

**Analysing the Role of Business and
Connectivity in Building Bilateral Relations: A
Case Study of India and Indonesia (1991-2023)**

**A Thesis submitted to the Jadavpur University for the
award of the Degree of Doctor of Philosophy in Arts**

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Analysing the Role of Business and Connectivity in Building Bilateral

Relations: A Case Study of India and Indonesia (1991-2023)

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Abstract

The present state of world politics is highly dynamic and volatile. However, this dynamism is driven by strategic and economic considerations. Economic interest specifically relates to business dealings. Therefore, it is needless to say that trade is always the main driver of the advancement of modern state actors. In fact, almost all nations employ trading to develop their international connections. Commercial transactions are widely seen as a smart power strategy among states. Thus, commerce not only defends economic interests in international relations, but it additionally allows states to improve their external appearance. On the other hand, increasing trade between the two countries has shifted the focus of bilateral relations toward the security sector. As a result, the closeness of this bilateral relationship has evolved into a strategic partnership.

The impact of commercial transactions and the significance of connectivity in the growth of bilateral ties between Indonesia and India are examined in this research thesis. The study employed the qualitative methodology—entailing exploratory research by considering several questions using inductive analysis. The thesis consists of six chapters, including an introduction and a conclusion, that are practically related to the research theme.

The first chapter of this research thesis illustrates the historical setting of India and Indonesia's bilateral relations. Although the relationship between India and Indonesia has become an impassioned topic in the current world order, its roots may be traced back to history. However, with the independence of both states based on cultural and historical ties, the opposition of imperialist powers, the establishment of NAM, and the promotion of the idea of decolonization, the long isolation of India and Indonesia relations came to an end, and the modern version of these two ancient civilizations was revitalized. Geopolitical issues, political tensions, and ideological divisions eventually resulted in a short break in relations between the two countries. However, India's economic liberalization in 1991, as well as its new foreign policy aimed at integrating Southeast Asia, brought the two countries closer together again. The advent of India and Indonesia as growing economic giants as a result of changes in the global order, more market access, massive expansion in India's IT industry,

economic growth, and expanding military dominance have all contributed to the resuscitation of India-Indonesia relations. In effect, Indonesia's strategic location enables India to further strengthen its position in the Indo-Pacific—a step forward in India's potential to become a net security provider and maritime power in the region. After all, the signing of the Comprehensive Strategic Partnership between the two nations in 2018 and the G20 leadership of Indonesia and India in 2022 and 2023, respectively, have boosted the two states' cordial relations.

The second chapter mainly analyses the geostrategic and geo-economic confluences between India and Indonesia and energy security—as one of the core aspects of bilateral relations between India and Indonesia. Both India and Indonesia have a large maritime area in terms of geographical location. In fact, India and Indonesia have access to the EEZ as per UNCLOS, which greatly affects the economic growth of both states as well as the military sector. According to the famous geo-strategist A. T. Mahan's 'Theory of Sea Power,' access to and efficient use of large maritime areas helps the state to become a great power. For instance, there is tremendous potential for India and Indonesia. However, both India and Indonesia are facing particular challenges in becoming maritime powers. Therefore, both India and Indonesia have implemented particular policies focusing on their respective states' maritime advancement. What are the ramifications of 'Sagarmala' and 'Tol Laut' becoming the two states' maritime powers? It has been discussed based on government data and statistics.

Conversely, Indonesia is described as a partially energy-import-dependent nation, whilst India is considered to be totally dependent on energy imports. However, both countries require a consistent supply of energy to maintain economic growth, particularly in the manufacturing sector. Indonesia may become a dependable energy supplier for India by exploring oil reserves on Natuna Island, acquiring gas blocks, and signing an agreement on a ceaseless supply of coal and gas. At the same time, the formation of a new forum for both states' energy security, as well as the integration of other Southeast Asian states, has the potential to provide a new dimension to energy security in Southeast and South Asia, rendering geoeconomic strategy more relevant in contemporary global politics.

The third chapter of this research thesis examines the evolution of commercial exchanges between India and Indonesia from 1991 to 2023 in terms of international political economy beyond core economic theory, as well as the connectivity engagement between the two countries. The expanding trading transaction between India and Indonesia is divided into four phases in order to achieve a number of new milestones. W.W. Rostow's 'Stages of Economic Growth' model provides an overview of these stages—what it has revealed is the existing trading situation of both countries, which will be expanded in the following days. Simultaneously, the mutual investment figure of the two countries and its implications have been explored. However, the role of connectivity as a catalyst to effectively implement this commercial exchange's evolution has been examined. In what ways has connectivity been shown to be highly beneficial in business transactions? What implications have they had on Indonesia and India? —has offered verifiable proof to fulfil the primary objective of the study. In addition, the preparations that India has made in this regard have also been mentioned.

The fourth chapter focuses on the challenges of the positions of both states and the policies adopted in the context of the great power conflict in the theatre of world politics. According to Organski's 'Power Transition Theory', when a financially and militarily capable rising power expresses dissatisfaction with a system controlled by a single superpower, the transfer of power to this world system becomes inevitable—leading to a clash between the superpowers and the rising powers. In recent times, this rivalry has been taking place in the Indo-Pacific theatre—the two main rivals are the United States and China. However, the conflict between the two superpowers has presented the major and middle powers in the region with multiple challenges in carrying out their political, economic, cultural, and security activities. The strengthening of India-Indonesia relations is one such example. In this conflict within, India has lagged behind China and the US both economically and militarily, respectively. Indonesia displays a similar trend. Indonesia is militarily dependent on the United States and economically dependent on China. As a result, both states have been applying a hedging strategy to maintain their positions, which has created a balance.

The fifth chapter addresses the implementation of the smart power strategy through the delicate use of hard and soft power to deepen economic engagement with India and Indonesia, taking into account the impact of AIFTA on bilateral trade in the

twenty-first century. In this aspect, AIFTA has not only improved the supply chain between India and Indonesia, but it has also opened up new economic opportunities. In addition to the regular commercial exchanges, defense exercises, regional connectivity projects, digital payments, space research, maritime strategy, and so on have taken place, resulting in the successful execution of India's smart power engagement.

The sixth chapter analyses the dynamics, evolution, challenges, and findings of the bilateral relationship between Indonesia and India as reflected by the analysis of the core four chapters, which show both nations' compact theoretical narratives in the context of world politics.

Preface

In the 21st century, world politics is influenced not by a solitary dominant state, but by state actors and non-state actors, including multinational corporations, non-governmental organizations, and international and regional entities. In this regard, the current global order has evolved into a uni-multipolar world order. From the Treaty of Westphalia's introduction of the nation-state in 1688 until the formation of the UNO, European or Western influence was evident both directly and indirectly in nearly every field, including politics, economics, diplomacy, international relations, society, and culture. However, following the UNO's establishment, the Soviet Union's communist ideology began to gain traction and spread throughout Eastern Europe, while the US-controlled capitalist ideology in Western Europe started to actively defend its own existence. The international system as a whole saw bipolarization as two opposing ideologies came to dominate the ensuing global politics of the period. Beyond the Western economic model, however, the sustained rapid growth of East and Southeast Asian countries in the 1960s—Japan, South Korea, Hong Kong, Taiwan, and Singapore, respectively—astonished Western economies during this détente phase in world politics. The International Monetary Fund highlights these nations' increasing economic growth by referring to them as the 'Asian Tigers.'

However, in the late 1970s, the Southeast Asian region began to experience rapid economic growth with the adoption of economic liberalization in Malaysia, Indonesia, Thailand, and the Philippines, along with Singapore. However, behind this economic progress, a very significant role was played by the regional organization established in 1967—ASEAN—whose prudent policies and objectives put the economic interests of these states in Southeast Asia above internal conflicts. As a result, stable economic growth appears in almost all the states of the region. Needless to say, this economic growth opened up wider market access in the region, attracting the Western world as well as the countries of South Asia, Western Asia, Australia, and New Zealand.

The collapse of the Soviet Union in the 1990s established the United States' hegemony on world politics, resulting in the unipolar world order. On the other hand, in the midst of this major shift in world politics, the economy of India in South Asia also underwent a major transformation in 1991—India left the socialist economy and

adopted economic liberalization, as well as a new foreign economic policy known as the Look East Policy. India has connected itself with the Southeast Asian region largely to secure its economic interests through this policy. However, throughout time, India's economic interests became tied to commercial, strategic, security, cultural, and military realms. Consequently, India has become one of the region's most reliable partners.

The research thesis points out that Indonesia, Southeast Asia's largest economy and state (by geographical area), is a key player in the region, and Indonesia's topography allows India access to the Malacca Strait, the chokepoint at the junction of the Indian and Pacific Oceans. Furthermore, one of India's primary goals was not just to strengthen contemporary economic and strategic partnerships but also to revitalize centuries-old bilateral ties. However, India-Indonesia bilateral relations act as a link to East Asia, facilitating economic integration with Southeast Asia and deeper connections with ASEAN.

Thus, it is said that Indonesia is immensely vital to India. But how have the dynamics of these two states affected global politics in recent years? And how relevant is it? This research focuses on this point of view. India and Indonesia are regarded as the developing economies of Southeast Asia and South Asia, respectively. In addition, the potential major power is the current great power—the alternative power of the United States and China.

Therefore, what has been the impact of the expansion of trade on India-Indonesia bilateral relations? In the context of energy security, does Indonesia have the potential to become one of India's energy source states? Additionally, how has the strategic situation in India and Indonesia impacted security and trade? And what are the challenges they face? What is the position of India and Indonesia in the big power struggle? Furthermore, how has the AIFTA influenced bilateral trade between India and Indonesia? All of these questions have been intended to be addressed using evidence, economic models, and expert opinion, allowing readers to better comprehend the depth and relevance of India-Indonesia bilateral ties in the context of the current world order. Furthermore, the primary finding of this study will help to make India's posture more attentive to other states in the region, particularly in the areas of MoUs, trade deals, and defense agreements.

