

ASEAN@50 AND INDIA-ASEAN RELATIONS

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Salamat Malam! Good evening!

Thank you, Prof. Nagappa, Program Director, International Strategic and Security Studies Programme (ISSSP), NIAS, for your generous introduction, Ambassador Rajiv Bhatia, other distinguished guests and participants of the Regional Conclave on ASEAN@50 and India-ASEAN relations, scholars, researchers, friends,

Let me start with congratulating Dr. Sonu Trivedi and the South East Asia Research Group, University of Delhi, and Dr. M. Mayilvaganan, host and co-organizer of the Conclave and all their institutional partners for their support for the event, for a very rewarding two days of talks and discussions with diplomats and scholars on the ASEAN and India-ASEAN relations on the occasion of the 50th Anniversary of the ASEAN and Prime Minister Modi's initiative to invite all ASEAN Heads of State or Government on the occasion of the India's upcoming Republic Day. I would like to add a special word of welcome and thanks for all our international guests from Indonesia and Vietnam who have provided the necessary ASEAN perspective to the Conclave, especially their Excellencies, the Ambassador of Indonesia, the High Commissioner of Brunei Darusalaam to India and the Embassy of Vietnam.

I feel privileged to give the Valedictory Address on the occasion though I am not sure I am well qualified to do so in the presence of scholars who have spent years, and in some cases, a lifetime on South East Asia, having spent but the last 5 years following the region mainly from Myanmar. I will nevertheless try to fulfil my duty by focusing on some wider global trends that affect both the ASEAN and India, and offer some possibly unorthodox ideas to develop this relationship further in the coming years.

First, it is a bit of a truism and cliché to say that we find ourselves in a world of flux where old certitudes have been shaken and new question marks trouble the minds of policy makers and strategic and security

thinkers. The founders of ASEAN who grew around a post World War II economic and political order in Asia anchored by the US, were remarkably successful in forging a regional political identity in the midst of the Cold War anchored to Western geo-political interests, markets and investments; and later as the Cold War drew to a close and China emerged as an economic powerhouse, drawing in its communist and military-led neighbours into its fold, creating a culture of consultation and consensus, and establishing progressively stronger economic ties with China.

In so doing, it managed to form a regional political and economic grouping bringing together a disparate mix of states, large and small, land-locked, peninsular and archipelagic, democratic (in various shades), Communist Party-led and military dictatorships, socialist and market economies, and Islamic, Buddhist, Christian, secular-mixed societies united largely by the geographic and strategic space they occupy in South East Asia. In the absence of an obvious strategic adversary after the Cold War, it did not feel the need to, nor perhaps would it have had the capacity to, provide for its own collective security. Its strategic underpinning was implicitly provided by the US.

Today, that situation has changed. The remarkable rise of China over the last 30 years and more led by the Communist party of China, accompanied by its growing political, strategic and economic self confidence manifested in major diplomatic and charm offensives worldwide; its shedding of inhibitions to project its political and economic models as examples for others to follow or benefit from; its calibrated military assertiveness and rapid and ambitious modernization; its strategic economic projection through the Belt and Road Initiative, the Asian Infrastructure and Investment Bank (AIIB) and other initiatives; and the unrivalled position of President Xi Jing Ping and his policies enshrined at the 19th Communist Party Congress recently, have changed the equilibrium, and equations, in the region that countries are still trying to grapple with.

Just when there is a need for a steady and firm US hand in Asia, it has been found wanting, lurching from its strategic 'pivot' or 'rebalancing' towards Asia girded by the Trans Pacific Partnership under President Obama, to the muscular bluster of President Trump. Militarily, diplomatically and institutionally, the US remains powerful, but questions about its current leadership and decision-making have left a region a little nervous and looking for stabilizers.

Little wonder then that new alignments and hedging strategies are shaping up as countries from Japan to India try to safeguard their own security and strategic interests. It has catalyzed voices in Japan to review its defence and nuclear postures possibly causing some nervousness in some quarters on account of their World War II experiences, though the context today is very different and such a scenario unlikely. Australia, Japan, the US and India have come together, albeit still tentatively, in a democratic 'Quadrilateral' unwelcome to China. Regional powers have accelerated naval and military exercises to deal with imaginable challenges and threats.

