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Southeast Asia in the 2010s

Opportunities and Challenges for India



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SOUTHEAST ASIA IN THE 2010'S OPPORTUNITIES AND CHALLENGES FOR INDIA

SEARP SEMINAR HELD ON 5TH MARCH 2010

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INTRODUCTION

The Southeast Asia Research Programme (SEARP) at the Institute of Peace and Conflict Studies (IPCS), in collaboration with the SAEA Group Singapore, organized a seminar on 5th March 2010 to assess Southeast Asia as a region in the coming decade with a special emphasis on India's options and challenges. The seminar addressed two major themes. The first being the internal and external developments in ASEAN region in the decade past and the second being the impediments and opportunities for India in Southeast Asia in the 2010s. The panelists for this seminar included India's premier academicians on Southeast Asia, Dr. Amita Batra and Dr. Srikanth Kondapalli from Jawaharlal Nehru University (JNU). The speakers also included Amb. Rajiv Sikri, Former Secretary (East), Ministry of External Affairs (MEA); Amb. Eric Gonsalves; Amb. J C Sharma, Former Secretary (MEA) and Amb. Navrekha Sharma, Former Ambassador to Indonesia.

I INAUGURAL ADDRESS

AMB KISHAN S RANA

Looking at Southeast Asia makes one realize that very few have actually studied and researched the manner in which different regional entities execute their integration. An empirical study pertaining to regional dynamics might provide a breakthrough in understanding the subject in a much better way. Southeast Asia is almost tantamount to ASEAN and the two terms are often used interchangeably. Only two countries are left out of the footprints of Southeast Asia namely Papua New Guinea and Timor Leste. Timore Leste is a minuscule country with a nominal population but Papua New Guinea is a much more interesting player being a resource rich large country, close to Australia and it would be interesting to explore

possible dimensions of engagement between Southeast Asia and Papua New Guinea.

Today India is quite attracted towards reviving its relationship with Southeast Asia as there is a shift in the centre of gravity. ASEAN has been unique in crafting a set of Pan-Asian activities in a manner that no other regional organization has been able to manage, not even the European Union. Southeast Asia or ASEAN has been in the driving seat for an inter-regional dialogue involving several actors. Regional identities are essentially political constructs and geography is a minor element. The success of Southeast Asia as an interdependent cooperative region is self evident. Since the establishment of ASEAN in 1967, it has marked a transformational character given a suspicious and fragmented background among the countries of Southeast Asia.

There are numerous issues that might crop up in the coming decade such as, ASEAN or the Southeast Asian region striving to achieve greater economic integration in the era of successful trilateral and quadrilateral economic arrangements. Second would be the capacity to deal with hard internal issues for instance the current Cambodia-Thailand tensions or the Myanmar issue as the peace initiatives have always been external in character. At the same time it is quite impressive to observe ASEAN's achievements in creating a vibrant network of the think tanks and international affairs communities out of which the IPCS is a shining example. But as far as the point of building people to people connections are concerned, ASEAN has not achieved much and cooperation remains a top down process. There is an absence of major youth exchange programmes unlike the European Union to surmount historical, ethnic and cultural differences.

The biggest lesson that India can learn from the Southeast Asian nations is the creation of a visionary dynamic regionalism. India participates in several insignificant foreign

ministers dialogue with nations such as Finland and Peru but no significance is bestowed upon the strategically positioned backyard of Southeast Asia. India needs to acquire a soft policy approach as the 'ASEAN Way' of doing things, 'comfort zone' of other nations in negotiations and 'prosper thy neighbour'. This can be implemented to deal with India's neighbourhood in a much better way. Jagat Mehta's book named 'Negotiating for India' has a graphic account of India-Nepal relations particularly focussing on the terrible legacy of the Kosi and Gandak projects. Bhasin's splendid compilations of 'India's Relations with its Neighbours' depicts India's failure to implement neglected ordinary management with its neighbours specifically Nepal. Lastly, there is a need to analyse the status of SAARC as an option to be opened further for the purpose of South Asian integration.