•Apurba Sarkar

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List of Abbreviations

<i>AEP</i>	<i>Act East Policy</i>
<i>APEC</i>	<i>Asia-Pacific Economic Cooperation</i>
<i>APERC</i>	<i>Asia Pacific Energy Research Centre</i>
<i>ARF</i>	<i>ASEAN Regional Framework</i>
<i>ASEAN</i>	<i>Association of Southeast Asian Nations</i>
<i>ASEM</i>	<i>Asia and Europe Meeting</i>
<i>BBIN</i>	<i>Bangladesh, Bhutan, India, Nepal</i>
<i>BCM</i>	<i>Billion Cubic Meters</i>
<i>BI</i>	<i>Bank Indonesia</i>
<i>BICMEC</i>	<i>Bangladesh-China-India-Myanmar Economic Corridor</i>
<i>BIMSTEC</i>	<i>Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation</i>
<i>BJP</i>	<i>Bharatiya Janata Party</i>
<i>BRI</i>	<i>Belt and Road Initiative</i>
<i>BRICS</i>	<i>Brazil, Russia, India, China and South Africa</i>
<i>BTMF</i>	<i>Biennial Trade Ministers' Forum</i>
<i>CECA</i>	<i>Comprehensive Economic Cooperation Agreement</i>
<i>CEPAs</i>	<i>Comprehensive Economic Partnership Agreements</i>
<i>CO₂</i>	<i>Carbon Dioxide</i>
<i>CPEC</i>	<i>China-Pakistan Economic Corridor</i>
<i>CSN</i>	<i>Coastal Surveillance Networks</i>
<i>CSP</i>	<i>Comprehensive Strategic Partnership</i>

CSS	<i>Critical Security Studies</i>
DTAA	<i>Double Taxation Avoidance Agreement</i>
EAS	<i>East Asia Summit</i>
EEZ	<i>Exclusive Economic Zone</i>
EFSAS	<i>European Foundation for South Asian Studies</i>
ERIA	<i>Economic Research Institute for ASEAN and East Asia</i>
EU	<i>European Union</i>
FDI	<i>Foreign Direct Investment</i>
FOIP	<i>Free and Open Indo-Pacific</i>
FTA	<i>Free Trade Agreement</i>
FY	<i>Financial Year</i>
GATS	<i>Agreement on Trade in Service</i>
GATT	<i>General Agreement on Tariffs and Trade</i>
GCC	<i>Gulf Cooperation Council</i>
GDP	<i>Gross Domestic Product</i>
GMA	<i>Global Maritime Axis</i>
GOI	<i>Government of India</i>
HRW	<i>Human Rights Watch</i>
IEA	<i>International Energy Agency</i>
IIM	<i>Indian Institute of Management</i>
IIT	<i>Indian Institute of Technology</i>
IMEC	<i>India-Middle East-Europe Corridor</i>
IMF	<i>International Monetary Fund</i>
IMTTH	<i>India-Myanmar-Thailand Trilateral Highway</i>

IOR	<i>Indian Ocean region</i>
IPE	<i>International Political Economy</i>
IPI	<i>Iran-Pakistan-India</i>
IPOI	<i>Indo-Pacific Oceans Initiative</i>
IT	<i>Information Technology</i>
ITEC	<i>Indian Technical and Economic Cooperation</i>
JTF	<i>Joint Task Force</i>
KMTTP	<i>Kaladan Multimodal Transit Transport Project</i>
LEP	<i>Look East Policy</i>
LPG	<i>Liberalization, Privatization, and Globalization</i>
MDA	<i>Maritime Domain Awareness</i>
MEA	<i>Ministry of External Affairs</i>
MGC	<i>Mekong Ganga Cooperation</i>
MIEC	<i>Mekong India Economic Corridor</i>
MNCs	<i>Multinational Corporations</i>
MRTP	<i>Monopolies and Restrictive Trade Practices Act</i>
NAFTA	<i>North American Free Trade Agreement</i>
NAM	<i>Non-Aligned Movement</i>
NGOs	<i>Non-Governmental Organization</i>
NIT	<i>National Institution of Technology</i>
NTB	<i>Non-Tariff Barrier</i>
OBOR	<i>One Belt One Road</i>
ODA	<i>Official Development Assistance</i>
OPEC	<i>Organization of the Petroleum Exporting Countries</i>

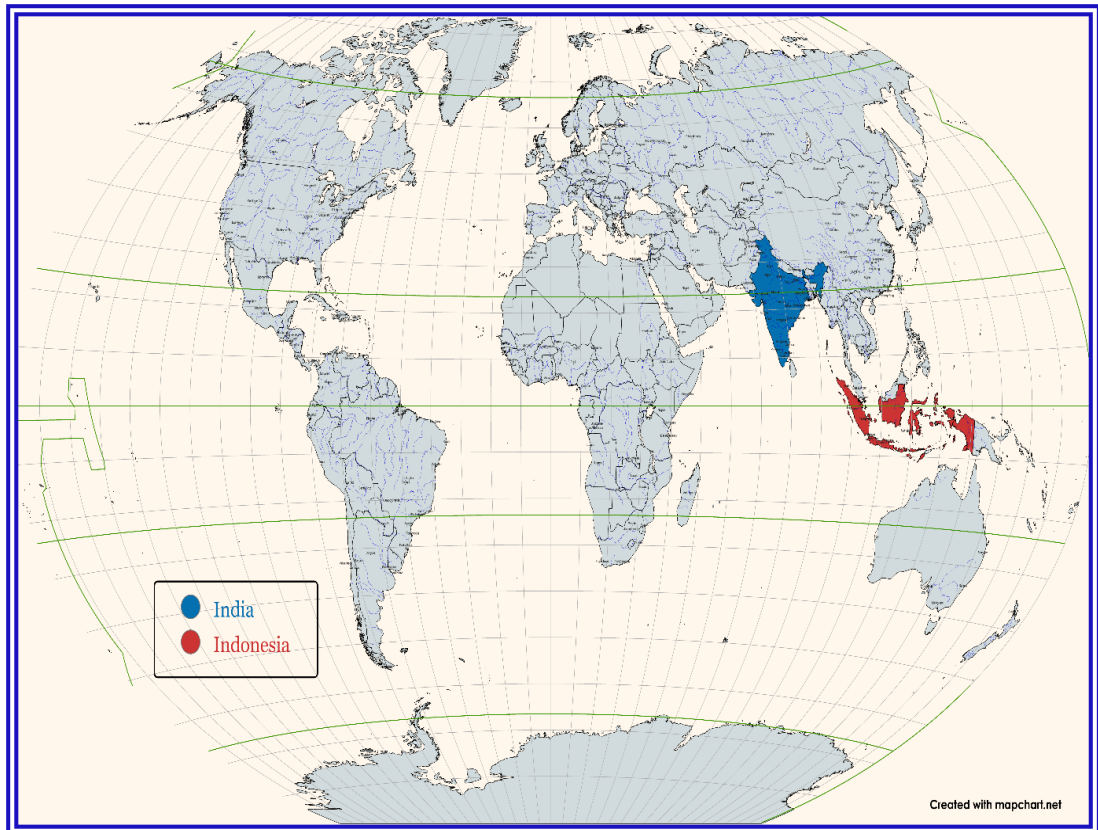
<i>PKI</i>	<i>Partai Komunis Indonesia (Communist Party of Indonesia)</i>
<i>PPP</i>	<i>Purchasing Power Parity</i>
<i>PRC</i>	<i>Peoples Republic of China</i>
<i>QUAD</i>	<i>Quadrilateral Security Dialogue</i>
<i>RBI</i>	<i>Reserve Bank of India</i>
<i>RCEP</i>	<i>Regional Comprehensive Economic Partnership</i>
<i>SAGAR</i>	<i>Security and Growth for All in the Region</i>
<i>SEZ</i>	<i>Special Economic Zones</i>
<i>SIMBEX</i>	<i>Singapore-India Maritime Bilateral Exercise</i>
<i>SITMEX</i>	<i>Singapore-India-Thailand Maritime Exercise</i>
<i>SLOC</i>	<i>Sea Lines of Communication</i>
<i>SMEs</i>	<i>Small and Medium Enterprises</i>
<i>TAPI</i>	<i>Turkmenistan–Afghanistan–Pakistan–India Pipeline</i>
<i>TNCs</i>	<i>Transnational corporations</i>
<i>TPP</i>	<i>Trans-Pacific Partnership</i>
<i>TRIMS</i>	<i>Agreement on Trade Related Investment measures</i>
<i>TRIPS</i>	<i>Agreement on Related Intellectual Property Rights</i>
<i>UAE</i>	<i>United Arab Emirates</i>
<i>UNCLOS</i>	<i>United Nations Convention on the Law of the Sea</i>
<i>UNCTAD</i>	<i>United Nations Conference on Trade and Development</i>
<i>UNO</i>	<i>United Nations Organisation</i>
<i>UPI</i>	<i>Unified Payment System</i>
<i>US</i>	<i>United States</i>
<i>USSR</i>	<i>Union of Soviet Socialist Republics</i>

WB *World Bank*

WTO *World Trade Organisation*

List of Maps

World Map Highlighted with India & Indonesia



Source: <https://www.mapchart.net/world-advanced.html>

Map of India



Source: <https://www.nationsonline.org/oneworld/map/India-Administrative-map.htm>

Map of Indonesia



Source: https://www.nationsonline.org/oneworld/map/indonesia_map.htm

Chapter: I

INTRODUCTION

In the early 20th century, the discipline of international relations began to be studied as a formal subject in Western curriculum, but the practical use and application of international relations can be found in Kautilya's "Arthashastra" and Machiavelli's "The Prince". Although the study of international relations was not part of the traditional curriculum at the time, it eventually became a crucial component of the state system, and trade emerged as the primary tool for establishing and fostering the international relations. Therefore, mutual relations between two or more states are mainly established through commercial exchanges. Kautilya explained international relations in terms of the position of the state according to 'Mandala Theory' in his book "Arthashastra" (Gautam, 2013).

According to Hartman "*International Relations as a field of study is focused upon the process by which states adjust their national interest to those of other states*" (Hartman, 1983).

Another scholar Stanley Hoffman stated that "*International relations is concerned with the factors and activities, that affect the external policies and the powers of the basic units into that the world is divided*" (Landheer, 2012).

On the other hand, Palmer and Perkins mentioned that "*International relations is the interaction between sovereign states and other international actors such as international organisations, multinational cooperations, and non-governmental organisations*" (Palmer & Perkins, 1997).

According to Quincy Wright, "*It is not only the nations which international relations seek to relate. Varied types of groups-nations, states, governments, people, regions, alliances, confederations, international organizations, even industrial organizations, cultural organizations, and religious organizations-must be dealt with in the study of international relations if the treatment is to be realistic*" (Wright, 1980).

In the pre-modern era, trade was considered the primary and only condition for building international relations, but in the modern era, financial and military assistance, cultural exchange, transfer of information technology, developed market systems, and most importantly, security, national interests, and world politics have become some of the means of establishing international relations.

In addition to the aforementioned elements, bilateral relations are regarded as one of the primary foundations for establishing international relations. Thus, Thomas Gomart has referred to the establishment of bilateral relations as “the basic form of the diplomatic game” (Gomart, 2002). However, Professor Alice Pannier highlights the centrality of bilateral relations through an examination of diplomacy. She categorized this bilateral relationship’s concentration into three fundamental levels: strategic, historical, and numerical (Pannier, 2019).