ASEAN itself is in a bit of a disarray on how to deal with China, the US, and contested claims in the South China Sea testing its unity and the limits of diplomacy in dealing with unilateralism and force in the matter of territorial claims and freedom of navigation as enshrined in the UN Convention on the Law of the Sea. The Indo-Pacific has emerged as a new theatre of maritime competition.

Of the three major theatres of international tension and flashpoints in the eastern seaboard of Asia - the Korean peninsula, the East China Sea, and the South China Sea (and if we are to include the unresolved and still contested India-China land boundary on the Himalayas, a fourth), China is a party to three and a major factor in the fourth. ASEAN and India cannot be not immune from any of these tensions emanating from the region and indeed beyond. Of these, West Asia, where the players are quite different, are also important.

Seen from a more elevated global perspective, we have moved over the last 40 years from a bipolar to unipolar to a multipolar, or more accurately, 'tri-centric' world, where a unilateralist and erratic US, an assertive and rising China, and an arguably revanchist Russia dominate the security agenda. I use the world 'tri-centric' intentionally. During and even after the Cold War, major or dominant powers spoke in the name of a greater good, be it democracy, freedoms, open markets, open societies and human rights on the one hand, or anti-imperialism, worker's rights, equality, social or distributive justice, socialism, communism or the poor, on the other.

Today, all the three key players are self-professedly self-centric or selfish, speaking a language of self-interest and their country first (though China is now trying to dress it in the garb of a China-led sphere

of prosperity). There are few common values bringing them together or that other more peaceful nations share. Other industrial powers or groupings like the EU, Germany and Japan, emerging groupings like BRICS, or regional powers like India, Iran, Saudi Arabia, Turkey, Israel and others are also shaping the political, economic or regional agenda but few can act as independent poles by themselves. They need one or the other major power to shape geo-politics.

Looking outside inter-state relations too, there are social, economic and technological forces impacting on domestic politics and international relations negatively: right wing populism in the west (and to some extent elsewhere) with streaks of isolationism, nationalism, racism and anti-Islamism; religious fundamentalism, extremism and terrorism in swathes of Asia, particularly West Asia, spilling over into South and Southeast Asia; the existential challenge of climate change; the rabid use of social media for the politics of identity and emotions; threats to cyber security and of cyber-warfare; and globalization with its economic uncertainties, inequalities and discontents. They have created a potent cocktail that could easily trigger flash-points or engulf countries and regions. The convergence of new technologies like ICT, artificial intelligence, robotics have raised Orwellian concerns over the unprecedented capacity of states and corporations to monitor and control the lives of ordinary citizens as never before.

Even if not everyone shares the somewhat bleak picture I have painted so far, a few questions stand out. Is China's rise peaceful and an opportunity for the region and beyond; or is it destabilizing, threatening and expansionist; or can it both? Can it be 'managed' or 'contained'; or do we need to hedge or confront? Are we misreading China? Is the US necessary, and/or can it be relied on to deal with China? (I am for the moment leaving aside all others challenges, DPRK, and non-traditional threats including terrorism etc. which too are important but not that contentious, as also other dimensions of ASEAN@50 and India-ASEAN relations).

What are the instruments available to the international community and the region to deal with a potentially world changing rise - diplomatic, economic, strategic and military?

More importantly, faced with concerns about China's intentions and trajectory and US unpredictability and inconsistency, do India and the ASEAN, but also perhaps others like Japan, Australia and perhaps even

Russia, need to come together to find a way to deal with the challenges facing the region?

It would be imprudent of me to try to provide answers to these questions, but let me offer some thoughts on the possible elements of an alternative economic strategy to deal with a geo-strategic challenge. But before I do that, let me also clarify some basics. First, as far as India is concerned, Minister of State M.J. Akbar has already clarified yesterday, and India has established through the Doklam standoff, and that India is committed to diplomacy and peaceful solutions to all disputes; that India is not in favour of a strategy of containment of or confrontation with China. But that does not mean that we do not develop hedging strategies to deal with contingencies or eventualities. It is also not a challenge that can be dealt by India and ASEAN alone, and will require the involvement of others.

