

Navigating the Indo-Pacific Cooperation

The ‘Indo-Pacific’ construct has gained significant attention globally and is advancing rapidly. Countries falling in the direct hinterland of the vast Indian and Pacific oceanic expanse are termed ‘Indo-Pacific countries’. It is a multi polar region, contributing more than half of the world’s GDP and population. The motivation for a larger bloc always comes from the sheer size, resources it owns, and, the scope and size of the economies of scale that it can generate. This is, in fact, a region in which several Asian powers are once again rising, especially in geo economic terms.

China’s “Belt and Road Initiative” has gained enormous attention. The USA has withdrawn from the Trans-Pacific Partnership (TPP) Agreement and TPP11, which is now called Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) and has been concluded in 2018. The Regional Comprehensive Partnership (RCEP) has also gained momentum recently. The trilateral free trade agreement (FTA) between China, Japan, and South Korea, the USA and the EU free trade agreement (FTA) (Transatlantic Trade and Investment Partnership – TTIP), and other regional trade agreements have been emerging due to the deadlock of the WTO’s Doha Round. In such a backdrop, a new regional bloc called ‘Indo-Pacific’ has gained high prominence.

The ‘ocean’ is the common thread that connects this vast Indo-Pacific region. The prime focus of the Indo-Pacific is, therefore, centered upon the oceans. India, Indonesia, Singapore and Sri Lanka, which occupy important strategic positions in the Indian Ocean, are primarily maritime nations, with a rich and glorious history of maritime trade. India has introduced the concept of **SAGAR** (Security And Growth for All in the Region) and believes in an Indo-Pacific that is free, open and inclusive, and one that is founded upon a cooperative and collaborative rules-based order. Indonesia, on the other, has pledged to strengthen the Indo-Pacific maritime activity through its ‘Global Maritime Fulcrum’ policy. While Japan’s Free and Open Indo-Pacific (FOIP) has enriched the concept, Australia’s narrative aims to shape an open and stable Indo-Pacific as it undergoes rapid change — economic, demographic and technological. On the other, US signed legislation recently in order to enhance America’s active engagements in the Indo-Pacific. Therefore, countries are collectively or individually making effort to shape the Indo-Pacific portfolios.

- An encouraging attribute of the Indo-Pacific construct is that it is driven by a host of developing countries and LDCs (least developed countries) and some important developed countries such as Japan, US and Australia. It is, thus, a near-perfect case of a multi polarity, which not only motivates greater South-South cooperation but also promotes North-South cooperation. It has several important regional trading blocs, many of which have implemented free trade agreements (FTAs) in goods and services and some of which have even been elevated to the Customs Union.

- The attributes of the Indo-Pacific are also highly appealing. The region comprises at least 38 countries that share 44 percent of world surface area and 65 per cent of world population, and account for 62 per cent of world-GDP and 46 per cent of the world's merchandise trade.
- Indo-Pacific has all ingredients to generate regional trade and investment opportunities, thereby benefitting the people of the region. However, the region is highly heterogeneous in terms of economic size and level of development, with significant differences in security establishments and resources. It also faces complex challenges in terms of economy, security and the environment.
- The maintenance of peace, stability and security in, upon and over the seas; unimpeded lawful commerce; freedom of navigation and over flight and other internationally lawful uses of the oceanic and air space; and the protection and preservation of marine resources, as well as a sustainable and responsible fishery-framework, are all critical towards building a regional consensus on maritime security and cooperation in Indo-Pacific.
- Clearly, the effectiveness of the 'Indo-Pacific' in meeting its original collaborative and cooperative objectives, namely, freedom of navigation, security, and regional prosperity, will greatly depend upon the manner in which regional structures are fleshed out, at the political level as well as the executive level, and, the degree to which functional cooperation is nurtured, not only amongst the countries of the region, but also between regional and extra-regional maritime powers.