II

SOUTHEAST ASIA IN 2010'S: INTERNAL & EXTERNAL DIMENSIONS

DR. AMITA BATRA

ASEAN ECONOMIES IN THE 2010'S

One of the first breaks in the upward momentum of growth for Southeast Asia is the 1997-98 economic crises from which nearly all the countries rebounded fairly quickly. What is noticeable in ASEAN's post-crisis growth is that the trajectory was not been able to match up to the performance prior to the crises. This is because while all countries more or less recovered, not all have had the same amount of success in doing so. An important and telling feature of the growth process in Southeast Asia is that it has been correlated largely on account of the fragmented production networks. The intra-industry trade in this region is 50% for Singapore, Malaysia and Thailand and between one-third to one-fifth of the total trade as far as Philippines and Malaysia is concerned. This is has several implications for the future growth patterns and integration within the region. All of these economies at various points have undertaken the economic reforms for liberalization. These reforms have been adopted both under unilateral i.e. national and also under WTO or global multilateral policies.

The AFTA i.e. ASEAN's regional free trade agreement has been a foremost contributor towards regional economic integration in

Southeast Asia. The export to GDP ratio is 70% for ASEAN and a major indicator of the global integration of the ASEAN economies. This clearly makes evident that Southeast Asia is an outward oriented region. The 2008 global financial crisis has therefore tended to impact the ASEAN countries in a very significant manner. It adversely affected their intra-regional trade which is tied to exports from China, which in turn is impacted by the growth and exports from the United States. The pattern of trade in Southeast Asia has originated from a resource-base and moved onto an equipment and machinery base, largely towards the electronic sector. There has been a diversification and an escalating sophistication in the exports that the region's economies now undertake. ASEAN undertakes three-fourths of its trade externally and (1990-2006), there have been major changes emanating from the EU and the US. These regions have almost an equal share in Southeast Asia as the ASEAN. This is in contrast with the earlier trend of EU having a greater share. An increase in China's share has been accompanied with a fall in Japan's share. The intra-ASEAN trade has been particularly important for Southeast Asia's transitional economies of Vietnam and Laos. The overall increase in trade and liberalization has happened on account of tariffs. In addition there has also been movement in terms of the border and beyond measures in the AEC i.e. the ASEAN Economic Community. However, ASEAN has seen very little collaboration in the service industry and this due to the ASEAN member's very strong protectionist policies in this sector. Singapore is an exception to this regional inclination.

Southeast Asia is a very attractive region as far as investment flows are concerned. Interestingly almost 50% of the investment flows go to Singapore only. The sources of these FDI are mostly from EU, US, China and to some extent from the Koreas, Taiwan and Hong Kong. The differential levels of development pose a challenge for the ASEAN as a whole in levelling itself globally with the more developed countries. Among the developments that shall take place in the 2010s, there should be acceleration in the cohesion and pulling power of the AEC or the ASEAN economic community which has been on the forefront of economic integration especially in the past five years. The blueprint put forward by the AEC aims to not only deepen integration in the region but also has a concrete master implementation plan in place. Clearly a lot of de-facto integration has taken

place through the networks of ASEAN and its tributary organizations and forums. The AEC blueprint in particular has four pillars. First, it aims for a single market and single production base to be established by 2015. Secondly, it aims for a highly competitive economy not only in terms of the individual economies but the region as a whole. Third, it strives towards equitable development, i.e. to rectify the factors contributing towards differential levels of development across Southeast Asia. Lastly, it aims to make the Southeast Asian region fully and competitively integrated into the global economy. Thus, AEC has dual goals of integrating economies of ASEAN not only within the region but also with the rest of the world in the coming decade. This key aim, of global competitiveness shall make it easier in the future for the ASEAN economies to withstand rigors of the global supply chain. Historically, this outward orientation the Southeast Asian countries has been facilitated by a fear of isolation, preferred defensive mechanisms and ultimately to avoid being left out of the preferential trade agreements that were shaping up in the rest of the world. Given the comparatively low growth trajectories of the ASEAN countries after the 1997-98 economic crises, the magnificent rise of China and the significant emergence of India; there are concerns about the centre of gravity shifting away from Southeast Asia. In the coming decade, the ASEAN countries shall have to undertake a major structural change that shall set right the imbalance that has occurred in East Asia due to excess of savings in China. This structural change should reverse the direction of capital flows from its initial path so that savings may be converted into high consumption.