Let me then place before you the key elements of such a strategy. First, most current approaches to dealing with the hard aspects of China's rise are primarily security-driven and geo-political in nature. However, a purely military-political strategy without economic content would be brittle and tend towards confrontation.

The rise of China and its global projection (through the BRI, AIIB, BRICS etc.) has been built on its economic rise, and on huge infrastructure and connectivity projects intended to power its economy and project its strategic influence worldwide. Our response too should be economic, but not imitative, and capitalize on our strengths. It should focus on manufacturing and services, value adding, employment generation, developing value chains, and people-centered development to utilize existing and planned infrastructure, ASEAN, Chinese, Indian and others. It should also always keep environmental protection, sustainability and impact on climate change at the forefront.

Second, such a response should address the diversity of South East Asia by crafting separate but complimentary strategies for continental or terrestrial, and maritime, peninsular or littoral South East Asia. Its littoral dimension would be suitable for large corporate-driven investment in manufacturing, services, infrastructure and the blue economy in maritime South East Asia from Philippines to Malaysia, as part of the regional and global value chains stretching from East to India, Africa, Europe and the Atlantic. Its continental dimension would however require a priority towards much more bottom-up approaches

building on local resources and products. The two approaches are of course not mutually exclusive. They could compliment each other and integrate as the latter grows.

Third, while acknowledging that connectivity is an imperative for economic growth, it should, particularly in its terrestrial dimension, rebalance the current mantra of connectivity with a better balance between connectivity and productivity, and between small, medium and large investments, including through cooperative, micro-credit and self help strategies. It should accord priority to building on the existing rural economy of those who live off the land, water and forests (who still constitute the majority of people in the region) through environmentally sustainable development of agriculture, livestock, fisheries, forests, education, health, physical and digital connectivity and a multitude of other small projects on a large scale over large, top-down, corporate or state driven projects prioritizing large power and transport infrastructure projects that are usually environmentally and socially disruptive.

Such an approach would develop a much broader ownership and employment base benefiting a much wider cross-section of people at the base of the economy, and bring political dividends for host countries and partners. It would slightly alter the relationship between connectivity and productivity. It could use existing transport infrastructure to start with the 'first mile', improving and getting the local product to wider markets, with infrastructure growing organically with markets rather than starting big and worrying about the 'last mile' later.

Fourth, Japan could be a key partner with the emerging India-Japan enhanced economic and strategic partnership and the proposed Africa-Asia Growth Partnership linked through ASEAN and India as its pillar. This does not mean others are excluded but that the Japanese partnership could provide the spine for the strategy, and enlarge choices for countries interested.

Fifth, US political, diplomatic and economic support for Japan and ASEAN would remain critical, but the strategy would not be US-centric or US driven; it would be regionally driven.

Sixth, such an economic strategy should not be seen as anti-China; rather it should be seen as an alternative to China. It would be competitive, not confrontational.

As we know, competing on its own, Japan has been losing ground to China economically, globally and in Asia. India too cannot yet compete strongly with China in South East Asia and elsewhere in infrastructure building or manufacturing and exporting goods out of India taking into account cost of production, tariffs and transaction costs. But India can compete with China on the combination of cost, quality, technology, reliability and service with a suitable branding, if it invests in ASEAN, taking advantage of the ASEAN Economic Community (AEC) and local factors of production in the CLMV in particular.

A well-crafted India-Japanese economic partnership can complement each other capitalizing on their respective strengths, and revitalize and enhance Indian and Japanese competitiveness across a range of industries from small to big, agro-based and light industries, machine tools and infrastructure, generating local employment, adding value of natural resources and primary products, raising economic productivity and lifting up the industrial and technological base of the economy in general.