Trade Cooperation

Countries in the Indo-Pacific region aim for a regional comprehensive arrangement through rules-based international system not only to enhance economic interdependence but also to combat climate change. In Indo-Pacific, the rising seaborne trade is an indication of growing interdependence of the Indo-Pacific countries. The Indo-Pacific region has a high growth potential in both merchandise and services trade. On average, around 60 per cent of the region's trade has been taking place within the region, thereby indicating strong interdependency in trade, and the intra-regional merchandise trade has been increasing fast. However, a large part of trade, both goods and services, is yet to be unlocked.

The multi-country **Computable General Equilibrium (CGE)** simulation results illustrate that the quadrilateral alliance between the United States, Japan, Australia, and India demonstrate a positive economic gain. However, if South and Southeast Asia fully commit themselves to the Indo-Pacific construct, the economic benefits would be enormous. The CGE simulation in case of reductions of tariff and improved trade facilitation indicate that the Indo-Pacific group may generate over US\$ 1.12 trillion welfare gain. Improvements in infrastructure and connectivity, leading to reduced trade-transportation costs, are a necessary step in order to realize the trade potential of the Indo-Pacific. In fact, the Indo-Pacific could become a powerful regional block if

the South and Southeast Asia could be linked through the creation and promotion of connectivity, with special focus being placed upon developing maritime linkages, and buttressed by improved trade facilitation and other networks that would reduce trade costs.

Prevalence of a large numbers of trade agreements in Indo-Pacific entails a sharp fall in tariff rates over time. Non-Tariff Measures (NTMs) act as a major trade barrier to trade in the region. The trade facilitation measures are also quite uneven in the Indo-pacific region. The average trade facilitation performance is superior for high income or developed economies than its other counterparts in the region.

Given, the trade scenario of the region, the formation of Indo-Pacific Economic Cooperation (IPEC) is instrumental in building strategic partnerships with other regional and sub-regional organizations. Therefore, conceiving Indo-Pacific regional economic cooperation can entail some initiatives to support sustainable economic growth and prosperity in the region. To facilitate rules-based favorable and sustainable business and trade environment, some policy targets are suggested.

- First, existing trade negotiations give less motivation of trade gain by tariff reduction and more from new rules to coordinate reductions to perceived non-tariff barriers to trade. Given the existing high incidence of NTMs, further harmonization of regulatory measures is needed with new rules and disciplines.
- Second, given the prospect of the services trade within the region, accession towards Indo-Pacific wide services trade agreement is needed to liberalise domestic regulations as well as build capacity on e-commerce and IT-related services such as Artificial Intelligence. Second, formulation of policies towards a cooperative process is needed, which will predominantly be concerned with trade and economic issues of the members.
- Third, regional projects are vital and essential element for strengthening the regional integration process.
- Fourth, building new institutions and governance in those institutions will promote economic cooperation and help build norms that support the integration process as well as peaceful settlement of disputes.

Investment Cooperation

While global flows of FDI have declined in developed countries, developing countries, particularly developing Asia has become the leading FDI host in the world. Led by China, Hong Kong, and Japan, the developing Asia is also fast emerging as a leading outward investor in the world. It is the Indo-Pacific region, which has been the world's leading FDI source as well as destination.

FDI promotes production networks through locating different stages of a production process across countries. While recreating Indo-Pacific as an integrated production base, strengthening

investment cooperation across the Indo-Pacific region would not only attract vital capital and know-how but also generate new business units.