In analysing the historical phase, Pannier has mainly referred to the old diplomacy. In particular, she describes the practice of internal diplomacy within European monarchies in the past (Ibid.). Needless to say, old diplomacy was usually determined through official missions between states. That is, the functions possessed by both state institutions to safeguard state interests in line with the formal system constitute old diplomacy. For example, in the formation of bilateral connections, the practice of marriage within the royal family is particularly noteworthy.

The central role of bilateral relations in the conduct of diplomacy is played by the application of strategic indicators in the defense of national interests and international understanding. Usually, foreign ministers, embassies, and consulates use diplomacy to protect national interests. However, this bilateral diplomacy serves as a tool for conducting trade and investment, promoting the image and culture of countries, establishing bilateral agreements, and communicating with the diaspora.

Inevitably, the bilateral relationship becomes favourable to the actors when they perceive it as a strategic advantage. However, in a broader context, bilateral relations are frequently viewed as a strategic interaction.

While the historical and strategic domains are viewed as distinct aspects of analysing the centrality of bilateral relations, the numerical approach is considered the primary perspective in the context of the diplomatic examination of these relations. Despite the significant progress made in multilateral relations in recent times,

especially since the second half of the 1990s, due to its diversity and multifaceted nature, researchers still regard bilateral relations as a favourable route to internationalizing agreements. In practice, the numerical approach, which is known as the central standpoint in the analysis of bilateral relations, is dominated by the number of agreements reached through diplomatic negotiations between two states. However, these agreements cover trade, economic, political, military, cultural, educational, and strategic cooperation etc.

Although bilateral ties in international relations have been established with the priority of any of the above three categories, achieving state interests through cooperation between two nations while keeping their sovereignty and freedom of action intact has been one of the challenges in bilateral relations (Ibid.).

Professor Helen Wallace, however, distinguishes bilateral relations between governments into three distinct forms. In the first stage, the two states maintain direct or indirect contact through their official dialogue exchange. In the second stage, the relationship between the two states is built through geographical proximity and large-scale trade exchanges and membership in the same international organization. In the third stage, the two governments develop an exclusive partnership by prioritizing each other (Sked, 1987).

Therefore, given the dynamic framework of international politics, bilateral relations can sometimes sustain formality in relation to the political and economic scenario, while other times they are acknowledged as a special relationship if they benefit the actor's self-interest. However, the relations between the two countries include regular summits, official visits, works, staff exchanges, bilateral defense exercises, etc. Thus, it can be said that 'bilateral relations are indeed remarkably fluid and evolving.'

The Treaty of Westphalia, signed in 1688, established the principles of bilateral international trade from the foundation of the nation-state to the end of World War II. But different rules are formulated according to other state structures, which creates a distance between the states due to this commercial disparity. Therefore, General Agreement on Tariffs and Trade (GATT) was established on October 30, 1947, by a group of 23 countries with the stated purpose of establishing an international trade organization to establish specific international commercial laws and resolve trade

issues between states (Debroy, 1996). However, the main objectives and conditions for the creation of GATT were non-discriminatory trade, the pursuit of the principle of multilateralism and, above all, the resolution of trade issues between states. Though, after World War II, with the positive action of the Trustee Council of the UN, when the colonies established by the European group in Asia, Africa and Latin America gained independence, the states joined the GATT with a renewed zeal to build trade relations, boost national interests and the economy. In the theory developed by European scholars, these countries are identified as underdeveloped countries or the third world, consequently, developed countries or first world countries begin to discriminate in terms of tariffs in trade with the third world. Also, issues related to exchange of goods remain unresolved for a long time. This led to intense discontent among the Third World. In order to address this intense dissatisfaction and draw attention to the GATT's numerous deficiencies, especially in the areas of free trade policy, non-discriminatory tariffs, immediate dispute resolution, and the development of a democratic environment, the Uruguay Round, also known as the GATT summit, was held in Uruguay in 1986. During the summit, 15 agreements were discussed, and none of the governments had any disagreements. The most important agreements were the General Agreement on Trade in Service (GATS), Agreement on Related Intellectual Property Rights (TRIPS), Agreement on Trade Related Investment Measures (TRIMS) (Debroy, 1996). Following the conclusion of the Uruguay Round in July 1993, the WTO (World Trade Organisation) was established by the Marrakech Agreement in April 1994.

Several bodies have been formed at the WTO to address the shortcomings of the GATT. The main structures are the General Council, Dispute Settlement Body, and Trade Policy Review Body. There are also the Council for Trade in Goods, Council for Trade in Service, and Council for Trade-Related Intellectual Property Rights (Sengupta et al., 2006).

As one of the main means of establishing international relations, trade exchanges, including tariff concessions, financial packages and cooperation, increase the number of WTO members. On January 1, 1995, 123 countries were registered as member states of the WTO, but currently the number of WTO members is 166 (*WTO Members and Observers*, 2025). Despite its original objective of regulating the global trading system, the WTO has grown to be an extremely influential non-state actor in the conduct of global politics and international relations. Additionally, international

and regional institutions like EU, ASEAN, NAFTA, OPEC, BRICS, GCC, WB, IMF determine the power politics in bilateral, trilateral and multilateral trade, WTO is one of them.

There is no doubt that the World Trade Organization has become one of the main regulators of international trade in recent times. However, in the context of bilateral relations, the actors make use of a special approach to keep the strategic advantage in their favour, which has already been discussed. In this regard, India has not taken any exceptional approach in establishing its bilateral relations. Historical sources state that the strengthening of bilateral ties between India and Southeast Asia during the third and fourth centuries is a particularly notable example of the impact of Indian thought on the continent (Ghosh & Basu Ray Chaudhury, 2023). However, King Raja Raja Chola in the 9th century and King Rajendra Chola-I in the 10th century established bilateral relations with the Sailendra dynasty of the Srivijaya Empire in Southeast Asia through maritime expeditions. However, the main purpose of this expedition was to exchange trade, spirituality and religious architecture (Appachu & Appachu, 2024). But in terms of commerce, Southeast Asia—also referred to as the Land of God—drew Indian merchants, especially in the spice and maritime trades. Undoubtedly, this very extensive trade exchange served as the main catalyst for the Indianisation of Southeast Asia (Ghosh, 2023). However, owing to India's superior culture, the then-rulers of Southeast Asia invited Indian cultural ambassadors. That said, its purpose was to introduce a fair administrative system in Southeast Asia like India. In addition to administrative advancements, Indian thought has undoubtedly influenced philosophy, astronomy, medicine, mathematics, art, dance, style, sculpture, and other fields (Trivedi, 2010). Owing to the strong cultural similarities between India and Southeast Asia, along with the impact of Indian ideas, George Coedes referred to Southeast Asian states as 'the hinduised states of Southeast Asia' (Mishra, 2011).

The influence of Indian culture is particularly noticeable in the Srivijaya (Sumatra) and Majapahit (Java) empires, the Buddhist and Hindu monarchies of Southeast Asia from the 7th century to the 14th century. On the other hand, when Islam arrived in the region in the early 15th century, it was followed by the great influence of Indian Muslim merchants. With the expansion of Islam in this region, Indian Muslims' authority and status increased over time. However, during the colonial period from the 16th century to the 19th century, many Indians began to migrate to Southeast Asia as

agents of the British colonial power. As a result, India's long-standing cultural links with Southeast Asia, as well as political relations, have been established (Ghosh & Basu Ray Chaudhury, 2023).

Essentially, this long cultural and political association shaped a strong link between Southeast Asia and India. It still exists in the 21st century. Early in the seventeenth century, since European powers arrived in the region, 300–350 years of colonial control drastically altered Southeast Asia's political and social landscape. Formerly known as Java and Sumatra, the island regions are now part of Indonesia, which is one of major pillars of Southeast Asia. However, the following description clearly demonstrates that Indonesia's cultural, commercial, and political ties with India are extremely ancient. The extensive remnants of Indian culture found in the Bali region of modern-day Indonesia illustrate Indonesia's enduring bilateral connections with India. However, the existence of a cultural bridge between India and Indonesia can be traced back to the neolithic period. Though, the construction of this bridge plays a special role in the context of art, architecture, popular drama, literature, freedom struggle, etc. (Mishra, 2011).

Due to their shared cultural traits, anti-colonialism, Afro-Asian spirit of isolation, geographical size, diversity, historical and civilizational treaties, and most importantly, geographical proximity, India is the oldest partner of Southeast Asia and a natural ally of Indonesia (Jha, 1996; Trivedi, 2010). However, With the signing of the Treaty of Friendship in 1951, formal bilateral relations were established between India and Indonesia, its maritime neighbour in Southeast Asia (Saha, 2023). Moreover, the formation of NAM at the Bandung Conference in 1955, led by India to support the anticolonial movement after independence, as well as India's assistance in Indonesia's war for freedom against the Dutch, resulted in a close connection between Nehru and Sukarno (Appachu & Appachu, 2024). To this end, Sukarno referred to the people of Indonesia and India to intensify the cordial relations (Trivedi, 2010). However, since the 1960s, due to the clash of ideology, India has been isolated from the Southeast Asian region as well as Indonesia, in which certain events act as a catalyst in this relationship. Among these were India's support for the Federation of Malaya, Indonesia's strong condemnation of Taiwan and Israel's opposition to the 1962 Asian Games, and the Sino-Indian War. However, India-Indonesia's bilateral, unalterable relationships did not continue long due to India's negative impression of an aggressive

China. As a result of the India-China rivalry, China's friendship with India's adversary Pakistan has grown. Even in the Indo-Pak War of 1965, when Indonesia sided with Pakistan, the friendship between these three states became known as the 'Beijing-Jakarta-Rawalpindi Axis'(Ibid.).

The shift of power in Indonesian politics took place against Sukarno's anti-Western stance and the increasingly authoritarian behaviour of the PKI (Communist Party of Indonesia). However, military general Suharto came to power in Indonesian politics. The PKI was banned when Suharto called for a confrontation to restore Indonesia's deteriorating relations with the West. In addition to China's apparent assistance for the PKI coup attempt on September 30, Indonesia dissolved diplomatic relations with China in 1967 (Ibid.). On the other hand, Suharto took positive initiatives to revive Indonesia's deteriorating relations with India. However, the move had little impact. Later, the then Prime Minister of India, Mrs. Indira Gandhi, supported the socialist economic model. On the other hand, Suharto adopted a liberal economic policy, as a result of which the opposing views of the statesmen of the two countries failed to strengthen bilateral relations between India and Indonesia (Jha, 1996).

