CENTRE FOR AIR POWER STUDIES (CAPS)
Forum for National Security Studies (FNSS)

Indo-Pacific Newsletter

A monthly Newsletter on Security and Strategic Issues on Indo-Pacific Region from Centre for Air Power Studies

Vol 1, No 9 , 07 February 2022

From Editor's Desk

As India's 2022 defense budget emphasizes maritime power, this issue highlights China's growing influence in the Indian Ocean and whether the EU will step-up to secure rules-based maritime trade in the region. At the same time, technology continues to be a point of competition, and the complexities of connectivity (both digital and physical) have necessitated greater cooperation between like-minded partners – including India and Australia. Do check out our SM Corner for curated content covering topics from the potential of India-Indonesia and India-Australia security ties, to vaccine equity and a persisting policy gap in the Indo-Pacific, to strategic dynamics in the region amid Japan's long-range strike capabilities and US' security-driven trade engagements. I particularly highlight the interview with Admiral Pierre Vandier (French Navy) and talk by Vice Admiral Kay-Achim Schönbach (Chief of German Navy) on his visit to India with the Bayern frigate.

Do tune in again as we keep a close eye on the ever-changing dynamics in the Indo-Pacific. Happy reading!

Jai Hind

CONTENTS

PEEP-IN

What Critics Miss On ASEAN's Indo-Pacific Outlook

Read on more about it at :-

https://www.eurasiareview.com/26012022-what-critics-miss-on-aseans-indo-pacific-outlook-analysis/

QUOTE

"We will continue to focus on establishing common goals and end states that we would jointly announce in the coming months, early period of 2022"

Laura Rosenberger
White House senior director for China

Opinions/Review/Expert View

Indian Ocean New Chinese Sphere of Influence

Source: Gurjit Singh, Former Ambassador

https://www.tribuneindia.com/news/comment/indian-ocean-new-chinese-sphere-of-influence-363009. *21 Jan, 2021.*

The western Indian Ocean Region merits cohesive attention. The Chinese Foreign Minister's New Year safari has been reserved for Africa for the past 32 years. Normally, five countries are visited. This year, all five were not in Africa. Besides Eritrea, Kenya and the Comoros, Foreign Minister Wang Yi visited the Maldives and Sri Lanka.

Sri Lanka and the Maldives are known to seek Chinese investments and infrastructure support for their economic development. They seek similar support from India and have learned to play their cards between India as a neighbour and China as a rising superpower. So long as they do not impinge on Indian security concerns, the economic engagement could be acceptable to India. These perceptions can be easily vitiated in the absence of adept responses.

Four of them are in the Indian Ocean Region (IOR). In 2022, therefore, the Chinese safari extended into the IOR substantively since Comoros and Kenya are also in the IOR.

In January 2021, Wang Yi visited five African countries, including Seychelles, in the IOR. The Chinese imprint in the IOR challenges other countries' influence. This started mainly with Chinese anti-piracy naval deployments around the Gulf of Aden in 2008; thereafter, China rehearsed its logistical support to flotillas in the IOR, developing a wider reach for its blue-water navy. China opened its first African base in Djibouti in 2017. Djibouti is strategically located in the Horn of Africa, and already hosted French, US and Japanese bases.

China is now reportedly establishing a base in Equatorial Guinea on the Atlantic coast. This would imply China securing supply routes through the Southern Indian Ocean for which Comoros and the Seychelles are important.

To assess the impact of the recent visit of the Chinese FM on the IOR, the visit to Kenya is illustrative. During the visit, the oil terminal at the Mombasa port was inaugurated. This is an important project on the Indian Ocean coast. It augments the $3.6-billion Chinese-funded Mombasa-Nairobi railway. Kenya is a major Belt and Road Initiative (BRI) recipient and seeks support for its infrastructure development.

The visit to the Comoros was an unusual one after a gap of many years. The ability of Comoros to absorb Chinese funding is limited and the effort is to develop the health sector. Medical teams, pandemic-related supplies and the development of a hospital are among the ongoing programmes.

Universal immunisation and dealing with malaria draw synergy between the Emerging Comoros Plan for 2030 and the nine significant programmes of the FOCAC (Forum on China-Africa Cooperation) meeting in Dakar, Senegal, in December 2021.

The visit to Comoros also challenges French influence in the area. The French continue to hold the island of Mayotte which geographically is a part of the Comoros chain.

Instead of visiting other African countries, Wang Yi chose to visit the Maldives to mark the 50th anniversary of establishment of diplomatic relations and Sri Lanka for the 70th anniversary of the rubber-rice pact and the 65th anniversary of diplomatic relations. Therefore, the New Year safari focused on consolidating the IOR imprint of China.

India has to do more to deal with Chinese forays into the IOR. It consistently supports Sri Lanka, Maldives, and Comoros besides the other Indian Ocean countries of Mauritius, Seychelles and Madagascar.

Sri Lanka and the Maldives are known to seek Chinese investments and infrastructure support for their economic development. They seek similar support from India and have learned to play their cards between India as a neighbour and China as a rising superpower. So long as they do not impinge on Indian security concerns, the economic engagement could be acceptable to India. These perceptions can be easily vitiated in the absence of adept responses. Politicians in these neighbouring islands often suggest standing up to India as policy.

India has to do more to deal with Chinese forays into the IOR. It consistently supports Sri Lanka, Maldives, and Comoros besides the other Indian Ocean countries of Mauritius, Seychelles and Madagascar. Evidently, Chinese deep pockets make bigger inroads into these countries which also profess friendship with India.

How is India tackling this engagement? India considerably enhanced its bilateral support including currency swaps in the Maldives and Sri Lanka. Whenever there is a crisis, whether from a coup attempt, terror attack, water crisis or the pandemic, India is supportive. India helps them often but in recent times, the rough edges to the partnership have eroded possible gains for Sri Lanka.

In the Comoros, India assisted with vocational training centre and a power plant but these have not attained maturity. In Kenya, it is an investment-led relationship, since Kenya has a strong economic imprint of people of Indian origin. In 2020, Kenya borrowed a line of credit to revive the Rivatex textile mill. However, in these countries, an India-China comparison emerges. Essentially, it is for India to do what it is good at and what it can afford. It may seek to create larger coalitions to provide alternatives to Chinese financing.