FDI being a cross-border phenomenon, it makes sense to forge Indo-Pacific wide regional cooperation framework to ensure smooth FDI flows. The countries in the Indo-Pacific region have been pursuing investment liberalization and promotion at multiple levels, but several regulatory gaps exist. An Indo-Pacific wide investment cooperation will remove the gaps in investment promotion between countries, bring the much-needed harmonization in investment regime, protect investments and generate ease of regulatory measures. Indo-Pacific countries shall aim for a regional investment framework, which would help countries to facilitate regional coordination and exploit economies of scale in improving investment frameworks and policies across the Indo-Pacific countries. A regional framework in Indo-Pacific will motivate countries in not only harmonizing the investment regime but also in streamlining and simplifying the procedures for investment applications and approvals. To start with, the Indo-Pacific countries may consider region-wide dissemination of investment information, including investment rules, regulations, policies and procedures. This regional framework will bring further transparency and restore competitive investment environment, thereby benefitting the investors.

There is an untapped opportunity for cross-border business collaboration across the Indo-Pacific region. Setting up Indo-Pacific Business Forum (IPBF) will speed up the business collaboration including business alliances or mergers and acquisition.

The Indo-Pacific countries should promote an integrated framework for skill development in diverse sectors for developing and LDCs across the region. This would also ensure the specific need of high-skilled workforce for a competitive export sector, particularly, meeting the challenges for the Indo-Pacific to upgrade the technology, increase productivity and move up with the other emerging developing countries. While framing a regional understanding in FDI, the Indo-Pacific countries must also focus on capacity building programmes, technical trainings, language proficiency to develop skilled workforce that can cater to the needs of a foreign investor to meet the business needs.

Developing region of the Indo-Pacific needs investments for development of infrastructure. In other words, the region offers vast investment opportunities for development of land, air, maritime and digital connectivity, within and across countries. Facilitating investment will, therefore, lead to narrow the infrastructure gap between developing and developed countries in the Indo-Pacific region.

It is high time to consolidate the efforts of countries to mobilize the resources, both financial and technical. Given the massive need of infrastructure investment, the Indo-Pacific countries may consider setting up an Indo-Pacific Development Fund (IPDF) and Indo-Pacific Development Bank (IPDB). These initiatives may enhance and prioritize foreign investment, on one hand, and

facilitate private sector's investment in quality infrastructure development, on the other. This would also further stimulate the growth and long-term development of the region.

Maritime Connectivity Cooperation

Although all modes of transportation are important, priority shall be given to air and ocean-based transportation and digital networks. Maritime connectivity holds the key to higher trade. Some major trends that have shaped today's landscape in the ports and shipping industry are supply chain integration, increasing vessel size, increasing competition, containerization of cargo, focus on security, alliances and cooperation, multimodal transport and infrastructure, IT applications, among others. While these are mostly driven by pace of globalization and technology, participation in maritime trade has, however, not developed equally in the Indo-Pacific. Narrowing the maritime gap in the Indo-Pacific is, therefore, essential.

While Asia has become the driver of world maritime trade, key issues that may reshape the Indo-Pacific maritime trade landscape are liner shipping networks; quality of port infrastructure; operational efficiencies and sustaining maritime performance in view of new technology and digitalization; cutting carbon emissions and environmental sustainability; maritime piracy and other costs; supply chain integration; among others.

There is enough scope for improvement of liner shipping connectivity in the Indo-Pacific. Indo-Pacific countries as a whole have a substantial economic, connectivity and logistics prowess, which need to be utilized to strengthen the regional integration. Being a maritime region, an Indo-Pacific wide regional programme to build and strengthen the liner shipping connectivity with the involvement of operators, regulators and shippers will add immense value towards facilitating more liner services, reducing transportation costs and improving connectivity.

A modern and well managed port sector is crucial for the region's trade and sustainability. While world's best performing ports are in Asia, Asia also leads in construction of new ports and terminals in the Indo-Pacific. Development of the port infrastructure has been a growing priority in the Indo-Pacific countries. Several Indo-Pacific countries are currently building new port facilities. India has taken an ambitious port development project called Sagarmala, which offers important lessons for the Indo-Pacific region.

To activate the Indo-Pacific Maritime Connectivity Cooperation (IPMCC), countries may consider forming high-powered team with concerned line ministries and departments and set-up working groups and conduct joint studies to design vision and Indo-Pacific connectivity master plan.