After the Sino-India War of 1962, India built a naval base on Nicobar Island to counter the increasing Chinese aggression and to maximize surveillance in the Bay of Bengal. However, the construction of this naval base in India is considered an imminent threat by the entire Southeast Asian region (Ibid.). However, the Association of Southeast Asian Nations (ASEAN) was founded in 1967 by five Southeast Asian leaders to promote regional economic integration and prosperity. In the early phases of ASEAN's development, regional officials agreed to invite India to the organization but eventually rejected it for the reasons stated above, instead inviting Sri Lanka to join. Although Indonesia has been considered part of the 'Asian Miracle' since it became a member of ASEAN in the 1960s, economic growth has been much lower than in neighbouring countries (White, 2017).

As two consecutive oil booms hit Indonesia in the 1970s, the Indonesian economy experienced a rapid expansion (Booth, 2000). Through such economic transformation, Indonesia embraced economic liberalization. On the other hand, India prefers a mixed economic model instead of a liberalized economy (Naseemullah, 2017). In the context of economic patterns, the character of the two states flowed in

two different directions, but the context of domestic politics was quite similar. In the authoritarian regime led by Suharto in Indonesia, corruption, nepotism, poverty, and inequality became rampant on the one hand, while on the other hand, the fragile, weak governance system continued to operate in Indian politics.

With the end of the Cold War in international politics in the 1990s, the collapse of the USSR resulted in the suspension of diplomatic relations with India. Simultaneously, two major developments took place in India: first, the socialist economic model was transformed to the neo-liberal one, and second, a new independent foreign policy called the Look East Policy (LEP) was established. However, the Indian government's foreign policy has so far had three main goals: to maintain geographical integrity, to ensure geopolitics by creating an environment of sustainable peace and stability in the region, and to build a healthy external economic environment by promoting public welfare. But, with the adoption of the New Foreign Policy, a new shift occurred in Indian foreign policy activities; this shift was a transition from moral speak to realpolitik (*MEA Annual Report 1992-93, 1992*).

On the other hand, the withdrawal of the United States naval base from the Philippines and the rise of China as a 'Great Power' further increased India's desire to be integrated into the region. Moreover, India's liberalisation policy attracted ASEAN. As a result of which India became a sectoral partner of ASEAN in 1992. Thus, a new diplomatic and commercial journey of India-ASEAN bilateral relations has begun. India has achieved successive milestones in the journey of this bilateral relationship, including full dialogue partner status through membership of the ARF, world summit level partner, strategic partner, Treaty of Amity and Cooperation with EAS, and ASEAN-India FTA (Deepak, 2023).

Due to India's continuous economic development and stable foreign policy, Tung expressed the probability that India could become a stable balance of power in Southeast Asia. In this context,

“Tung has explained this with the help of analogy her he considers ocean as and jet plane the near one wing and India has to be the other wing” (Trivedi, 2010).

Mazumdar in his writing mentions the objectives and action plan included in the foreign policy, which are built mainly to protect, preserve, and promote national

interests in the international context (Mazumdar, 2014). In establishing and carrying out its new foreign policy, India has set several broad objectives, such as

- Regional Economic Integration,
- Reform and Liberalization,
- Sustained Economic Growth, and
- Development of the North Eastern Region (Haokip, 2011).

In the 1990s, India established economic ties with Southeast Asia and ASEAN-India Institutional Engagement, in keeping with the stated objectives of its LEP. Therefore, it can be said that India prioritized primarily trade and investment ties with Southeast Asia throughout this timeframe. However, the first phase of LEP and its objectives became clear in the speech of the then Foreign Minister Yashwant Sinha at Harvard University in 2003. In the second phase of the LEP in 2003, the Government of India laid special emphasis on building relations not only with Southeast Asia but also with East Asia, especially Japan, Korea and Australia. In addition, it also strengthens economic interdependence, trade, relations, diaspora connectivity and defence diplomacy (Ibid.). The establishment of BIMSTEC and MGC, the holding of regular SIMBEX and SITMEX, and the signing of the Comprehensive Economic and Strategic Agreement clearly indicate LEP's second phase's success. At the same time, while India has focused on building economic and trade connections with each of Southeast Asia's member states during the LEP's second phase, no additional steps have been taken to improve bilateral relations with Indonesia, India's oldest friend in Southeast Asia. Following the 1960s, economic ideological disagreements between the leaders of both countries, along with their reluctance to restore bilateral relations, had a significant impact. However, as India adopted a liberalization strategy, specific initiatives were launched to enhance bilateral relations between the two nations by strengthening India's ties to ASEAN. In other words, long before the formation of active economic connections in the second phase of the LEP, the rebuilding of bilateral relations between the two countries began during the first phase. In 1992, Biju Patnaik, the then Chief Minister of the Indian state of Orissa, re-launched the 'Kalinga Bali Yatra Festival', which is one of the examples of the revival of India-Indonesia relations. Therefore, the 'Kalinga Bali Yatra Festival' is held every year on *Kartik*

Purnima in November to commemorate the maritime trade between India and Indonesia in the past (Chakraborty, 2018).

In addition, Indonesia's overwhelming support for India's ARF membership in 1996 reduced the distance between Indian and Indonesian bilateral relations. With the return of democracy in Indonesia in 1998, an environment of cultural unity between the two countries was revitalized (Saha, 2023). In this context, Pranab Mukherjee stated that "based on a similar world view we have crafted and enduring friendship found on mutual respect and cooperation Indonesia is a country with which our relationships go well back in time and where and active future beckons all to build further on time tested foundations" (Trivedi, 2010).

At the cultural level, special initiatives have been taken to revive bilateral relations between the two countries, as well as at the economic level, imports and exports between the two sides have increased. Hesinatal argues that "economic growth is linked to stability of environmental fostered by political structures" (Appachu & Appachu, 2024).

After the return of democracy, the presidents of Indonesia, Habibie, Wahid, and Megawati, respectively, failed to make a significant impact in solving the internal problems of the state, thus setting an inadequate example for India and the world (Yumitro, 2014). However, Indonesia's bilateral relations with India began in 2004 when General Susilo came to power in Indonesian politics. During Susilo's visit to India in 2005, a total of three agreements were signed, including one on strategic partnership, which is considered a milestone in the revival of India-Indonesia relations. On the other hand, India has given special attention to strategic engagement, including economic ties with Southeast Asia, in its 2nd Phase of LEP. Also, with India's economic growth rate touching 8.1 percent (2006), almost all the countries of Southeast Asia are attracted to India's wider market system. On the other hand, India strengthens maritime security by cooperating with the states of Cambodia, Laos, Malaysia and Vietnam in the region (Deepak, 2023).

Since the signing of the ASEAN-India Free Trade Agreement (AIFTA) in 2009, India's trade with almost all ASEAN member states has seen a significant increase. As a result of which the bilateral relations between India and the Southeast Asian countries have become closer not only in terms of institutional relations but also in the areas of

trade, economy and security. In Frank's words, 'international trade is critical to the development of any economy' (Arote et al., 2024).

Indonesian President Susilo's visits to India in 2011 as the chief guest of India's Republic Day, followed by an official visit to India in 2012, as well as a series of high-level official meetings between the two nations, cemented the basis of India-Indonesia bilateral relations over time.

However, Joseph Nye and Robert Keohane refer to complex interdependence in their analysis of international relations in the 21st century. Because no state can remain isolated for a long time, it is especially necessary for them to be connected with each other, which expresses this interdependence. However, they claim that this engagement between states is built on the promotion of connectivity at the intra and interstate level (Sharma, 2024).

In 2014, India transformed its LEP to AEP to make its existing foreign policy more action oriented. However, this AEP concentrates on four areas: culture, commerce, connectivity, and capacity building. The formal announcement of the AEP by the then Prime Minister of India at the 9th East Asia Summit in Nay Pyi Daw, Myanmar, marked a new momentum in India-ASEAN relations as well as in India-Indonesia bilateral relations in the areas of trade, investment, regular official meetings, cultural exchange and security (MEA, 2014). Essentially, this season strengthens India's position not only in the economic and commercial spheres but also in the Indo-Pacific region, the most talked-about phenomenon of the twenty-first century and the current arena of global politics. Given this, Professor Mahan's claim that "whoever attends control of Indian Ocean will dominant Asia. India urgently needs to strategize the size a path for establishing itself as an influential and responsible leader in the Indian Ocean region" (Ghosh, 2024).

Increasing India's presence in the Indo-Pacific, along with India's efforts to strengthen its economic ties, is emerging as a potential balance of security in the region. There is no doubt that trade and economy serve as a leading lifeline of community engagement in the larger context of international relations. In this context, it is said that partnership with ASEAN is essential to the Indian economy since it presents a wealth of opportunities. Additionally, ASEAN functions as a single market and is completely connected to the global economy; similarly, India is significant to

ASEAN due to its enormous market, high population, and sizeable economy (Thomas, 2024).

With the change in India's foreign policy post-2014, India's bilateral relations with Southeast Asia, especially with Indonesia, have also seen tremendous progress. According to Rostow's 'Stages of Growth' model, the relationship between the two states is referred to as the 'Drive to Maturity' stage in terms of imports, exports, investment, GDP growth rate, connectivity development, and development of the manufacturing sector (Rostow, 1960). However, in accordance with the fundamental gravity model, 'India's trade orientation was more influenced by distance than by the trading partners economic size' (Sharma, 2024). C. Raja Mohan states that "while India has a set of complementary interest with Indonesia both countries are notorious for their inability to turn words into practical deeds" (Brewster, 2012).

In the analysis of India-Indonesia relations from 1991 to 2023, various important events, including trade exchanges, investment, and bilateral connectivity, have made a special contribution to the evolution of bilateral relations between India and Indonesia, while China's aggressive presence in the region, especially in the South China Sea, has brought India-US relations closer. On the other hand, India is facing security threats such as organized crime, human trafficking, arms smuggling, besides establishing control over the Malacca Straits due to its geographical location. Further, the growing need for resilient and diversified supply chain in the region promise new opportunities for India (Ghosh, 2024). Albin said in this regard that "ASEAN provides heavy opportunities to India particularly to India as service sector economic development and industry development by getting raw materials and energy" (Thomas, 2024).

Therefore, energy resources with a larger market are seen as one of the most important factors in the development of India and Indonesia. In addition, the disparity in the demand and supply of energy resources has made IOR more provocative, which has become a major challenge in the bilateral relations of these two states (Ghosh, 2024). Needless to say, the need for self-sufficiency so as to reduce dependency on external sources of energy supplies has naturally produced a conflict of interest among Asia's regional powers. Therefore, it cannot be denied that energy security is one of the driving forces in the conduct of bilateral relationship between India and Indonesia.