The western IOR is part of the Indo-Pacific SAGAR (Security and Growth for All in the Region) policy of India. Japan and France also look at the western IOR as part of the Indo-Pacific. For the US, the western IOR comes under CENTCOM, whereas from Hawaii to India, the region is covered by the Indo-Pacific Command. Australia does not have much outreach to the western IOR.

In 1997, India developed, with 14 partners, the Indian Ocean Rim Association (IORA). Now it has 23 members. Initially focused on economic cooperation, IORA expanded its scope to include maritime security and non-traditional security threats. The US and China are dialogue partners and recently, the UK and Russia were added. France is now a member. This gives India greater opportunities to work with these partners keeping China as a dialogue partner (DP) and excluding Pakistan.

Between 2012 and 2017, the India-Australia-Indonesia commonality of view on the IORA gave it an impetus, which has somewhat been lost since then. Now that Bangladesh is the chair of IORA, perhaps vigour can be added. This can also be the basis to revive the India-Indonesia-Australia trilateral.

India could utilise the Indo-Pacific Oceans Initiative (IPOI) to expand its imprint in the region. The IPOI draws on existing regional cooperation architecture to concentrate on seven central pillars. Some have attracted interest but not for the western IOR. The IPOI was announced by India at the EAS summit in 2019. Its pillars like maritime ecology, security, marine resources, capacity building, disaster-risk reduction, S&T, trade and connectivity have immense relevance to the western IOR, IORA and Africa.

India could do well to invite Quad partners, France and the EU, to promote aspects of IPOI, including for the western IOR and create a substantive alternative to Chinese largesse with its attendant challenges.

***

Reflections on the Indo-Pacific: Perspectives from Africa

Source: Peter Draper and Naoise Mcdonagh, ORF

https://www.lowyinstitute.org/the-interpreter/will-eu-step-secure-rules-based-indo-pacific-trade. *27 Jan, 2021.*

The European Union should throw its hat into the CPTPP accession ring (CC-BY-4.0: © European Union 2022– Source: EP)

On 16 September 2021 China lodged an application to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). This immediately kicked-off a debate among trade watchers on the merits, as well as the benefits and risks of China joining the trade pact. In addition, the context included the irony that China might join the CPTPP before the pact's chief architect, the United States.

The rivalry with China is systemic and heft is needed to anchor market-orientated trade.

The United States had originally devised the CPTPP's predecessor, the Trans-Pacific Partnership, as a regional counter-balance to

China's state capitalism. The goal was to devise an agreement with vast economic weight – almost 40 per cent of global GDP with the United States included – and trans-regional geographic spread. Most crucially of all, the agreement would lock-in a liberal trading system in the Indo-Pacific.

However, with Donald Trump's rise came the near downfall of this aim, after he pulled the United States out of the negotiations in 2018. While the remaining members, led by Japan, ultimately salvaged the agreement, renamed as the CPTTP, its final economic size was much diminished, representing just 14 per cent of global GDP.

The largest and most important economies now represent two fundamentally different ways of institutionalising a market economy, namely liberal-capitalist on one side and state-socialist on the other.

More importantly, with Washington out, the CPTPP is missing a suitably large liberal market economy anchor, one that can hold ground against any future China accession. Trade negotiations are highly strategic situations in which nation's seek to secure comparative advantages by shaping the rules of the game in ways that best suit their economy. Thus a China accession would likely result in attempts at watering down rules, or gaining exemptions for Beijing's own economic model and preferences.

It is not a foregone conclusion that China would secure extensive alterations to and/or exemptions from CPTPP rules from the existing members during such an accession. Nevertheless, the hard reality is that China's nominal GDP is significantly greater than the combined GDP of the current 11 CPTPP members. Furthermore, its economy is at the centre of regional value chains and trade flows, ensuring Beijing would have strong leverage for negotiating conditions favourable to its state-capitalist model of trade as part of accession talks.

If the promise of the CPTPP to secure 21st century liberal-orientated rules is at risk, what can be done about it?

In our recent Lowy Institute policy brief we argue that the European Union should throw its hat into the CPTPP accession ring. While acknowledging the many barriers facing such a proposal, the aim of our analysis is to draw out the compelling strategic rationale for making the unlikely possible.

In favour of an EU accession are the following.

First, having labelled China a "systemic rival" in 2019 the European Commission increasingly recognises that competition with China is about fundamental differences in economic models, and therefore a key aspect of contestation is about the rules of economic interaction.

Second, the European Union is the only global actor with the trade preferences and requisite economic heft to provide a similar anchoring function for market-orientated trade as was envisioned for the United States in the CPTPP.

Third, the European Union has adopted an

Indo-Pacific strategy, recognising that the region is now a "region of prime strategic importance for EU interests". Key amongst those interests is the maintenance of a rules-based liberal trading order. Joining the CPTPP would offer Brussels a tangible link between its Indo-Pacific strategy and its trade diplomacy — the domain where EU institutional agency is strongest.

The largest and most important economies now represent two fundamentally different ways of institutionalising a market economy, namely liberal-capitalist on one side and state-socialist on the other.

These are compelling strategic grounds that we argue should be taken seriously in Brussels and EU capitals. However, the case for accession is hardly as straight-cut as that. The CPTPP raises difficulties for the European Union that will offer political indigestion at the mere thought of accession. We highlight two; no doubt more are discernible.

One, the agreement's rules were designed most prominently by the United States. The European Union sees itself as a trade leader, and prefers to be in at the ground floor of any new trade negotiation, rather than a late joiner accepting others' rules.

Two, the CPTPP rules on digital trade are in accordance with US preferences, so that data "use" is prioritised over data "protection". This cuts against the EU's view of data protection as a human right, with the high levels of privacy and protection in its General Data Protection Regulation (GDPR) a consequence of this approach.

These obstacles are not to be underestimated. That said, we argue that in an increasingly contested geoeconomic world the strategic, political and economic long-term gains of securing a liberal rules-based trading system should shift EU thinking in favour of accession.