Marine Digital Connectivity

There is increasing need for faster and reliable international bandwidth. Fiber optic submarine cables carry the data across the world with speed and reliability intact, which are the prime arteries of digital connectivity. Indo-Pacific countries exchange large amounts of data, particularly between North America and Asia. Types of exchange include uninterrupted internet ensuring that emails and phone calls are connected and data centers are linked with each other. This massive data exchanges are carried through submarine cables across the globe. Disruption of submarine cables, therefore, causes high risk to trade in goods and services, financial markets, etc. There are vulnerable choke points that require special attention: the Strait of Malacca between Malaysia, Singapore and Indonesia; the Strait of Luzon between Chinese Taipei and the Philippines; and the South China Sea. Indo-Pacific countries very much rely on the undersea cables. Indo-Pacific countries should provide adequate attention to the protection of submarine cables by designing and implementing advanced mitigation and protection measures.

The maritime connectivity should be at the core of Indo-Pacific strategy aiming at stimulating trade. Introducing a strategy to bring together a vast heterogeneous region in maritime connectivity is certainly not an easy task. Several options exist. However, investing in connectivity would be most important among all options. The key priority should be to achieve a safe, sustainable and efficient multi-modal transport system in the region, which would ultimately lead to improve the level of economic integration.

Cooperation in Non-Traditional Security (NTS)

The countries in the region can also do a lot in non-traditional security (NTS) areas. The region faces threats from piracy, terrorism, migrant smuggling/human trafficking, natural disasters, cyber-security, and so on. These issues mandate cooperation and synergy among multiple stakeholders, if a stable and prosperous Indo-Pacific region is to ensue. A better understanding of these security challenges and the opportunities for expanded cooperation is required.

There is a need of a multilateral approach involving all stakeholders in the Indo-Pacific region. We should define development of collaborative processes in various domains such as curtailing piracy, combating terrorism, human trafficking/smuggling, responding to natural disasters and ensuring cyber safety.

Addressing NTS issues needs to move beyond developing cooperation among security agencies and should have a whole-government approach involving agencies dealing with police, law, education and so on. These could include training of police forces, capacity building of legal institutions, developing IT-enabled information exchange frameworks, providing necessary

communication equipment and gender sensitization programmes targeting various state and non-state actors.

There is need to study the possible impact of the climate change and design mitigation measures accordingly across the Indo-Pacific. The recent experience demonstrates that the countries in the region will have to develop information sharing mechanisms on cyber crimes and on cyber security issues. Frameworks and institutional platforms that ensure that internet remains open and inclusive should receive priority. The countries in the region will also have to reflect deeply on the kind of wireless networks that they would wish to develop in consonance with the idea of free, open and inclusive Indo-Pacific.

Way forward

Indo-Pacific economic cooperation may help reduce the differences between the countries while reshaping the globalisation process. Private sector, civil society and government will have important roles to play in building Indo-Pacific partnership. Without doubt, ASEAN centrality would be a major driving force for speeding up cooperation within the Indo-Pacific.

An open market in Indo-Pacific will facilitate flows of goods, services, capital and ideas. Indo-Pacific shall be 'cooperation' driven instead of 'liberalisation'. Yes, it is a big challenge to facilitate integration when the diversity among the member countries is quite high. While the size and scale of the region is a great asset, navigating the 'Indo-Pacific' will require strong political leadership and commitments in regional integration, leaving aside other narrow

objectives. In moving forward, Indo-Pacific leaders need to pull their efforts and resources on Indo-Pacific regional connectivity.

The first ever high level policy dialogue on Indo-Pacific cooperation and the Foreign Ministers' meeting is going to be held on Jakarta on 20 March 2019, and we expect Indo-Pacific countries will take some bold decisions to formalise the cooperation. Amidst rising protectionism, the outcome of the forthcoming Indo-Pacific meeting therefore matters.