India is particularly keen to establish itself as a balance of power in Southeast Asia through its Act East Policy (AEP) that not only advances trade and connectivity. In general, India is working on several projects, including BIMSTEC, BBIN, MGC, Project Mausam, SAGAR, and IMTTH. Pant substantiate that “Modi in his government or in policy priority will continue to be east and Southeast Asia which are poised for sustained growth in the 21st century” (Thomas, 2024).

Thus, even though India-Indonesia bilateral relations have improved between 1991 and 2023, there are still some issues that need to be resolved, such as strategic relations, officer training, limited exercises, EEZ construction, UNCLOS, the blue economy, and marine resources (Saha, 2023). The present study focuses on the extensive cultural linkages, geographical proximity, energy security, and the importance of connectivity and trade in the relationship between Indonesia and India, particularly in light of changing world politics—how big power rivalry is as a key factor in fostering or challenging these ties.

Rationale of the Study:

India-Indonesia bilateral relations describe a long history that shares India’s common identity, culture and ethnicity with Southeast Asia. However, when the journey of economic liberalisation started in the Southeast Asian region after independence, India decided to follow the socialist economic model. With this decision of India, the distance between India and Southeast Asia started increasing.

Southeast Asian nations expressed interest in developing ties with India when it adopted liberalization in 1991. However, with its Look East Policy, India made special efforts to diversify its commercial and economic ties from North America to Southeast Asia. It also tries to take India’s relationship with ASEAN to a certain dimension. Scholars have tried to look at this growing relationship with India from a foreign policy perspective. But in that case, the political element has always been seen as the main issue. In modern times, India’s wider market, emerging economies, and stable security infrastructure make Southeast Asia particularly attractive. However, in the existing literature, India-Indonesia bilateral relations have been discussed from a cultural perspective. Nonetheless, in the political economy of these two major democracies, trade, connectivity, and energy security are three aspects of bilateral ties that could be

used to highlight India's place and outreach in the international political landscape in the future.

Research Gap:

In the 21st century, India has emerged as an economically promising country in the South Asia region. But in order to become economically self-reliant, India made significant use of the Look East Policy. In this regard, India builds economic and cultural relations with India's natural ally Indonesia through its soft power projection. Since 1991, India's efforts to strengthen this bilateral partnership have proven particularly beneficial. However, on the one hand, it has boosted India's position in the Indo-Pacific; on the other, India's stringent surveillance in the Bay of Bengal and the Malacca Strait has been effective in countering China's 'String of Pearls Policy'.

Given the significance of India-Indonesia ties in the context of global politics, many scholars, academicians, and authors have contributed to the study of India-Indonesia relations with their essential works. But most of them especially emphasised on socio-economic, cultural and political relations between India and Indonesia. Thus, some scholars have analysed India-Indonesia trade relations, although this study has made exchange of commerce and comparison between import and export between the two states. However, in recent times, some studies have been done on India-ASEAN trade relations. These studies also emphasised regional trade, investment and security issues.

India-Indonesia trade relations have not yet been discussed in depth in the context of political economy. No research has been conducted how has connectivity affected on India-Indonesia relations. Energy needs is one of the core aspects of emerging economy and how important it is in developing better relations, has not been analysed. These dimensions create an extensive research gap. This study attempts to address the above research gap through the proper ontological perspective.

Review of Literature:

Sonu Trivedi writes about the relationship between India and Indonesia in her article *Early Indian Influence in Southeast Asia: Revitalizing Partnership between India and Indonesia*. She portrays India-Indonesia relations and how they are connected to culture and politics. However, the article is about making the India-

Indonesia partnership robust again. The author emphasizes the past and the future of India and Indonesia to understand their relationship. In the context of the geopolitics of the Indian Ocean, India-Indonesia relations are identically significant. She also argues that the contemporary India-Indonesia relations might be revitalized by acknowledging and respecting their shared legacy. However, both countries may strengthen their mutual understanding and strategic relationship by encouraging cultural interaction, educational cooperation, and collaborative conservation initiatives.

The book *India - Indonesia Bilateral Ties: An Introspection*, edited by Goutam Kumar Jha & Dr. Son Kuswadi, is a collection of scholarly articles that appeared from an international conference held at Jawaharlal Nehru University in 2013. This volume includes 19 chapters written by academics, diplomats, and policymakers from both countries. The book emphasizes the longstanding historical connections—which date back to prehistoric trade and cultural exchanges—between Indonesia and India. Thus, it addresses India's support for Indonesia's independence and their shared Cold War adherence to non-alignment. However, the book highlights the need for greater economic and strategic cooperation by analysing Indonesia's democratic transition and India's Look East Policy in the modern era. In addition, it examines security issues like maritime concerns and regional stability while promoting a stronger alliance to deal with shared problems.

Ganganath Jha's article, *A Brief Survey of India-Indonesia Relations*, examines past issues between Indonesia and India. It shows why India and Indonesia are important to each other now. Additionally, the article reveals the political and economic connections between India and Indonesia that have grown over time. It says that India and Indonesia share some values like democracy and non-alignment. Ganganath Jha also discusses the evolutions in business between India and Indonesia after economic liberalisation. This helps us understand how business works between India and Indonesia. Some sectors, such as agriculture, service, and IT, may be a crucial trump card in the future business prospects that are also analysed in this article.

The book *India's Relations with Indonesia*, written by Navrekha Sharma and Baladas Ghosal to explore the contemporary relations between India and Indonesia, uses records and the personal experience of diplomats. The book has eight chapters,

and each chapter analyses different aspects regarding India and Indonesia. For example, it emphasizes how the Look East Policy affects India and Indonesia and how the two countries do business with each other. It also highlights the time when Suharto was in power in Indonesia and how that affected India and Indonesia. The book even discusses how India and Indonesia are connected to old civilizations—that pragmatically helps us to understand the contemporary relationship between India and Indonesia. However, they also endorse a more nuanced strategy that goes beyond cultural affinities and focuses on developing positive self-images and aligning strategic objectives.

The article *The Relationship between India and Indonesia: An Evolving Security Partnership* by David Brewster critically examines the things that have occurred in the past and the important factors that have made India and Indonesia work together. However, India considers Indonesia a very vital factor in the Southeast Asia region. At the time, Indonesia sees that India is becoming more important for keeping the region safe. India and Indonesia both worry about things that might make the region unstable and about outside countries getting involved. This is why India and Indonesia are working closely together on security issues. India and Indonesia want to make sure the region is stable, and they are trying to do this by working more. Despite these shared interests, this partnership is gradually developing, with both countries carefully balancing their commitments.

The article *India-Indonesia: Emerging Strategic Confluence in the Indian Ocean Region*, written by Pankaj K. Jha, reviewed the growing strategic engagement of both India and Indonesia in the Indian Ocean Region. In strategic terms, both India and Indonesia share a maritime boundary. Furthermore, to foster comprehensive engagement, India and Indonesia signed agreements with the Air Force in 1956, the Navy in 1958, and the Army in 1960. In addition to signing the Defense Agreement in 2001, Indonesian personnel have been trained via the ITEC-I program, which has strengthened both countries' defense ties. Despite China's economic dominance over Indonesia, Indonesia views India as a reliable partner. For instance, providing financial aid for disaster relief in the aftermath of an Indonesian tsunami in 2005. However, in addition to these sectors, collaboration in coastal monitoring, energy security, mining, biotechnology, pharmaceuticals, and special economic zone development, as well as the founding of the Joint Commission, have contributed to the restoration of relations

between the two states. On the other hand, China's increasing focus on both India and Indonesia, especially on investment and strategic policymaking, has become a challenge for both Indonesia and India, which is particularly reflected in these discussions.

Rudra Prasad Pradhan, Chhavi Rathi, and Suraj Gupta critically examined India's maritime geo-economy in their article, *Sagarmala & India's Maritime Big Push Approach: Seaports as India's Geo-Economic Gateways & Neighbourhood Maritime Lessons*. Needless to say, seaports function as gateways to trade and geoeconomics. The authors highlight maritime connection in the context of the Sagarmala project, which is regarded as India's grand maritime economic vision. According to Mahan's theory of sea power, domination of the sea makes a state a great power, in the sense that India, despite having greater access to the Indian Ocean, lacks sufficient capacity to take advantage of it. The Sagarmala project has made a significant impact in realizing India's aspiration to become a maritime power. For example, despite being a small country, Singapore is one of the world's busiest ports for international trade—which has made it one of the most relevant areas of world politics, including its economic development.

The article *India's Geo-economic Strategy* by Amit Ahuja and Devesh Kapur portrays the Indian geo-economic strategy in both theoretical and conceptual terms. They laid special emphasis on India's geo-economic strategy as well as foreign policy. They said that economic power is not only the core driver but also a more active force. In the words of Lasswell, whereas the economy was once primarily concerned with statecraft, it has now grown greatly to include aid, commerce, investment, sanctions, and other activities. In terms of financial statecraft, India is still not as powerful as China, but it is gradually improving its position. From 2000 to 2005, India had only three free trade agreements; by 2016, it had 28. However, the trade deficit is viewed as a key issue in India's trade exchanges. Furthermore, they argued that connectivity is key if geoeconomic capabilities are to be realized.

Vijay Sakhuja's book *Asian Maritime Power in the 21st Century: Strategic Transactions China, India, and Southeast Asia* are composed of eight chapters. The chapters of the book mainly highlight the multiple dimensions of maritime power—maritime geography, military maritime power, economics, political discourse of

maritime power, and strategic transactions of China, India, and Southeast Asia. The book examines the historical context of maritime power, which is backed by Mahan's theory of sea power. Also, the importance of geography in becoming a maritime power has been discussed. Where the position of both has been highlighted by the comparative discussion of India and China. On the other hand, the author has highlighted how maritime power and the economy are influencing each other. In recent times, it has been seen how politics is challenging the maritime power discourse. Overall, the author has very ably analysed the importance of maritime power in China, India, and Southeast Asia and the strategic approaches of major and middle power states in the region, which provided the foundation to build up the maritime context of the study.

The article *The Maritime Dimension of India's Energy Security* by Gurpreet S. Khurana focuses on India's energy security in the context of maritime dimensions. It is argued that as the state's development accelerates, so will its energy consumption. India is no exception to this. Since 2002, the demand for energy in India has gradually increased. Needless to say, as an energy-importing country, India is diversifying its energy sources rather than relying on a single state to keep its energy supply stable, and shipping and infrastructure are critical components in further improving the logistics system. The maritime route is as important for security and strategy as it is for a country's trade. However, India has been carrying out joint patrolling, military, and naval exercises with the Southeast Asia region and signing energy and security cooperation with several states to ensure energy security as well as security and maritime strategy. As a result, chokepoints are both strategically significant and vulnerable to terrorist attacks, which is an issue of concern for India and many other countries. One example is the Malacca Straits' critical location in the Indian Ocean.