For Canberra, which regularly expresses a commitment to international rule-making that align with its norms and values, promoting the EU's membership of CPTPP would further that goal. It would also considerably enhance ties with a strategic and like-minded partner at a time of post-AUKUS strain.

A bigger picture should also be kept front and centre in CPTPP accession thinking. The "globalisation" hope of systemic convergence has been dashed. Instead a condition of "systemic rivalry" exists, whereby the largest and most important economies now represent two fundamentally different ways of institutionalising a market economy, namely liberal-capitalist on one side and state-socialist on the other.

Competing economic systems are a vehicle for contesting the fundamental rules of economic interaction. Trade-offs in many instances will require one side contemplating giving up core political-economic governance values. In reality, such values will almost certainly be non-negotiable. In the world of systemic rivalry trade agreements pose a deeper strategic question of whose rules will rule. The CPTPP offers the

European Union a critical opportunity to ground rules that it views as critical both to the national interest of its members and to upholding the values of the Union.

***

The Indo-Pacific Opportunity in 2022

Source: Rajiv Bhatia, Gateway House

https://www.gatewayhouse.in/the-indo-pacific-opportunity-in-2022/. 20 Jan, 2021.

Nine great powers and a number of important multilaterals have vested interests in the Indo-Pacific. Given the U.S.-China standoff in the region, the role of new groupings like the Quad and AUKUS is significant. The time is ripe for India to use its position in the region, and convert its humanitarian duties into economic and strategic opportunities in 2022.

"Yesterday is a foreign country — tomorrow belongs to us," stated Thabo Mbeki, former president of South Africa, in 1998. Never was this truer than for 2020 and 2021, which experienced globally transformational events. And nowhere more than in the geopolitics of the Indo-Pacific, which is changing at multiple gears and levels. As it moves into 2022, the region will carry the imprint of the past five years, and will have to chart a course through inter-state tensions and crises, using both diplomacy and military preparedness.

The region is central to world economy and peace, and nine countries are key players: the U.S., China, Japan, India, Germany, the UK, Russia, Australia and France. The geopolitics and geo-economics of the Indo-Pacific will be largely shaped by the interplay of relations among these nations.

Of paramount importance is the U.S.-China equation. As the Trump era ended last January, there was uncertainty over whether the next president would be tough or soft on China. President Joe Biden has demonstrated, in his first year, his formula of firmness, resilience and civil discourse. Expect this relationship to be marked by continually adversarial, competitive and cooperative traits.

Differences over Beijing's south/east China policy, aggressive postures towards Taiwan, human rights violations in Xinjiang, the subjugation of Hong Kong's citizenry and assertive economic outreach in the Indo-Pacific — these will weigh heavily on U.S.-China relations. Through its active diplomacy — a series of high official visits starting with Vice-president Kamala Harris — and reaffirming commitments to treaty allies and partners alike, the U.S. signalled it is here to stay. However, it wants the full engagement of its friends to create integrated deterrence and will keep the doors of dialogue open to Beijing. In contrast, Chinese President Xi Jinping, armed with unprecedented authority at home, has been confrontational, as seen in China's repeated incursions into Taiwan's air defence zone and the PLA's obduracy in eastern Ladakh.

In this standoff, the role of new groupings and individual nations is significant. Foremost are the Quad, a strategic partnership between the U.S., India, Japan and Australia and the militaristic

AUKUS (Australia, UK, U.S.). Together, they have arrested the perception of China's regional ascendency. In 2022, the effort to curb China's influence can gain further momentum if Japan under prime minister Kishida Fumio announces a bold National Security Strategy (NSS), doubles its defence budget and makes a serious effort to amend Article 9 (which limits the use of its defence forces), thereby expanding military cooperation with the U.S. Meanwhile, India and Australia are on track to deepen ties, not only bilaterally but also with the other two Quad powers. The next Quad summit, probably hosted by Japan, will cement the grouping.

As the Trump era ended last January, there was uncertainty over whether the next president would be tough or soft on China. President Joe Biden has demonstrated, in his first year, his formula of firmness, resilience and civil discourse.

Two regional groupings — the EU and ASEAN — can determine how they situate themselves in the Quad-China interaction. The EU's Indo-Pacific strategy, announced last September, aims at increasing its economic and security profile in, and linkages with, the region. The new government in Germany and the April 2022 presidential elections in France will shape the EU's policy towards this distant region. Only by being more strategic and less mercantilist, more candid and assertive with China, and more cooperative with partners such as India, can the EU — and its former member the UK — hope to become vital players in the Indo-Pacific.

ASEAN, located in the middle of the Indo-Pacific waters, faces the heat of China's aggression and the sharpening great power rivalry. Its unity is under stress and its centrality is under question. This group has the most work to do. It must enhance its realism and shed its tendency of wishing away problems. Some plain-speaking by the Quad powers with ASEAN governments is necessary; an opportunity will be available when President Biden holds an in-person summit with the ten ASEAN leaders soon.

The outcome of three major summits in 2022 — G7, BRICS, G20 — will also impact the politics and diplomacy of the region. Germany, as host of the G7 this year, will need to assess if the G7's 2021 "Build Back Better World" pledge has made any headway in Asia. It now has to cope with not one but two adversaries: China and Russia. All eyes will be on whether Prime Minister Narendra Modi attends the 14th BRICS summit, to be hosted in China. It's an unlikely prospect unless Beijing shows sufficient accommodation to end the impasse in Ladakh. The G20 summit, to be hosted by Indonesia, will reveal whether the depth of Indonesian diplomacy and capabilities of president Joko Widodo make him a star statesman.

Where, then, does India stand in these swirling Indo-Pacific waters? India has three key obligations. First, to strengthen the Quad – especially by ensuring that the grouping fulfils its commitment to deliver at least one billion vaccine doses to Indo-Pacific nations by December 2022. Simultaneously, India must protect its established relationship with Russia, and show some resilience in dialogue with Beijing. Second, it must enhance cooperation with key Southeast Asian partners — Indonesia, Vietnam, Philippines and Thailand — while humouring ASEAN as a grouping. Third, the eastern and southern planks of Africa and the Indian Ocean island states need continued high policy attention and financial resources. A clear economic and trade agenda, involving and incentivising corporate India to follow the flag in this vital region, is certain to yield long-term dividends.