ASEAN has specified for itself a short period of time in which it wants to achieve the AEC and this it has to be accompanied with a sense of urgency. Even ASEAN's regional free trade agreement, AFTA presents many hurdles. Its application procedure is cumbersome, not very well publicized and not many businessmen want to undertake the cost of filling out the forms. As it is the ASEAN tariffs are low and the AFTA does not contribute enough to make it worth the trouble of applying and then receiving certain concessions. For facilitating regional economic integration, there is needed integration and for that purpose mutual recognition agreements (MRA) need to be drawn up. The financial, especially the banking sector need to be liberalized; a lot of limitations to foreign equity participation still persists. This field is crucial because it is indispensable in

taking trade liberalization forward. Given the kind of foreign exchange reserve available in this region, much can be done to develop sufficiently, its precautionary and preventive systems as far as future financial crises are concerned.

DR. SRIKANTH KONDAPALLI
CHINA AND SOUTHEAST ASIA RELATIONS

The rise of China is leading to several concerns in the ASEAN region. It is also providing for opportunities and challenges, particularly for India. There are three major policy options for the ASEAN countries and the organization as a whole. One is to intensify engagements with China in wake of this January's finalization of the China-ASEAN FTA. A second option is to balance China's influence with other powers in the region for e.g., through India as the Singaporeans have been trying to do. Thirdly, the 1965 images of the arc of containment are a plausible option although perhaps not feasible; given how integrated the markets of China and ASEAN countries are now. Nevertheless, the escalation in arms purchases in the region especially from Thailand that has been on a buying spree with Sweden and Vietnam which has stepped up its purchases significantly in the last one year. Overall, the ASEAN region has shown greater defence acquisition in the last two-three years. When we look at 19th and 20th centuries, China has had a checkered career in the Southeast Asian region. There are only two regions that have been significant for China, historically, apart from Southeast Asia and that is the Korean peninsula. From the 15th century onwards, Vietnam had a tributary state relationship with China which was broken after the Westphalia construct and the opium wars had intruded into the Chinese middle kingdom. In the 1960s after the Southeast Asia treaty organization came into force, the US also pushed forward the arc of containment to contain the spread of Chinese communism. There are sovereignty related disputes, still lingering in the region although China had concluded border dispute agreements with Laos in 1992, Vietnam in 1999 but the South China dispute is still pending. Vietnam in particular has upgraded its concerns on the South China Sea in the recent months. With regards, to Taiwan there have been and still are informal networks in place with the ASEAN region. The Kuomintang factor is still intact with regards to investments and political connections. There is an overall Taiwanese perspective that they need to go South given their receding investment profile

in mainland China; they are finding greener pastures in many Southeast Asian countries especially, Vietnam. This has been further extended towards South Asia with the setting up IT centres in Chennai and a sum of \$600 million dollars have been committed in this region by Taiwanese investors. For China, in a minimalist foreign policy viewpoint, all these regions are closely linked through their minorities and cross border linkages; for e.g. the Guangxi and Yunnan provinces have closer affinities with the Southeast Asian region, particularly Myanmar. Technology is a major concern for China in terms of the relatively more advanced countries like Singapore and other six older ASEAN countries.

China has been jockeying for more influence as was demonstrated in its threat to use veto two years ago in terms of the Myanmar Saffron revolution; the US draft had been vetoed. China has sparingly used its veto power; the first use was on India in the 1971 Bangladesh liberation war; the second on the Israeli-Palestinian conflict and the third pertained to Taiwanese leadership. Major focus presently is on how to protect Myanmar from the human rights violation issues, which has been on the forefront with the international community and even introduced to the UN Security Council. In terms of the non-traditional security issues, SARs and the Bird Flu were two pandemics which had spilled over into the ASEAN region and had created problems between the two. The 2009 Bali blasts, influence of Aby Sayyaf groups and piracy especially in the Malacca Straits (nearly 80% China's energy flows pass through this region) combine to form significant security concerns for China emanating from the ASEAN region. With regards to piracy, China has suggested in the Shangri-La dialogues and beyond that they would collaborate it would come into the region and counter the piracy instances particularly in Indonesia. Another major security issue is energy related. Out of 2.2 trillion dollars of energy reserves that China currently has, most of it is in fact invested abroad. Nearly \$170 billion are invested although mostly in Africa, South America, Indonesia. Hydroelectric power and gas fields are the major avenues for these investments. In South China Sea there is the expectation of nearly 5 trillion cubic meters of gas and it is a major bone of contention between China and the other Southeast Asian and regional aspirants. The Mekong-Ganga project was one of the only multilateral initiatives undertaken by China on water related issues.