Arnab Dasgupta, in his article *India's Strategy in the Indian Ocean Region: A Critical Aspect of India's Energy Security*, portrays the importance of the Indian Ocean to India's energy security and the strategies adopted by the Government of India. The Government of India, along with all other states, considers energy as one of the main pillars of the national security architecture. In the interest of national security, the Indian Ocean neutralizes not only energy security but also the potential for foreign aggression, especially from China. To this effect, India is pursuing a hedging strategy to maintain stability in the energy security and trade exchange—this will strengthen

India's standing in the global political realm. However, India's growing energy demand with an emphasis on environmental pollution has forced India to increase its dependence on oil and gas to reduce its CO₂ emissions. The implementation of India's ongoing TAPI project will be able to meet some of India's energy demand—this is the primary focus.

Girijesh Pant's edited book, *India's Emerging Energy Relations: Issues and Challenges*, conceptualizes India's evolving energy diplomacy, focusing on the geopolitical and economic dimensions of its energy security. This book, divided into several organized chapters, addresses specific issues in India's energy relations. Moreover, one of the major developing countries that imports energy is India. India is therefore highly dependent on nations that export oil. Through collaboration and diplomatic ties, India aims to diversify its reliance on energy. The book highlights the need for India to invest in renewable energy, diversify its energy mix, and build fair and long-lasting relationships with nations that export energy.

The edited book *Foreign Policy and Energy Security Issues in Indonesia* by Athiqah Nur Alami et al. The book consists of several chapters. Each chapter analyses in depth the multiple dimensions of Indonesia's energy security. Despite being a natural resource-rich country in Indonesia, the energy sector has failed to attract other countries due to a lack of proper foreign policy, as well as being widely challenged to meet domestic demand. These factors include a lack of distribution, insufficient fuel oil reserve capacity, an unfavourable investment climate, unfriendly tax policy construction, and so on. Moreover, Indonesia is also one of Asia Pacific's biggest energy markets. However, geopolitical conflicts have exacerbated the fragility of the energy supply chain, resulting in both conflict and collaboration. A number of key security challenges have been thoroughly examined in terms of diplomacy and energy cooperation risks. Highlighting the numerous challenges in Indonesia's energy sector and advocating measures to address them—Indonesia's entire energy discourse has been understood, which has enriched the research.

Ashok Sharma's book *India's Pursuit of Energy Security: Domestic Measures, Foreign Policy, and Geopolitics* contains six chapters that provide an overview of India's energy security discourse. First and foremost, the idea of energy security has been demonstrated theoretically, and the specific concerns affecting India's energy

security at the domestic and international levels have been discussed. Additionally, it highlights aspects including production, privatisation, energy efficiency, energy mix strategy, and energy reserves. Above all, the importance of energy security in India's energy source diversification, exploration, stake holding, and recently, foreign policy has been highlighted. It further contends that India's diplomatic focus on clean energy through the nuclear accord will boost global initiatives for sustainable development. Furthermore, it addresses India's role in energy exploration, India-China energy geopolitics, and the Great Power Game.

The edited volume *India and Southeast Asia in a Changing World: Exploring Relationship Prospects for a Sustainable Future* by Shailza Singh, Philip Varghese, Shalini Balaiah, and Sarish Sebastian encapsulates the vision of India's more active engagement with Southeast Asia in the context of changing global dynamics. This volume is categorized into three parts; each part includes various articles written by eminent scholars and academicians. They critically analysed various aspects of India-ASEAN relations, including the India-ASEAN Free Trade Agreement, the role of QUAD in shaping India's foreign policy, geopolitical connectivity, renewable energy cooperation, and promoting sustainable development. The book also highlights India's diplomatic initiatives and cultural connections with ASEAN nations, emphasizing the need for sustainable and resilient partnerships.

The book *Two Decades of India's Look East Policy: Partnership for Peace, Progress, and Prosperity*—edited by renowned diplomat and former ambassador of GOI Amar Nath Ram. Contributors of these book chapters are also former diplomates, eminent academic scholars, and journalists. This book has included six chapters. This book elaborates on what appearance of political approach India uses to engage with Southeast Asian states. What milestone did India achieve in its two phases of the Look East Policy? Moreover, first-hand experience of diplomats and journalists has been described. Overall, this book helps to determine the political landscape of Southeast Asia.

The article *India's Act East Policy and Implications for Southeast Asia* written by Amitendu Palit describes Modi's Act East Policy in 2014, aiming for a more action-oriented approach in engaging with Southeast Asian region. He emphasizes the strategic depth and geographic scope of the Act East Policy—the advancement of the

Look East Policy. How does the Act East Policy consolidate India's position in Southeast Asia? What are the potential implications of the Act East Policy on economic engagement, including trade, investment, and connectivity in the Southeast Asian region? These kinds of questions are addressed in this study.

Lipi Ghosh and Anasua Basu Ray Chaudhury's edited book—*India's Relations with Neighboring South and Southeast Asian Countries: Perspectives on the Look East to Act East Policy*—addresses India's relations with neighbouring countries in South and Southeast Asia and India's policy towards these countries. The book has organized thematic chapters. These chapters are written by different scholars. They explore the engagement between India and Southeast Asia. However, this engagement is very important for growing business and investment. Because their relationship about the culture and religion that India and Southeast Asia share. Moreover, this sharing has made the countries in the region who they are today. It is a study of India's foreign policy towards its neighbours. It also highlights India's efforts to improve maritime connectivity, trade links, and strategic alliances, especially in the Bay of Bengal region. In addition, China's growing presence in the region and its impacts on Indian foreign policy outreach are clearly defined in this book.

The edited book *The Oxford Handbook of Indian Foreign Policy* by David M. Malone, C. Raja Mohan, and Srinath Raghavan analyses a comprehensive overview of Indian foreign policy. This handbook also examines its historical evolution, key principles, and contemporary challenges. The handbook features contributions from various scholars who analyse India's diplomatic strategies, relationships with major powers, and regional dynamics. Additionally, the handbook discusses domestic influences on foreign policy, including political, economic, and social factors.

The book *Indian Foreign Policy: An Overview*, authored by Harsh V. Pant, conveys a comprehensive understanding of the Indian foreign policy framework and its evolution from independence to the present. Pant, in his book comprising sixteen chapters, highlights historical context, strategic autonomy, major power relations, regional dynamics, global issues, multilateral engagement, and current challenges. Now India is the fifth largest economy in the world, which is gradually becoming a promising destination for attracting investment. In 1991 India adopted its new foreign

policy and new economic policy, which helped to open Indian markets to foreign investors. Ideally, foreign policy is shaped by the economic interests of this state.

Vikash Chandra, in his article *Modi Government and Changing Patterns in Indian Foreign Policy*, tries to unfold the pattern of Indian foreign policy under the Modi government. He has shown that primary principles of Indian foreign policy have not been changed, but Modi's government has moved from a traditionally cautious approach to a more assertive and proactive foreign policy, aiming to enhance India's global influence. Chandra examines several aspects in his writing, including neighbourhood policy, the role of soft power, and the democratization of foreign policymaking.

The article *Introduction to the Special Issue: Theory and Practice of Connectivity in the Indo-Pacific—Spheres, Logics, and Regional Dynamics* authored by Bart Gaens, Ville Sinkkonen, Anu Ruokamo presents an overview of a comprehensive examination into the multifaceted concept of connectivity within the Indo-Pacific region. The concept of connectivity is multidimensional in its nature that connects people across the globe. Thus, connectivity has emerged as a pivotal paradigm in global politics. In this article, methods of connectivity are analysed by major actors such as China, the United States, Japan, the European Union and Russia, with special emphasis on their activities in the Indo-Pacific region.

The report *Responding to the Geopolitics of Connectivity: European Perspectives* edited by Bart Gaens, Megha Sarmah and Patrick Rueppel outlines the changing dynamics of connectivity efforts linking Asia and Europe. The report is segmented into parts with each section concentrating on a specific element of connectivity. Contributors examined connectivity ventures in Japan, the European Union and China such as Japanese Partnership, for Quality Infrastructure the European Union's Global Gateway and China's Belt and Road Initiative. The report also examines the challenges posed by competitive linkage programs, such as geopolitical competition, credit sustainability issues, and environmental impacts.

Prabir De, in his paper *ASEAN-India Connectivity: An Indian Perspective*, presents how important it is for ASEAN countries and India to be connected. He believes that if ASEAN countries and India are connected, they can do business together, share their cultures, and work together on big projects. The paper also

emphasizes some projects that can help ASEAN countries and India be connected. For example, there is the India-Myanmar-Thailand Trilateral Highway and the Kaladan Multimodal Transit Transport Project. These projects can help people and goods move around easily. He also argues that connectivity is very significant for ASEAN countries and India to work together. However, the author thinks that if ASEAN countries and India are connected, they can do business together and be more stable. The article also addresses challenges such as infrastructure gaps, bureaucratic hurdles, and security concerns.

The article *U.S.-China Competition and ASEAN: A View from Jakarta* by Phillips Vermonte outlines the context of the US-China conflict. He believes that the so-called trade war, which is one of the causes of the conflict between China and the United States, never happened. China's growing dominance of the Southeast Asian region, particularly through the BRI, is challenging the dominance of the United States in both economic and strategic spheres. As a result, ASEAN is increasingly failing to maintain its sovereignty. Needless to say, ASEAN states are maintaining their certain distance from the great powers, giving importance to their national interests. However, while China has cemented its position as the economic power engine in the region, the US continues to act as a much more reliable partner in the security context.

Riyad A. Ajami's article, *Geo-Economic Trends and Challenges Within and Across the Leading Asia-Pacific Economies*, reviews the fundamental characteristics of ASEAN's expanding economic growth in the Asia-Pacific region. Since the 1990s, ASEAN member states' liberalization has opened up larger markets in Indonesia and Vietnam, resulting in FDI inflows into the region, and will continue to do so in the next decades—which is drawing all the major powers and superpowers to the region. Therefore, India considers it as an opportunity. He suggested that greater supply chains can be built through trade exchanges, which will help reduce the risk of conflict and increase investment and trade openness. But political infighting threatens their growth prospects.

In the article *Hedging Under Realist Constraints: Indonesia's Management of China's Maritime Assertiveness*, Mohammad Waseem Malla and Durdhana Haq examines China's economic and strategic aspects. On the strategic front, China uses the Nine Dash Line to assert its claim to Indonesia's Natuna Island's exclusive

economic zone (EEZ). However, Indonesia rejected the claim and pursued a decent foreign policy without engaging in direct conflict with China. Because of China's significant investment in the economy, the billion-dollar trade has rendered Indonesia economically dependent on China. However, to diversify its economic dependency, Indonesia is joining international and regional organizations, including ASEAN, BRICS, UNO, and WTO on the one hand, as well as choosing a third party instead of China and the US in the field of security. Indonesia's hedging strategy is clearly reflected in maintaining relations with these two adversaries. Needless to say, Indonesia's hedging strategy aspect has made its foreign policy particularly dynamic.