India has done well by fulfilling its humanitarian duties during the pandemic. Learning how to convert them smartly into economic and strategic opportunities in its periphery is the focused task for the nation in 2022.

***

Connectivity and Commerce Imperatives in the Indo-Pacific

Source: Soumya Bhowmick and Sohini Nayak, ORF, Kolkata

https://www.orfonline.org/research/connectivity-and-commerce-imperatives-in-the-indo-pacific/. 27 Jan, 2021.

Divergent Views of the Indo-Pacific

The Indo-Pacific is a complex construct and a relatively new one, still lacking a clear definition and involving conflicting security, strategic, political, and economic interests. Enhancing trade and connectivity in the region is an extended process as it remains largely intertwined with global geopolitics as well as the domestic politics of the countries in the region. As each country in the Indo-Pacific tries to maximise its own geopolitical, security, and economic benefits, their actions can result in conflict.

The Indo-Pacific is a complex construct and a relatively new one, still lacking a clear definition and involving conflicting security, strategic, political, and economic interests.

Indeed, the very idea of the "Indo-Pacific" varies according to the country which defines it. For instance, the United States's (US) view is mainly security-centric, although it has clear aspirations to reap economic benefits from its activities in the region. Keeping the rise of China under check is also an explicit agenda under the US vision of its Indo-Pacific engagements. Meanwhile, New Delhi's view of the Indo-Pacific is more multi-dimensional and inclusive, emphasising the development of the Indo-Pacific countries and economic cooperation between them. Similarly, the 'Free and Open Indo-Pacific

Strategy (FOIPS), which the former Japanese Prime Minister Shinzo Abe outlined in 2016 got widespread acceptance and support from the US-led anti-China coalition, including countries like India and Australia. All these developments manifest growing convergence and shared interests among the major players in the region. Yet there remains a gap in mapping a common agenda based on shared political, economic and connectivity aspirations.

Similarly, there are differences in the notion of what encompasses the geographic region. As far as Washington is concerned, it ends with the West Coast of India. New Delhi, for its part, sees the area from the Western Pacific to the Horn of Africa as part of the Indo-Pacific. Such divergent views have implications on regional trade and connectivity as will be discussed later in this report.

The Chinese leadership clearly recognises that the underlying principles of the "Indo-Pacific" are directed towards its political, economic and military rise in the region.

What is clear is that the rise of the Indo-Pacific has triggered responses from Beijing. The Chinese leadership clearly recognises that the underlying principles of the "Indo-Pacific" are directed towards its political, economic and military rise in the region. In the words of Yu Jie at the Chatham House, the increasing prominence of the Indo-Pacific poses a huge diplomatic challenge to the Chinese leadership and compels it to rethink its policy priorities. Jie argues that "Beijing's foreign policy deliberation is being rigorously tested with this increasing tilt by the West towards the Indo-Pacific. For China, this tilt complicates the already erratic relations between Beijing and Taipei, escalates the sabre-rattling in the South China Sea, and disrupts its flagship Belt and Road Initiative, which the country has invested heavily in."

However, the strategic and economic dimensions of the "Indo-Pacific" place China on two extremes. While the strategic dimension spearheads against Beijing, its economic significance makes China an integral part of trade and connectivity endeavours in the region. For every country in the Indo-Pacific, except Bhutan, China is a larger bilateral trading partner than the US. Moreover, China is an inevitable part of the Indo-Pacific supply chains and a crucial trading partner for countries, even Japan, South Korea, and Australia. For example, in 2020, 22.9 percent of Japanese exports went to China.

Realising its own crucial role in trade and connectivity in the region, Beijing has been positively responding to such efforts, viewing them as opportunities to enhance its global and regional position. China's joining the Regional Comprehensive Economic Partnership (RCEP), and President Xi Jinping's positive response to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) both show that Beijing will not prefer economic isolationism in the Indo-Pacific and is willing to cooperate in trade and connectivity in the region.

The BRI and RCEP

Multiple factors influence the prospects of trade and connectivity in the Indo-Pacific. These include the geopolitical apprehensions regarding the rise of China, perceptions about the Belt and Road Initiative (BRI), the US-China trade war, Brexit, Donald Trump's denial of the climate crisis, growing nationalist fervour, protectionism, and Sino-Indian border conflicts.

Security and economic issues are interconnected in the Indo-Pacific space. China's rise as an economic and military power has substantial implications on trade and connectivity in the region. Indeed, an idea of a new economic global order has emerged since China announced the BRI more than seven years ago. Many experts agree that the BRI is a global development strategy involving infrastructure projects in nearly 70 countries to exploit the cheap factor markets and expand product markets. According to estimates by these analysts, Beijing has pumped in approximately USD200 billion on BRI projects across the world. The US banking firm, Morgan Stanley, estimates that by the end of 2027, total Chinese investments in BRI could touch somewhere between USD1.2 and 1.3 trillion.

More countries are signing on to the BRI, causing a stir in the Indo-Pacific status quo. In turn, the responses of countries like the US, Japan, and India, are adding more complexities to the Indo-Pacific strategic landscape. While Chinese influence is on the rise, new security groupings such as the Quadrilateral Security Dialogue (Quad) and AUKUS (Australia, UK and US) are emerging in response. The growing geopolitical tensions are casting a long shadow on the process of economic integration and free movement of goods and services in the region and beyond. Yet little space has been accorded to these aspects in current analyses of Indo-Pacific affairs.

For New Delhi, its policy response to the BRI is influenced by these developments. Even if the BRI promises to offer economic gains, joining it was politically unviable for New Delhi because the China-Pakistan Economic Corridor (CPEC) that passes through Pakistan-Occupied Kashmir violates India's territorial integrity. Similarly, New Delhi views Chinese investments in ports and airports in its neighbourhood as efforts to strategically encircle India. New Delhi's decision to stay out of the RCEP had been similarly driven by the China factor: in India's view, the obligations that are part of the deal will constrain it from taking hard stances in trade with China.

Security and economic issues are interconnected in the Indo-Pacific space. China's rise as an economic and military power has substantial implications on trade and connectivity in the region.