Seventh, such a strategy will require some revamping of our investment and official development partnership policies. So far, the primary instruments of our external economic policies have been on trade and more recently, development partnership including Government-to-Government Lines of Credit. So far, the focus of our investment policy has been almost entirely on attracting inward investment. (Seen from this point of view, our 'Make in India' strategy is not very different from our 'Swadeshi' policy during the struggle for our independence, and policy of self-reliance during the Nehruvian and 'socialist' years. The only difference is that now we welcome foreign companies and investment in our domestic economic development (whereas we were wary of them earlier). There is not much policy support for outward investment.

Perhaps this is because we tend to think of outward Indian investment as a net outflow of capital. This is an outdated view. In a globalized economy, capital flows are circular and can be ploughed back one way or another. Virtually every other major country in the world, be it Japan or China, or the US, or Germany, looks at foreign investment both in terms of global economies of scale and comparative advantages, and in strategic terms. That is why FDI has become such an important item on the international economic agenda. Unlike trade which is almost by

definition transactional, foreign investment conveys a long-term stake in the country and creates an economic interdependence from which both investing and host nation benefit. We need to adopt foreign investment in our extended neighbourhood including ASEAN as an arm of our foreign policy. This is not yet happening.

This also means that we need to compliment the concept of Make in India with the idea of 'Make in Partnership with India' in our near abroad wherever possible through joint ventures with host country partners. As I said before, we may not be able to compete with China exporting goods manufactured from India on cost. But we can compete with China across a much wider set of manufacturing industries if we take advantage of tariff advantages offered by the ASEAN Economic Community and local factors of production, to invest in South East Asia, especially in the least developed economies of the CLMV.

Likewise, in our development partnership, virtually all our investments have been government investments in development projects and Government-to-Government Lines of Credit. This is true for our various funds to the ASEAN as well. While this is important from the point of building bilateral relations in general, we need to facilitate cheaper, commercial, buyers and sellers Lines of Credit to stimulate private sector trade and investment between India and Southeast Asia, and direct at least some of our Lines of Credit away from large, long gestation G2G credit lines to more innovative projects with more direct social impacts on the grassroots. While this may involve greater outlays on cheaper credits and risk insurance, the overall burden on the government budget should be much less.

Eighth, we need to give a special place in our investment and development policy to small and medium enterprises especially in employment intensive and livelihood based sectors like agriculture and agro-industries, but also light industries like textiles, consumer goods, pharmaceuticals, electronics and machinery; social development sectors education, health, IT, skills development etc.; and environment friendly techniques, industries and technologies.

A suitable financing facility for SME's is of particular importance. Typically, it is much easier to find financing for large companies investing in big projects that are frequently socially and environmentally disruptive sectors even as the dominant development narrative marketed by international and bilateral financial and development

institutions is high on the jargon of ‘inclusive, equitable and sustainable’ growth. In reality, it is quite the opposite. Some handholding would also be required in the form of consultancies, entrepreneurship development, management training, and skills development. The Government of India has made a welcome beginning in this direction with a Special Purpose Vehicle of the Eximbank of India for such investments in the CLMV countries. This can be expanded much further.

Ninth, no doubt the India-Japan economic partnership has a strategic dimension, but participating in it is not an either-or choice. Rather, it will enhance ASEAN’s and member countries’ choices.

Lastly, this economic and strategic partnership does not preclude a security or political dimension or other partnerships, and in a way, the recent meeting of the Quad points that way. As Ambassador Bhatia pointed out yesterday, this could be a message and/or a hedging strategy also. The Quad may need to find a way to include ASEAN too in its dialogue on freedom of navigation and security in the Indo-Pacific.

So, how do these principles translate on the ground?

In continental or terrestrial South East Asia, we can build upon PM Modi’s idea of a North East India-Myanmar Industrial Corridor, the Trilateral Highway, and the East West Corridors of the Master Plan for ASEAN Connectivity (MPAC) to build upon a number of economic and investment corridors from the North East of India through the Greater Mekong Sub-region up to Vietnam. These could be called the India-Greater Mekong Sub-region land corridors. Such corridors should integrate as a priority the North East of India and the CLMV countries that suffer a development deficit. The latter also enjoy some measure of protection and a grace period to harmonize their tariffs and fully integrate into the ASEAN Economic Community.