One of the ways that China has sought increasing its influence in Southeast Asia is by setting up Confucius learning centers in Thailand, Myanmar, Malaysia and Indonesia. China's role in helping the ASEAN countries bounce back from the 2008-09 economic crises has been much appreciated in the ASEAN region. From the initial blocking by China of the ASEAN +3 that included New Zealand, Australia and India; there has been some forward movement on it. Nevertheless there are major differences in terms of the membership, agenda and integration of the East Asian community. These differences have not yet been properly addressed. China has made several inroads, from transiting between minimalist foreign policy to more conspicuous; they had been negative towards EU and US's desire join the East Asian Summit. The ASEAN region that was closer to the US is now moving towards East and Southeast Asia; for e.g. in terms of the missile defence system ASEAN is closer to China. China has invested nearly 500 million dollars for the financial crisis and its role has been much appreciated by the ASEAN.

III CHALLENGES AND OPPORTUNITIES IN SOUTHEAST ASIA

AMB RAJIV SIKRI INDIA'S OPTIONS AND CHALLENGES

It is absolutely problematic to take Southeast Asia and ASEAN as equal entities. ASEAN is just an organization and Southeast Asia is a region. It is very similar to equalize South Asia with SAARC and deal every development through a prism. The Indian Prime Minister has reiterated several times since the last India-ASEAN Summit that 'ASEAN is the heart of India's Look East Policy'. It is India's engagement with Southeast Asia that has opened many doors not only in relation to Southeast Asia but also East Asia and other organizations such as the APEC, EAS etc. Also, the first ever FTA was signed with ASEAN. Moreover, the whole dynamics of India-ASEAN relations provide credibility to India's LEP.

ASEAN also has an important collective clout in regards to 'ASEAN Way' or the 'principle of consensus' which works in reality even for the weakest or smallest member of ASEAN. Today, India occupies a much greater and higher position in the minds of the ASEAN

nations in comparison to the initial years. India has been trying quite successfully to engage ASEAN's attention specially by investing large amounts in the regional market. India and ASEAN aims to foster greater collaboration in trade and business. The two regions have lacked behind in areas like business connections and summit level partnerships. Other emerging areas of cooperation such as agriculture, science and technology, space and other non traditional programmes are expected to increase in future.

Though India is doing quite well with ASEAN, there lies a fear that it might become difficult to handle a changing ASEAN not in terms of money but in regards with manpower resources or personnel. On the other hand, the Chinese will be extremely glad to see nominal or no engagement between India and ASEAN. The only strategic worry that prevails in the minds and hearts of the Chinese is in context to Southeast Asia-India collaboration and the success of India's LEP. On the economic side the Chinese are very well established but at the same time they instigate suspicion and fear in the region because of its past relations with Southeast Asia.

Among the individual countries in ASEAN from an economic perspective as well as a strategic perspective Singapore is the most important. It has been India's gateway to ASEAN and the first country to sign a Comprehensive Economic Cooperation Agreement (CECA) with India. It's a country that thinks ahead of the curve and with whom India can engage in many confidential discussions and defence cooperation. The rising business demand requires Singapore to be plugged in with the only other greater power in the region other than China and be a significant interlocutor for India. Malaysia is another very important country for India as there are about 2 million Indians and shared emotional ties makes it a rather complicated relationship. It has seen many lows but with the change of governments there is substantive improvement. On the defence front, the Malaysians have more to gain from India and this is the leverage that can be utilized by India to forge greater ties. Special emphasis should be also given to Indonesia which comprises 50 percent of the ASEAN region. It signifies the heart of ASEAN, democratic, multiethnic, security concerns and a member of the G 20. The Indian President's visit to Indonesia and Vietnam in 2008 was a very important step towards collaborating with these two significant countries of the region. There are several

openings for India if the cards are played well especially in the case of Vietnam who is a closer ally of China. India maintained a very fast growing relationship with a high degree of trust and cooperation with Thailand till a few years ago since internal problems had not enveloped the latter. India is engaged with Thailand in several projects such as Mekong Ganga Cooperation, BIMSTEC and other bilateral highway constructions. Therefore Thailand along with Myanmar is crucial to India's entry into Southeast Asia and the temporary hiatus should be dealt with immediately. Myanmar is in a category of its own because it is a neighbour which matters to India in context to the northeast, security, connectivity and investments in energy. India needs to view Myanmar from a far more strategic perspective and the neighbour should be given a position equivalent to that of Afghanistan. It is a fact that if even half the amount is invested in Myanmar, the returns will be massive for India. India needs to take a strategic perspective for Myanmar where the stakes are too high. On the security front, there is a prevalent danger regarding the Kachin region in north Myanmar which is being controlled by the Chinese. The Kachin region borders Arunachal Pradesh thus resulting in the Chinese presence in the north and east of Arunachal.