In the absence of an underlying economic integration in the Indo-Pacific, the responsibility falls on the individual states. Although there have been efforts at regional integration dating back to many decades—such as the Association for

Southeast Asian Nations (ASEAN)—they have failed to bring sufficient economic integration in the region. While it is true that the RCEP could have played a larger role, by itself it is insufficient for several reasons. First, the RCEP represents only a small part of the Indo-Pacific, which extends up to the Eastern coast of Africa. Second, beyond signing trade agreements, the quality and commitments of the signatories to the agreement are also important. In the case of RCEP, the commitments of countries are far smaller than their bilateral ones.

Japan might be pulling up the average with its sufficient undersea cable connectivity, but the Bay of Bengal region, for example, lags. Bangladesh, for instance, is connected to two consortium cables.

Compared to developed Europe and North America, Indo-Pacific, overall, faces substantial constraints in connectivity. Moreover, as the Indo-Pacific encompasses a wide geographic region involving countries in varying stages of development, there also exists a huge divide in connectivity within the sub-regions. Enhancing the physical and digital connectivity, and bridging the connectivity gap among countries is key to the economic development of the region.

Connectivity: Key to Commerce and Supply Chains

The Indo-Pacific is often described as the fastest growing region in terms of internet adoption and digital connectivity.

However, despite such progress, weak e-commerce, underdeveloped e-governance, and a fragile cyber security framework have cost the region economic losses of around USD 300 billion a year.

Timor Leste in Southeast Asia, for example, is overwhelmingly dependent on Indonesia for digital connectivity via underwater cables; this costs the country high. Yet the experience is not unique to Timor Leste, and the entire Indo-Pacific largely faces a massive lack of underwater cables for connectivity. Japan might be pulling up the average with its sufficient undersea cable connectivity, but the Bay of Bengal region, for example, lags. Bangladesh, for instance, is connected to two consortium cables. Five years ago, it was connected to only one; some years ago in 2005, it had no connection. This has been a clear progress over time, but the pace is hardly sufficient. In the case of terrestrial cables too, the situation is not that different. In contrast, Europe and North America are rich in cables, both underwater and terrestrial.

Similarly, the requirement for physical infrastructure in the region has also increased in the recent past with rapid urbanisation and governmental focus on newer sectors of the economy. While advanced digital connectivity, on its own, can aid in the trade of services, physical connectivity also demands priority. For instance, before an aircraft lands on an airstrip or a ship arrives in a port, enormous amounts of data need to be processed and analysed, and approvals need to be obtained to facilitate such movement of goods. However, in order to enhance trade, to begin with, physical connectivity is required. Enhancing the overall connectivity helps to enhance the economic opportunities for the entire population. The vast connectivity becomes highly productive when it comes to areas like e-commerce. The reduction in transaction costs that accompanies the growth in digital connectivity would allow the smaller players to benefit from e-commerce.

In 2019, general construction in the Indo-Pacific region was estimated to reach an 8.9 percent compound annual growth rate by 2023. In this regard, the Asian Development Bank had hinted at an investment of USD 1.7 trillion annually till 2030 specifically for infrastructural development. There is the absence of telecommunication, transportation or energy links. And these gaps stem not only from the lack of capital supply, as most regional economies have high savings rates. The presence of insufficient policy factors is primarily responsible for the dearth in both public and private-sector investments. These are also known as "bankability" problems that collectively refer to the lack of technical capacity to identify, design and develop projects; public-sector capacity to implement complex financial and engineering arrangements; and an absence of non-governmental mechanisms to mobilise private finance to supplement public funding. With the outbreak of the COVID-19 pandemic, infrastructure development has been severely challenged, with sluggish investments, and a decline in asset utilisation and solvency challenges throughout the Indo-Pacific.

The pandemic, the subsequent lockdowns that were implemented by governments as a response, and the resultant disruptions in the supply chain have compelled ordinary people, policymakers, business leaders, and governments across the globe to rethink trade and connectivity. The pandemic has also made societies turn to digital solutions for connecting with others, thereby giving a big push to the digital sector across the globe, including in the Indo-Pacific. At the same time, as supply chains got disrupted by the lockdowns in different regions, nations were compelled to move towards greater supply-chain resilience through diversification.[c] Some multi-nation initiatives have been launched in this regard, such as the ASEAN-Japan Joint Initiative on Economic Resilience, and the Supply Chain Resilience Initiative of India, Japan, and Australia.

These initiatives will necessarily aim to reduce dependence on China, which plays a pivotal role in Indo-Pacific supply chains. Yet, attaining supply-chain resilience through diversification is not an easy task and is encumbered by various obstacles. For one, it is often impossible to replicate a similar environment in another region. Diversification of high-technology industries also becomes virtually impossible given how only a few nations—such as Japan, the US, or Taiwan—possess the required sophisticated technologies and highly skilled labour to carry out the production process. It becomes financially unviable, or extremely difficult to replace or diversify such supply chains in these circumstances. Many other sectors are similarly difficult to replace, for example, mining or agriculture. Mining can be done only where a particular natural resource is available; and agricultural production can only occur in particular regions with required environmental resources and suitable climate.

The financial costs also hinder the process of diversification of supply chains. A favourable environment to carry out production at lower costs makes specific destinations such as China and India more attractive for producing goods and services. Although geopolitical reasons might compel countries to diversify or replace supply chains, financial considerations can stonewall ambitions.

Challenges for India's Integration in the Indo-Pacific

As a growing economy and regional player, India is undertaking efforts to scale up its role in trade and connectivity in the Indo-Pacific, guided by its 'Act East' policy. According to a study by the Confederation of Indian Industries (CII) in 2020, India registered a trade surplus with nine out of the 20 Indo-Pacific countries covered by the survey. Its trade with select economies in the region has grown eight times since 2001—from USD33 billion that year, to USD262 billion in 2020.

Indo-Pacific countries covered by the survey. Its trade with select economies in the region has grown eight times since 2001—from USD33 billion that year, to USD262 billion in 2020.