These corridors would consist of a series of agro-processing, light industrial, and services hubs based on local resources, produce and human resources utilizing existing connectivity infrastructure and building upwards and outwards to newer and bigger markets, somewhat inverting the current emphasis on connectivity first and the rest later.

To start with, it would survey the productive potential of the regions that could be serviced along these routes based on natural resources, primary produce and availability of labour; identify possible industrial

hubs and zones; fill in missing links in connectivity; find energy (preferably renewable), funding and capacity-building solutions; and summon the political will to develop these east-west corridors. These corridors should be based on the development of local agriculture (rice, beans and pulses, oilseeds, horticulture, vegetables, plantation crops like rubber, cashew, tea, coffee etc.) and agri-based and traditional industries such as bamboo, cane and other local sustainable forest based products, light industries, value-adding to some extractive industries mindful of environmental and climate change impacts and implications, and the required social infrastructure.

Such a processing and manufacturing based strategy should avoid the Chinese model of investment in extractive industries and development of arteries of import of raw material and export of manufactured goods. Indeed, competition from cheap manufactured goods from China has arguably had the effect of throttling the development of manufacturing industries in the CLMV. I have some familiarity with possible connectivity industrial hubs in Myanmar, but these and other possibilities in Laos, Cambodia and Vietnam need to be studied and evaluated from a feasibility, business and strategic point of view.

Leaving aside possible rail networks for the moment and concentrating on the highways in the GMS that are part of the ASEAN Highway Network, the first of these corridors would be the Trilateral Highway connecting the North East of India at Moreh-Tamu on the India-Myanmar border southeast-ward up via several cities and crossroads to Myawaddy-Mae Sot on the Myanmar-Thailand border described as the **Western Corridor** in the MPAC.

The second is the **East-West Economic Corridor** from Mawlamyine through Thailand and Laos to Da Nang, Vietnam¹. India has offered extensions of this highway northeastwards through Laos and eastwards through Cambodia that too can be developed.

The third is the **Southern Corridor from Dawei** (Myanmar) via two routes: Bangkok-Phnom Penh-Bavet (Cambodia)-Ho Chi Minh City-Vung Tau (Viet Nam), or Bangkok-Siem Reap-Sung Treng (Cambodia)-Quy Nhon (Viet Nam).

¹ Khon Kaen-Mukdahan (Thailand)-Savannakhet (Lao PDR)-Dong Ha-Da Nang (Vietnam)

While the first two corridors would be connected through the Asian Highway 1 from points in Northeastern India via Mandalay, the third would connect from the eastern seaboard of India by sea to Dawei on the Andamans sea coast of Myanmar, and then follow a new road to the Thai border land and routes through Thailand thereafter.

There is also a relatively neglected **northern corridor** starting from the AH1 at Meiktila via Taunggyi on the Shan plateau across the Salween (Thanlyin in Myanmar) to Kyaingtong on the eastern Shan, and south to Tachilek on the Thai-Laos border to Laos and Vietnam.

A new **variation** to this corridor can also be developed from Kyaingtong via the newly opened Laos-Myanmar Friendship Bridge over the Mekong at Xien Kok through Laos via Luang Namtha, to northern Vietnam at Pang Hoc near Dien Bien Phu and on to Hanoi and Haiphong.

This will be the shortest and most direct route between India and Vietnam. If this cannot be incorporated into the MAPC, it could be taken up as an India-Myanmar-Laos-Vietnam corridor with Myanmar and Vietnam as investment partners.

I have personally surveyed all the potential routes and corridors from Guwahati in India to various points on the Myanmar-China, Myanmar Thailand and Myanmar-Laos borders, including the proposed new corridor, through Xien Kok and Pang Hoc to Haiphong except for the stretch in Laos. Apart from some stretches in NE India and Myanmar which are in the process being upgraded by 2020, and a short stretch from Tale to Xien Kok on the Laos border that needs up-gradation, the rest of the route is already motorable, though there are also insurgency affected areas on the India-Myanmar border and Shan plateau that will need to be addressed.