The Chinese are also getting into the areas west of the Irrawaddy from the famous pipeline project which bolsters a Chinese presence in the west of Irrawaddy inflating the security concerns for India. This cannot be ignored with an indifferent attitude as it might conclude in a complete encirclement of India from the east by the northeast rebels. It is not an immediate threat but India needs to be cautious in future and invest into this venture. Bangladesh matters to India bilaterally also but in terms of LEP and India's engagements with ASEAN. There is no possibility of any success without factoring into Bangladesh as the gateway to Southeast Asia. India will be happy to make Bangladesh a part of the LEP and with rail and road projects with Nepal and Bhutan it can also initiate a regional framework on lines of BIMSTEC. BIMSTEC includes several South Asian and Southeast Asian countries except the troublesome Pakistan and the insignificant Maldives thus creating a cooperative platform. It's a win-win situation which is perhaps realised by Bangladesh as they are quite keen on hosting the BIMSTEC secretariat in Dhaka. India should definitely encourage a BIMSTEC Secretariat in Bangladesh as it will provide larger stakes in BIMSTEC making it easier to

deal with Bangladesh multilaterally on a regional basis rather bilaterally for India. Engaging Bangladesh in regional projects such as Mekong Ganga Cooperation or trilateral highways with Myanmar and Thailand is a great option. India is not going to integrate with Southeast Asia leaving Bangladesh behind. It becomes imperative for India to work towards the internal development of Bangladesh particularly to resolve the problem of illegal migration through the porous borders. The smaller and weaker countries like Cambodia and Laos also needs to be dealt with greater attention and assistance. India stands at a rather decisive point in regards to the shaping of regional security architecture whose initiative was taken in 2005 when India became a member of the East Asia Summit.

From an Indian perspective it is important to ensure that the nation remains an integral part of this regional architecture. Basic principles that shall lay down the guidelines of such architecture are: - One that it should remain ASEAN centric. Second, there should be clarity regarding the formation of security architecture or an economic architecture as the economic one cannot include the United States but the security one must. Third, is that no major player including China, Japan, Korea, USA, India, Australia and ASEAN should be excluded. Fourth, is that there is no scope of a new body formation with so many of them already existing in the region. Fifth, it should be compact enough to be effective. ASEAN has been quite keen on playing the central role to create such a organization. At the higher level it should try and emulate the EAS which should include all the players except United States and Russia.

IV

COMMENTS/QUESTIONS/RESPONSES

- India vs China: India has never had the disadvantages that China has had in the ASEAN region. The Indian Diaspora in Southeast Asia has never drawn attention to itself in any negative way; yet the momentum of our engagement with the region's countries is not picking up.
- FTA and regional trade: India has \$200 billion worth trade with China and a recently finalized FTA with ASEAN. Given that the FTA is yet to fructify, do you think we are going to move slowly or there shall be a rapid change as far as economic interaction with ASEAN?
- **Transitional Economies of ASEAN:** Although India is doing well, especially in Singapore given that we have nearly 100 companies there; what about an opportunities for India in the transitional economies of Southeast Asia such as Vietnam, Cambodia and Laos?
- **Economic integration and Communities:** We have spoken of the Asian Economic Community (AEC); Japan has its version as does Australia. Is the rising influence of China going to be like glue or create more competition and fault lines? What is India's vision of an integrated Asian economic union?
- **India and ARF:** Do we need some southern security architecture or can in the coming decade India hope to address its regional security concerns by greater engagement with the Asian Regional Forum (ARF)?
- **BIMSTEC vs SAARC:** For some reason we seem to be bewitched by SAARC whose 15 summits in 25 years has led us nowhere. We should not undermine the role and reach of a regional multilateral forum such as BIMSTEC which unlike SAARC does not have the impediments that accompany membership of Pakistan.
- **Thaksin Shinawatra:** Thaksin had a very definite Look West policy that coincided with India's Look East Policy (LEP) and since the events surrounding his downfall and persecution the current administration has been much preoccupied with internal developments in their country. This is the primary reason why India's engagement with Thailand may have suffered recently.