During the Shangri-La Dialogue held in Singapore in 2018, Indian Prime Minister Narendra Modi presented the country's Indo-Pacific strategy. Rather than focusing on a single aspect such as security or trade, the Ministry of External Affairs (MEA) announced, "India calls for a free, open and inclusive order in the Indo-Pacific, based upon respect for sovereignty and territorial integrity of all nations, peaceful resolution of disputes through dialogue and adherence to international rules and laws." However, for many reasons, India's engagement and leadership in the Indo-Pacific remains limited. India must better integrate its foreign policy and economic diplomacy. The push by the Indian government to develop specific areas and exert more influence in regional trade has met with some success. For example, although India continues to fill 60 percent of its requirement for electronics via imports from China, it has developed domestic industries in the sector. India has also achieved progress in the trade of services, even as most of it has been centred on Information Technology (IT). India's share remains marginal in the other 12 categories of services listed by the World Trade Organization including education, tourism, and healthcare.

Overall, India's economic performance in the region is hardly sufficient to counter growing Chinese influence. This is seen specifically in India's trade and economic relations with the ASEAN. While India underlines the principle of "ASEAN centrality" to be at the core of its Indo-Pacific strategy—and as it tries to forge closer economic and strategic partnerships with the ASEAN member states—India's volume of trade with the countries of the bloc is nowhere close to that of China.

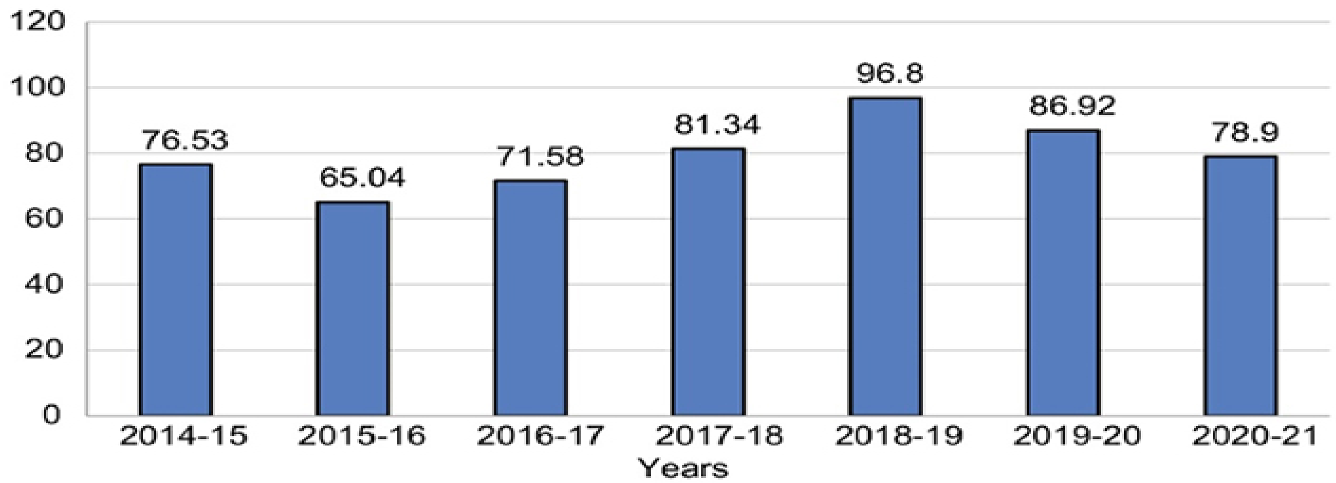
It would do India well to improve its economic ties with ASEAN, as it works to enhance its stature in the Southeast Asian region and the broader Indo-Pacific. To be sure, China's remarkable rise remains the most important strategic and security concern for the Southeast Asian countries. At the same time, these countries are wary of making any decisions that could irk Beijing, given the promised benefits of prosperous trade and economic ties with China.

Figure 1 illustrates India's trade with ASEAN from 2014 to 2021. In 2019-20, India-ASEAN bilateral trade accounted for around 11 percent of India's total global trade—an exponential growth when compared to just one percent in 2010-11. In spite of such growth, however, India-ASEAN trade ties are still far behind those of China and ASEAN. In 2020-21 (see figure 2), India-ASEAN trade was recorded at USD 78.9 billion; China-ASEAN trade in the same year was USD 683.8 billion or around seven times more than India's. Indeed, for the last 12 years, China has remained ASEAN's largest trading partner. In 2021, ASEAN surpassed the European Union to become China's largest trading bloc.

Similarly, India also lags in terms of Foreign Direct Investments (FDI). The inward and outward FDI flow between China and the Southeast Asian countries is of far larger volume when compared to that between India and these economies. As China leads the world in terms of outward FDI investments, there have been reflections of the same in the Indo-Pacific and Southeast Asia. China has been one of the top sources of FDI investments for the Southeast Asian countries while India is far behind.