Each of these planned and possible corridors would ultimately connect India to the Vietnamese cities and ports of Hanoi, Haiphong, Da Nang, Ho Chi Minh City, Nam Cam, Vung Tau and Quy Nhon through Myanmar, Laos, Cambodia and/or Thailand linking the fertile Brahmaputra, Chindwin, Ayeyawady, Mekong and Da and Red river valleys and the Shan plateau and unlocking the untapped agricultural, natural, industrial, tourism and other productive potential from the Northeast of India through Shan state and the Mekong up to Vietnam. Given their productive potential, one can only speculate that the reasons for their neglect are political and security related the north-south topography of

the region that makes cross-valley connectivity difficult, and the weak dialectic between productivity and connectivity.

The second prong of this strategy would be the **maritime-littoral corridor**. This would link the eastern seaboard of India, the Bay of Bengal and the Andaman Sea, through Malaysia, Singapore and Indonesia, Brunei, Thailand Vietnam and the Philippines to the East Asian economies. This would in some ways retrace ancient trade routes linking the Kalingas, Pallavas and Cholas to Southeast Asia, but link them with special, industrial and trade zones in the region to form part of a regional and global value chain linking Japan, Korea, China, Taiwan, Vietnam, Brunei, the Philippines, Thailand, Indonesia and Malaysia to India and eventually as part of the Asia-Africa Growth Corridor, to Africa, the Gulf and Europe. I will not dwell much on this, as it is already being exhaustively dealt with by think tanks, industry bodies and policy makers across the region except to underline the synergy that can be forged by the Indo-Japanese-ASEAN economic partnership along this corridor. This could be called the Asia-Africa Maritime Route.

The third prong of the strategy would develop Myanmar as a springboard for a mixed corridor starting with the Kaladan Multimodal Transit Transport Project, but also the Bay of Bengal, the eastern seaboard of India and the Special Economic Zones of Kyaukphyu, Tillawa and Dawei through the East West Corridors of the Master Plan for ASEAN Connectivity to ports of Vietnam and beyond. These would involve transshipments at some points, of which Dawei could be the shortest and most important. The potential of this has hardly been explored, and should be examined urgently. This could be called the BIMSTEC-GMS corridor. Both this and the maritime corridor would be suitable for the sustainable development of the Blue Economy.

These corridors also may also necessitate a revision of the regional and sub-regional cooperation architecture involving India and the Greater Mekong Sub-region like the BIMSTEC, MGC and CLMV countries. It may well be desirable as Ambassador Bhatia has suggested, to enlarge BIMSTEC to include the CLMV countries as observers and/or members in the greater BIMSTEC-GMS cooperation forum within the ASEAN.

These ideas may at first sight appear unorthodox, unrealistic and contrary to current economic thinking from both a conceptual and funding point of view. In fact, funding requirements for manufacturing industries as this strategy emphasizes, are much less than for mega

connectivity and infrastructure projects and can be addressed through existing initiatives with only a little additionality focusing mainly on commercial credit lines, risk coverage and technical assistance for the private sector in general and SME sector in particular.

A number of Indian initiatives like the Trilateral Highway and its proposed extensions, the Kaladan project, the US\$ 1bn Line of Credit for physical and digital connectivity in the ASEAN, the Duty Free Trade Preference (DFTP) Scheme of the Ministry of Commerce of India, ongoing bilateral Indian Lines of Credit to the CLMV countries, and the Eximbank fund for SMEs in the CLMV could be leveraged to advance the process. Initiatives like the BIMSTEC, MGC, and those oriented towards the CLMV could also be subsumed under it. Regional and international development banks like the ADB, New Development Bank (NDB), World Bank and IFC, Asian and international investors, and the international community at large too could be attracted to the idea. Indeed many of them are already advocating and working in this direction. The India-Japan strategic and economic partnership and incipient Asia Africa Growth Corridor² too could be leveraged.

In the final analysis, whether or not such a strategy could work is more a question of political and economic philosophy, persuasion, strategic vision, political will and husbanding resources than funding per se.

Thank you again for this opportunity to address the Conclave on a matter of such vital and topical importance.

² I am grateful to Ambassador Rajiv Bhatia for a factual correction on the AAGC in my original address.