as part of the multi-modal system for cargo from Nepal, Bhutan, North Bengal and the North-eastern states. As of November 2018, the first container movement happened on NW-1 when PepsiCo moved its 16 containers from Kolkata to Varanasi on the inland vessel MV RN Tagore. Thus, a lot of new developments can be seen *vis-a-vis* Bengal which will only open more prospects for India's Act East Policy.

Australia and India: An Emerging Pacific Affair

We have majorly discussed in this paper how the Southeast Asian connection will be of utmost importance to India's Act East Policy. However, a major evolution from the LEP to the AEP concerns an extension of India's policy further East. Opportunities and avenues are not restricted to Southeast Asia; a huge pool of future prospects are visible in the Pacific region, most importantly as concerns Australia.

Just before the Act East Policy came into being, in September 2014 the then Australian Prime Minister Tony Abbott visited India and signed the civilian nuclear deal, whose significance lies in the fact that Australia is home to the world's largest reserves of uranium. The agreement will prove to be immensely beneficial as India seeks to enhance its energy generation from nuclear reactors from the current 5,000 MW to 20,000 MW by 2022, and 62,000 MW by 2032. A Few months later, the Indian Prime Minister's bilateral visit to Australia, following his participation in the Group of Twenty (G-20) Meeting in Brisbane in November 2014, was the first by an Indian Prime Minister in 28 years.

If we fast forward to 2019, we see that Indo-Australian relations are experiencing a boost. The recent development of an Australian Consulate-General opening in Kolkata is one of the many positive examples that substantiates this growing relationship (Hazra, 2020). There are several Australian firms operating from India, mostly in the mining industry.

The growth of relations between the two countries can be seen through the major strategies regarding the future of India-Australia's relations. One such strategy is <u>Australia's India Economic Strategy to 2035</u>. A growing India will need many of Australia's goods and services — including in education, agriculture, energy, resources, tourism, healthcare, financial services, infrastructure, science and innovation, and sport. There's no single major



market out to 2035 with more growth opportunities for Australian business than India. Australia's ties with India are long-standing and strong, the need right now is to further develop economic partnerships, which are led at the highest levels of government and business.

Apart from this, the Kolkata Port is a gateway for Australian goods to reach Central Asia, via India. The major trading goods between the two countries include; fly ash, copper ore, other minerals, and fuels.

Conclusion

This paper has made an effort in understanding various avenues for India, which will play a vital role in implementing India's Act East Policy. Thus, India should focus on its ongoing regional projects which majorly deal with connecting the East and NER with Southeast Asia.

Notwithstanding the massive promise carried by stronger connectivity between India and Southeast Asia, there are various barriers that hobble such integration. For one, the delay in completing infrastructure projects — including road, rail, seaports, and highways — due to various political and financial constraints, has impeded the progress of economic cooperation. Keeping in mind its interest in collaborating with Southeast Asia for potential benefits in varied sectors such as agriculture, energy, and gas, India has undertaken initiatives to enhance cross-regional cooperation. For instance, India invited Myanmar to join the BIMSTEC in December 1997 (Asian Development Bank, 2015), as it has a locational advantage that can be leveraged so as to integrate India with Southeast Asia. It is suggested that India and the ASEAN identify common challenges and shared interests that can promote cooperation. Trade in services remains largely protected in ASEAN member countries. As India has a comparative advantage in the services sector, especially information technology services, domestic regulations in ASEAN economies need to be liberalised so as to promote cross-regional cooperation. The challenges of inadequate physical connectivity (road and rail linkages), along with infrastructural bottlenecks (nontariff barriers) need to be addressed in order to strengthen India-ASEAN partnership.

Research reports of the Bengal Chamber of Commerce and Industry has given a few recommendations regarding the ways in which Bengal can play a better role in the implementation of the Act East Policy – for example the development of a dedicated research institution which could be founded under the aegis of the state's Government and

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would function as the State's Think-tank in International Trade Policy and Development research and advocacy. The state Government could also set up a cell for 'Act East Partnering' so as to look into regional cooperation between the state and Southeast Asian countries.

Lastly, India should not miss out on opportunities linked to Australia. The India Economic Strategy is an ambitious plan to transform Australia's economic partnership with India up to 2035. Getting the Strategy right will strengthen the resilience of the Australian economy and help realise India's aspirations.

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