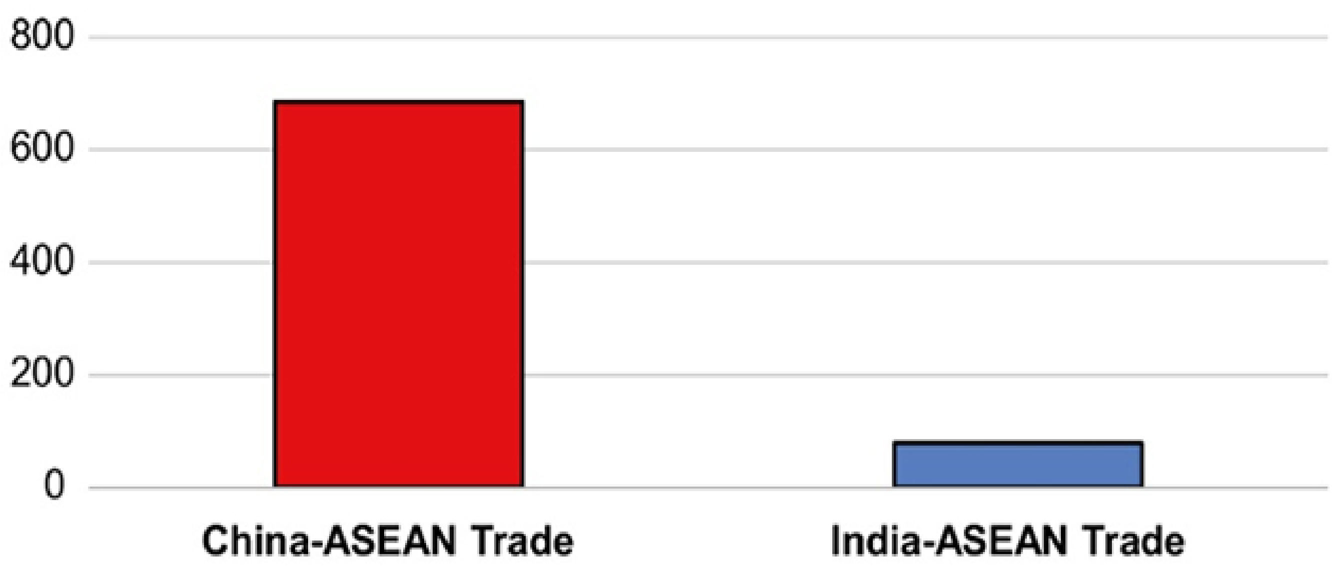
Trade and economic leverage over Southeast Asian countries helps China strengthen its position in the region, despite the increasing political distrust between China and ASEAN countries. The dilemma in balancing the economic and strategic priorities is not only the case of ASEAN in the Indo-Pacific. Even countries that are at the forefront of coalitions against Beijing, such as

Figure 1: India-ASEAN Trade Volumes (in USD Billion)



Source: Authors' own, using data from the Ministry of Commerce and Industry, Government of India

Figure 2: Chine-ASEAN Trade versus India-ASEAN Trade, 2020-21 (in USD Billion)



Source: Authors' own, using data from China International Import Expo

Australia, Japan and South Korea, also fall in the same category. While these countries view China as a critical threat to their security and territorial integrity, they continue to maintain their bilateral trade ties. Although the rise of China increasingly causes concerns among the countries in the region, the economic prowess of China continues to make it key to the region's economic integration. In order for India to gain strategic prominence in the Indo-Pacific space, it must enhance its own economic capability and scale up economic integration with the region.

In India, the growth in technology has eased production and has enabled companies—for example, those in IT—to carry out work at a single destination, rather than investing huge sums in multiple global destinations. This incentivises Indian firms to de-globalise. Thus, the trans-nationality of multinationals is reducing these de-globalising tendencies of the Indian tech-firms and could erode India's leadership role in the region—after all, technology is a critical area where India has advantage and capacity for contribution. For instance, engineering goods accounted for 40 percent of India's USD46-billion annual exports to ASEAN in 2021. To play a more active role in the regional economic order and impact the supply chains, Indian MNCs should play a much larger role and become more global.

For India to play a meaningful role in the supply chains in the Indo-Pacific, it needs to be part of trade agreements that involve the US and Japan. Indeed, India's withdrawal from the RCEP is widely regarded as a blow to the country's ambitions at regional economic integration. The reason for India's reluctance to join the RCEP has been the lack of economic incentives; domestic pressure also played a role. As the Indian economy is still immature to compete with the highly advanced economies like Taiwan, and other nations from Southeast Asia, joining such trade agreements could hurt domestic producers. India must therefore continue efforts for regional economic integration and play a far more significant role in the regional supply chains. The availability of cheaper goods would benefit the country's customers. At the same time, India needs to protect domestic industries against the flooding of cheaper imports from other countries, which could result from being part of certain trade agreements.

Conclusion

A divergence of interests is a key hindrance to efforts at enhancing trade, connectivity and, ultimately, the economic integration of the Indo-Pacific region. Thus, generating consensus and maintaining flexibility are two of the most crucial strategies that can help facilitate such integration. To be sure, various initiatives have emerged in the recent years, all aiming to navigate common interests in trade and connectivity. However, many challenges are casting their shadow on these efforts: security concerns, geopolitical competition, border conflicts, and political distrust.

The rise of China is critical in this matter. Stakeholders such as the US, India, Japan and Australia, view China's rise with suspicion—this narrows the scope for mutual cooperation. For example, India has security concerns regarding the BRI, and would therefore rather miss out on the potential economic benefits of the project.

The asymmetry in the physical infrastructure development is another hindrance to regional cooperation and integration. As technology becomes even more critical to economic activities, a capacity-deficit in the smaller economies carries the threat of an even wider trans-national technology divide. The larger and more technologically advanced nations, including India, must scale-up their assistance to the smaller states.

One of the primary frameworks that can help establish this area as a zone of cooperation is the creation of multilateral or mini-lateral frameworks that will pave the way for collaborative opportunities. This can bring about the convergence of interests, discernment of threat in the region, and practical and feasible solutions to be undertaken at the track 1.5 and 2 levels—in turn increasing the chances of success. It is important to invest in a diverse range of cooperative institutions with different stakeholders interacting with one another, with similar ambitions in mind, thus making connectivity and trade games positive-sum in nature.

***

Why India-Australia Technology Cooperation is a Welcome Development

Source: Arjun Gargeyas, Policy Forum

https://www.policyforum.net/why-india-australia-technology-cooperation-is-a-welcome-development/ 24 Jan, 2021.

Collaboration on critical and emerging technologies has been high on the agenda for the Australian and Indian governments in recent months.

On 17 November 2021, Australian Prime Minister Scott Morrison gave a virtual inaugural address at the Bengaluru Technology Summit. Morrison's speech was accompanied by an announcement expressing Australia's commitment to establish a Centre of Excellence for Critical and Emerging Technology Policy in India.

The very next day, Indian Prime Minister Narendra Modi gave a keynote address at the Australian Strategic Policy Institute's Sydney Dialogue, in which he emphasised importance of technology to the two countries' comprehensive strategic partnership, which was established in 2020.

Both states are part of several multilateral frameworks where technology is a focus, including the Quadrilateral Security Dialogue (known as the 'Quad'). Fostering an 'open, accessible, and secure technology ecosystem' is at the forefront of the Quad's agenda, and India and Australia's efforts to cooperate on critical and emerging technologies is a welcome move in this pursuit.