The book *Trade Regionalism in the Asia-Pacific: Developments and Future Challenges*, edited by Sanchita Basu Das and Masahiro Kawai, has been organized into five themes, including The Trans-Pacific Partnership (TPP) Agreement, The Regional Comprehensive Economic Partnership (RCEP) Agreement, Regional Economic Integration: A Multi-Stage Approach, Old and Emerging Approaches to Asia-Pacific Regional Integration, and Asia-Pacific Regional Integration: Towards Convergence?— According to each theme, several scholars have enriched it with their writings. They have basically highlighted and analysed security issues in multiple dimensions. The topics covered include trade negotiations, trade agreements involving China, Malaysia, and Japan, reflections, the RCEP agreement, integration, the ASEAN FTA, APEC and its challenges, the Pacific Alliance, and the importance of mega trade agreements. In each chapter, the latest issues are addressed in a systematic manner. Which enabled understanding the international context of the trade ecosystem of this study.

Adam B. Lowther edited book *The Asia-Pacific Century: Challenges and Opportunities*, which consists of 13 chapters and contains research papers from different scholars. The book focuses on the Asia-Pacific region. Economic prosperity, conflict, crisis, economic warfare, US-China power politics, US-China policy, major power politics in Pacific countries, security, the diplomatic war in the South China Sea, and nuclear strategy, as well as other topics, were covered, resulting in a comprehensive overview of the Asia Pacific region. India's international position, especially the challenges and opportunities of the major powers in the US-China conflict, has been discussed. It is also widely perceived how relevant the Asia-Pacific

is in the commercial sector. Above all, the editor has highlighted the research findings through focus group analysis, which has strengthened the research in the issue.

The edited volume *Multilateralism in the Indo-Pacific: Conceptual and Operational Challenges*, by Swaran Singh and Reena Marwah, has been divided into two sections. These two sections have been completed through the writings of several contributors. The two sections are i. Decoding New Trends and Templates and ii. New Regional Institutional Initiatives, respectively. The book consists of six chapters in the first section and eight chapters in the second section. The first section focuses on multilateralism, ASEAN centrality, and the climate change challenge—which has made it possible to get a clear idea about the geopolitical and economic context and importance of pluralism in recent times. The second section, on the other hand, is dedicated to international regional institutions, with a particular emphasis on engagement, foreign policy, and increased attention to regional institutions such as QUAD, RCEP, BIMSTEC, and IPOI. So, the balance of power, along with regional prosperity—economic policy, strategic engagement—has significantly contributed to the development of a new paradigm of effective global politics, which has elevated collaboration rather than competition among nations to new heights. In the context of research, the significance of regional structure is especially evident.

The article *Cross-Border Collaboration: India's UPI Success Story in Indonesia (A Case Study on Unified Payments System)* written by Anand et al.'s analysis of UPI's Indonesian expansion offers a compelling case study in cross-border fintech diffusion, linking Nye's soft power framework to tangible economic outcomes. Theoretically robust, it traces technology transfer evolution from direct handover to collaborative models, enhanced by 5G interoperability. However, methodological weaknesses undermine rigor: survey data lacks specifics on sample size or validity, while "results" sections present aspirational claims without empirical metrics. Real-world implications are profound—UPI could accelerate Indonesia's financial inclusion (projected 20-30% GDP uplift via credit generation)—yet overlooks regulatory frictions and cybersecurity risks. Future research must prioritize longitudinal data to validate scalability in ASEAN contexts.

In the article *Indonesia's Balancing Act: Between Contestation and Cooperation* by Mohmad Waseem Malla & Durdhana Haq incisively dissects Indonesia's "de-

hyphenation” strategy, decoupling economic pragmatism from South China Sea sovereignty via Nye’s hard-soft power spectrum. Theoretically sharp, it links *bebas aktif* doctrine to BRICS accession, enabling Jakarta to hedge Chinese FDI (\$7.3B in 2023) against Natuna EEZ incursions while leading ASEAN’s Code of Conduct push. Critically, it underplays domestic political risks—Prabowo’s \$10B Xi deal (Nov 2024) may erode ASEAN unity, amplifying intra-bloc fissures amid claimant states’ scepticism. Real-world fallout: Potential 15-20% fishery revenue loss if nine-dash line gains traction, undermining Jakarta’s 2045 Golden Vision. Future: Longitudinal BRICS impact studies needed for multipolar efficacy.

Temjenmeren Ao in his article *India-Indonesia Comprehensive Strategic Partnership* provides a comprehensive genealogy of India-Indonesia ties, tracing civilizational roots (200 BC) through Cold War estrangement to contemporary CSP frameworks. Theoretically grounded in security studies, it maps bilateral convergence across maritime corridors, energy SLOCs (97% trade-dependent), and terrorism/separatism mitigation post-9/11 and 1998 democratization crises. Empirically robust with GDP trajectories and bilateral trade data (\$21.12B by 2018-19), the analysis illuminates Indonesia’s *bebas-aktif* doctrine and India’s Look East to Act East pivot. However, it underestimates China’s infrastructure leverage post-2018 (Belt and Road’s \$40B+) and lacks quantification of joint military exercises’ deterrent effects on South China Sea incidents. Critical gap: no assessment of CSP’s resilience amid competing Indo-Pacific alignments (QUAD vs. BRICS friction).

The article *Get Smart: Combining Hard and Soft Power* authored by Joseph S. Nye, Jr. represents a pivotal reframing of international relations theory, introducing *smart power* as a synthesizing construct to transcend the false binary between coercive (hard) and persuasive (soft) modes of statecraft. Published in the twilight of the Bush administration’s unilateralist foreign policy, the piece articulates a neo-Institutionalist response to structural realism’s militaristic determinism, arguing that legitimacy and attraction—historically dismissed as epiphenomena—constitute measurable, deployable power resources.

The report *From Look East to Act East: India’s Changing Posture in the Indo-Pacific and the Containment of China* by EFSAS India’s Act East Policy pivot charts India’s geostrategic repositioning from 1991’s protectionist Look East toward Modi’s

2014 assertive Act East doctrine, framed as counterweight to Chinese assertiveness. Empirically rigorous with FDI/trade data (\$72B ASEAN volume by 2018), it traces LEP's regional economic limitations (India-ASEAN trade deficit widening; China's FDI outpacing India 4:1) and AEP's security-infrastructure synthesis (Trilateral Highway, Quad membership, bilateral naval cooperation). Analytically sharp on FOIP-Quad alignment against South China Sea expansionism, yet under develops implementation bottlenecks: Myanmar's 85% unpaved roads, NER separatism, and India's ongoing non-alignment rhetoric versus de facto QUAD containment signalling. Critical gap: no modelling of AEP's sustainability if China escalates economically via RCEP alternatives.

Research Objectives:

- To understand the economic importance of Indonesia from India's core strategic perspective.
- To understand the policy approach of the Indian government towards building better business relations and energy security with Indonesia from 1991 to 2023.
- To trace the evolution of business relations and connectivity between India and Indonesia from 1991 to 2023.
- To understand the challenges in building better economic engagement.
- To identify the foreign economic policy (FEP) dynamics required for building better economic relations between India and Indonesia in the 21st century.

Research Questions:

- How important is strategic positioning for building business relationships, and how does it work?
- How has the growing energy demand in India and Indonesia impacted the trade relations between the two?
- How have business relations between India-Indonesia evolved from the Look East Policy to the Act East Policy?
- What role does connectivity play in the advancement of bilateral relations between India and Indonesia?

- What are the major security threats to India and Indonesia's trade relationship, and how can they work together to minimize major power conflicts and regional disputes for their economic advancement?
- How has the ASEAN-India FTA impacted supply chains to enhance bilateral relations between India and Indonesia, and what new economic dimensions have been created as a result of this policy between the two countries?

Research Methodology:

The present study is primarily qualitative in nature. Therefore, this study has attempted an exploratory method to address the given research questions. Both primary and secondary data have been used in this research. Primary data have been gathered from the government's white paper, archival data, government and international organizations' annual reports, and selected experts' interviews. Thus, interviews have been employed to understand connectivity issues and trade possibilities between India and Indonesia in general.

The interview questionnaire is unstructured, and the questions are open-ended. Based on the significance of this study, interview participants were selected using judgmental sampling. Books, journals, articles, web-based articles, reports, figures, and monographs have been used as secondary data. Owing to the importance of this research, secondary data are considered a major data source that facilitates articulating this research. Finally, the collected primary and secondary data have been analysed interpretively.

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Chapter: II

Examining India's Energy Security Policies and Its Economic Engagement with Indonesia in Light of Their Economic and Geostrategic Importance

In the early twenty-first century, the Western scholar George Perkovich did not consider India a self-sufficient major power based on a comprehensive review of its society, economy, international trade, political cohesiveness, military capability, and strategic diplomacy. Moreover, he felt that India could become a significant power if all of the barriers to its growth were removed (Perkovich, 2003). However, in the context of India's strong position in the dynamics of contemporary world politics, Western researchers such as Zbigniew Brzezinski and David A. Robinson, as well as Chinese scholars Zhang and Zhao Hong, have recognized India as a major power (The Economic Times, 2024). As reported by the Beijing Review, with its 1.1 billion population seventh largest land mass and strategic location on the Indian Ocean Rim, India has everything necessary to become a major power (Hong, 2007). The end of the Cold War led to the emergence of the United States as the sole superpower, as well as the emergence of uni-multipolar dynamics in the international world order. During this period, India adopted a neoliberal economic model, ending its long-standing 'mixed economy' system. But the main objective of this economic reform was to connect the Indian market with the global market system. However, India's embrace of globalization and liberalization in a completely open manner brought about a paradigm shift in India's economic posture (Ibid.). India's new independent foreign policy, known as the Look East Policy, makes this economic shift more effective. On the one hand, India has rebuilt its economic relations with the rich economies of Southeast Asia through its Look East Policy to diversify its one-way trade with North America and Europe, India's main trading partners. Southeast Asian countries, on the other hand, support India's initiative to lessen dependence on Western countries, especially Japan and China, and welcome India as an ASEAN sectoral partner (Ibid.). Zhao Hong states India realized that if it is wanted to have a significant role as a major power,

complete its transition from a “South Asian regional power” to an “Asian major power,” and eventually become a “major world power,” it must develop political and economic relations with ASEAN, using ASEAN as a bridge with which to connect itself to East Asia (Hong, 2007).