The comparative advantages both states have to offer can help build a solid foundation for a future India-Australia technology alliance.

Over the past few decades, India's capacity in the technology realm has grown leaps and bounds, with the country now contributing significantly to the global ecosystem. The state has improved its presence in critical technology supply chains, such as those for semiconductors and telecommunications.

With a robust semiconductor design ecosystem in the country, several indigenous, domestic semiconductor companies have emerged in recent years. Now, following the Indian government's announcement of a \$13.8 billion (760 billion Indian rupee) incentive scheme, India has reportedly attracted interest from top chip manufacturers like Intel. The state has also played a growing role in developing India's capacity in other parts of the value chain, like assembly and testing, with some initial success.

On the telecommunications front, India is home to some of the biggest players in the industry, like Airtel and Reliance Jio. These companies are also part of the Open Radio Access Networks (O-RAN) alliance, which is working towards creating global standards for communication networks.

Australia, on the other hand, has formulated an Action Plan for Critical Technologies, which lists technology categories the government considers to have 'significant impact on our national interest'.

Quantum technology is one such category, and the government is seeking to establish a Quantum Commercialisation Hub to support the domestic technology ecosystem.

Australia has also shown its commitment to artificial intelligence research and applications, with the government investing significantly in the sector.

Both states have their own areas of expertise in the technology domain that can serve as a solid foundation for technology transfer agreements. This can help both the countries in developing and improving capabilities in different critical and emerging technologies. By partnering on technology, the two countries could also broaden their economic and political relationship, which for many years was considered under-developed.

Australia and India are heading in the right direction on technology collaboration, and this evolving relationship has important implications for the future of the Indo-Pacific.

In order to achieve these goals, education remains integral to attaining proficiency in this space. Australia has invested in programs designed to deliver quality education related to critical technologies. University and research collaboration, visiting fellowships, and improving the overall access to technical education should form a major component of a technological alliance between the two countries, laying the foundation for greater cooperation in critical technology.

Facilitating private sector activity should also be a focus for policymakers. Prime Minister Morrison's announcement of a new Australian consulate Bengaluru, India's technology capital, is a step in the right direction, giving Australian officials and industry representatives more on-the-ground access to some of India's most promising technology innovators and entrepreneurs.

Creating a technology alliance between the two states is an opportunity to access funding, foster research and grow private sector activity around critical technologies. With Australia and India increasingly viewing these technologies through a strategic lens in recent years, this evolving relationship could be one key step towards creating technologically open and inclusive Indo-Pacific.

***

Social Media Corner

Cherry-picks of the Month

1. *How Closer India-Indonesia Security Ties Can Promote a Stable Indo-Pacific* - https://thediplomat.com/2021/12/how-closer-india-indonesia-security-ties-can-promote-a-stable-indo-pacific/

2. *Vaccine Equity in the Indo-Pacific* - https://www.orfonline.org/expert-speak/vaccine-equity-in-the-indo-pacific/

3. *The Policy Gap inThe Indo-Pacific* - https://www.washingtonpost.com/outlook/2022/01/12/policy-gap-indo-pacific/

4. *Security Not Economics is Likely to Drive US Trade Engagement in Asia* - https://www.eastasiaforum.org/2022/01/09/security-not-economics-is-likely-to-drive-us-trade-engagement-in-asia/

5. *Japan's Long-Range Strike Capability and Its Implication For Security in The Indo-Pacific* - https://economictimes.indiatimes.com/news/defence/view-japans-long-range-strike-capability-and-its-implication-for-security-in-the-indo-pacific/articleshow/88993363.cms

6. *Securing Two Oceans: Bolstering India-Australia Defence Cooperation in The Indo-Pacific* - https://www.orfonline.org/research/securing-two-oceans/

Interviews / View Points

1. *Indo-Pacific is the New Epicentre of Global Politics and Economics* - https://www.youtube.com/watch?v=rgUvH1rilHw

2. *The Future of the French Navy: A Conversation With Admiral Pierre Vandier* - https://www.youtube.com/watch?v=GQhvWzSMCwQ

Debates

1. *Sea Limits: Red Lines, Gray Zones and Deterrence in the South China Sea* - https://www.youtube.com/watch?v=KoUvlJOUJVM

2. *EU-India Cooperation is Central to Stability in the Indo-Pacific* - https://www.youtube.com/watch?v=BZ_3Cn1_1vc

Podcasts

1. *China's Power: Up for Debate 2021: Debate 4* - https://podcasts.google.com/feed/y5mZWVkYnVybmVyLmNvbS9DaGluYXBvd2Vy/episode/jBhNjM3NWUtN2EzMS0xMWVjLTliYjQtY2ZjNzk5ODkzMGY2.

2. *Future is Asian* - https://podcasts.google.com/feed/YXN0LmZvY3VzYXNpYXBhY2lmaWMuY29tL2ZlZWQueG1s/episode/OWI0MC0zYjZiLThkYmItZDE0MzllYjlhNDkx

3. *Revitalising the Australia-United Kingdom Security agenda* - https://www.policyforum.net/resource/revitalising-the-australia-united-kingdom-security-agenda/

Video Links

1. *Talk by Vice Admiral Kay-Achim Schonbach, Chief of the German Navy* - https://www.youtube.com/watch?v=ODmkoGQw1TU

The Centre for Air Power Studies (CAPS) is an independent, non-profit think tank that undertakes and promotes policy-related research, study and discussion on defence and military issues, trends and developments in air power and space for civil and military purposes, as also related issues of national security. The Centre is headed by Air Marshal Anil Chopra, PVSM AVSM VM VSM (Retd).

Centre for Air Power Studies
P-284 Arjan Path, Subroto Park, New Delhi - 110010
Tel.: +91 - 11 - 25699131/32 Fax: +91 - 11 - 25682533
Email: capsnetdroff@gmail.com
Website: www.capsindia.org

Editorial Team: Air Commodore SP Singh, VSM (Retd), Dr Joshy Paul, Dr Poonam Mann, Ms Mahima Duggal and Ms Neha Mishra

Composed and Fomatted by: Mr Rohit Singh, CAPS
Contect: +91 9716511091
Email: rohit_singh.1990@hotmail.com