Indonesia is the largest and most powerful country in Southeast Asia. At the same time, Indonesia is regarded as one of the regions and Asia’s major strategic players in terms of GDP. However, over the last two decades, Indonesia has emerged as a “lynchpin state” of India’s eastward-looking policy (Shekhar, 2010). It has already been discussed that the history of India-Indonesia relations is not contemporary; the seeds of the depth of this relationship are more than 2000 years old (Trivedi, 2010). While similarities between the societies, cultures, and politics of the two countries have been noted in the past, they are particularly reflected in the contemporary context of the China threat, maritime security, and issues and challenges of geoeconomics (Shekhar, 2010).

Indonesia, which is at the centre of contemporary world politics, is considered the quintessential Indo-Pacific power. But it has a geostrategic background. Cartographically, Indonesia is bordered by the Indian Ocean to the north, the South China Sea to the south, and the Pacific Ocean to the east. David Scott has described Indonesia’s geographical location as a “strategic funnel” (Scott, 2019). On the other hand, Vibhanshu Shekhar referred to Indonesia as an inward-looking and sea-blind state (Shekhar, 2018). However, in recent years, the expansion of maritime power has dominated regional and international affairs. Nonetheless, this maritime power is generated via sea routes, coastal areas, and shipping chokepoints (Scott, 2019). The total coastal area of present-day Indonesia is 54,716 square kilometres, and the total maritime space is 5.8 million square kilometres, which is only 75 percent of the mainland of Indonesia. At the same time, the Indonesian archipelago is surrounded by four chokepoints, namely the Malacca, Sunda, Lombok, and Makassar straits (Shekhar, 2018). However, it should be noted that ‘straits and checkpoints are the most important factor of geostrategic space at sea’ (Sakhuja, 2011).

On the other hand, Prakash Gopal and Indra Alverdian argue that ‘the Indian peninsula occupies a dominant position in the eponymous ocean, proximate to critical shipping lanes that fuel Asia’s economic growth’ (Gopal & Alverdian, 2021). In modern times, India, as the emerging major power in Asia, does not share a

geographical boundary with Indonesia, but according to cartography, Indonesia is one of India's maritime neighbours. The distance between India's Indira Point and Indonesia's Aceh province is just 162 kilometres (Jha, 2008). In the context of international political analysis, Clinton referred to the region as a "key driver of global politics" in the framework of India and Indonesia's mutual maritime relations (Clinton, 2011). Indonesia pursues a proactive approach to India, not because of India's liberalization agenda or previous contacts, but for two distinct reasons. Firstly, India is not only the maritime neighbour of Indonesia but also a very significant regional power. Second, despite being Indonesia's largest trading partner, China has never been a reliable partner, mainly due to its support for the past 1965 coup and the 1998 anti-Chinese riots. Therefore, in this context Indonesia perceives India as a reliable partner (Jha, 2008).

In the light of economic relations, it cannot be denied that India-Indonesia bilateral relations have been significantly influenced by geopolitics. However, in recent times, the interaction between economics and geopolitics has emerged as one of the major risks. Professor Damuri et al., however, the interaction of economics and geopolitics has been defined as multifaceted and bidirectional. They argue that 'a closer security relationship can lead to a closer economic relationship between states. On the other hand, increased economic development/integration can lead to closer security relationships' (Damuri et al., 2023).

Indonesia became a strategic epicentre in the larger setting of the recent Indo-Pacific due to its geopolitical architecture, although neither Sukarno nor Suharto could project Indonesia as a powerful maritime power following independence. However, Sukarno and Suharto provided the framework for the emergence of maritime discourse in Indonesia with the 'Archipelagic State Principle' (Djuanda Declaration) and 'Archipelagic Outlook' (Wawasan Nusantara) (Shekhar, 2018). However, in his first official speech after Joko Widodo came to power in 2014, he laid special emphasis on Indonesia's maritime potential and maritime capabilities. At the same time, he declared that *'For too long, we have turned our backs on the ocean, the straits, and the bay. This is the time for us to restore this sector so that we can prosper like our ancestors'* (Ibid.).

Incidentally, before analysing Indonesia's maritime power and potential, it is necessary to examine the country's geopolitical architecture. Because geopolitical architecture is generally viewed as the means by which states gain access to, control, and regulate the intersection of territory and flow, establishing internal or external, domestic or international boundaries (Dodds, 2019). Evan Laksmana, on the other hand, defines Indonesia's geopolitical structure as three blocks: geostrategy, geoeconomics, and geopolitics, collectively known as the 'strategic trinity' (Laksmana, 2012). As a result, it is impossible to deny that these three factors play equal roles in the development of bilateral ties. Thus, the question is, where is the mutual economic and geopolitical interest in India-Indonesia bilateral trade relations? And how does it affect your relationship with them?

Professor Sanjaya Baru, while analysing geo-economics, said that it is 'the relationship between economic policy and changes in national power and geopolitics' (Chacko, 2014). Therefore, geo-economics is mainly interlinked with national power and geopolitics. For example, Indonesia's location at the confluence of the Indian and Pacific Oceans not only strengthens its national security, power, and geostrategic importance, but it also ensures its maritime economy and geo-economy with massive gas and oil reserves. However, India is attracted to Indonesia for its energy security interests, which are reflected in the large amount of Indian investment. Essentially, India is one of Indonesia's largest buyers of coal, which is considered one of the cheapest sources of electricity (Dutu, 2016). Indonesia, on the other hand, considers India as the most relevant and reliable nation for maintaining economic stability and gaining uninterrupted access to the global commons. At the same time, it is working with India as an alliance partner to eliminate significant security challenges in the Indo-Pacific region (Gopal & Alverdian, 2021).

The above sections of this research chapter have already discussed the geostrategic significance of both India and Indonesia along with their geographical location and their mutual economic interest. But what is the significance of the bilateral trade relationship between India and Indonesia in terms of geopolitics? And India's growing energy demand—is it possible to ensure India's energy security through Indonesia-India relations? Or what alternatives do both countries have to ensure energy security? These two areas have been examined in terms of research objectives

in two sections based on specific theories, which will help in understanding the underlying epistemology of the thesis.

Vijaya Sakhuja, in his book ‘Asian Maritime Power in the 21st Century,’ has mentioned the specific topography of the state as one of the key determinants of national strategy. Needless to say, such a strategy plays a very significant role in the development process of the state. The geographical features defined by Sakhuja are islands, straits, rocks, reefs, and coastlines. All these strategic factors of the landscape together make a very critical contribution to both commercial shipping operations and maritime strategy (Sakhuja, 2011). Interestingly, Indonesia’s geographical location, on the one hand, weakens its foreign policy and national security, but on the other hand, makes it a very significant factor in the Indo-Pacific order (Lakshmana, 2012). Thus, India’s national outlook towards the sea—India’s interaction with the littoral states of the Indian Ocean Region and maritime security engagement—has become a cornerstone of its regional foreign policy initiatives (Pandalai, 2022).

K.M. Panikkar highlighted the *‘need for entrenched strategic engagement with wider Indo Pacific littorals in order to ensure the security of India’s maritime frontiers and her seaborne trade’* (Ibid.).

In the twenty-first century, the concept of ‘maritime power’ is regarded as a new paradigm in the emergence of a global economic order. Examples include the Srivijaya dynasty of Southeast Asia in the 7th century, as well as the Indian Chola dynasty’s maritime dominance and sea voyages in the 10th century. Later, however, Western powers, particularly the United Kingdom, Germany, and France, emerged as formidable maritime powers (Sakhuja, 2011). However, this maritime power was given a definite shape by the famous American naval strategist Sir Alfred Thayer Mahan. He addressed *‘sea power as the ability of a country to use the oceans for national advantage and argued that nations seek sea power as a great highway that provides a means of cheap transport’*. He added that *‘nations could not aspire to be a great power unless it effectively used the sea for both commercial and military purposes’* (Ibid.).

In the words of Mahan, becoming a great power of a state means ‘being a sea power’. In his book, “The Influence of Sea Power upon History 1660 to 1783,” Mahan outlined six principles for analysing the nature of sea power. These are:

- I. Geographical Position,
- II. Physical Confirmation,
- III. Extent of Territory,
- IV. Population,
- V. Character of People, and
- VI. Character of the Government (Manship, 1964).

The first element that Mahan referred to in his theory of sea power was geographical position. Because he realized the state's geographical location provides a strategic advantage, while the wider seaborne trade route provides access and control of the world supply chain. However, he was particularly inspired by the geographical position of Britain in the formulation of his strategy. For example, the English Channel provides both strategic advantage and access to trade routes for England. Similarly, in the case of both India and Indonesia, the Indian Ocean and the Pacific Ocean, above all, provide seaborne trade route access and control along with the strategic advantage of the Malacca Straits. Thus, geographical location is a very crucial aspect of India-Indonesia bilateral relations, as evidenced by this principle of Mahan.

The second component of the theory of sea power is physical conformation. In adherence to this policy, he undertook an in-depth investigation, mainly of the coastline and adjacent ports. He argued that if a country has access to the sea but does not have a large port, it is at a greater disadvantage in managing seaborne trade. However, India and Indonesia have coastlines of 7517 square kilometres and 54716 square kilometres, respectively (Pradhan et al., 2022). Nevertheless, both the states do not have the standard major ports and harbours required to make proper use of this coastline. Therefore, in terms of major ports and harbours, both India and Indonesia, despite having access to a larger coastal area, are lagging far behind other countries in terms of handling seaborne trade. It is also worth mentioning that domestic road and rail connectivity with ports and harbours plays a special and very effective role in the advancement of trade. However, in this case, both states are at the underdevelopment stage. Indonesia's intra- and inter-island connectivity is currently extremely limited, which is considered to be one of the main obstacles in Indonesia's trajectory to becoming a sea power. Therefore, in contemporary times, highly accessible

connectivity with major ports and harbours not only strengthens maritime trade but also contributes significantly to the state becoming a sea power.

In his sea power theory, Mahan mentioned the third factor in a state becoming a sea power, which was extent of territory. He believed having better access to the coastline was more significant than having a broader geographical region. At the same time, he mentioned access to overseas coastal areas in order to become a sea power for the state. Pradhan et al., stated that the ‘coast line of a given country is a strategic natural asset for hoisting an efficient maritime economy’ (Ibid.). However, while there is not much difference between the second and third elements, the establishment of control over the seaborne trade route by building relationships with coastal states in military or economic capacity makes a subtle but significant difference. In the context of bilateral trade relations between India and Indonesia, Indonesia’s strategic location, particularly control of the Malacca Straits, has secured India’s economic and strategic advantages, while India’s capable navy and greater market access have ensured strategic stability in Indonesia’s maritime security and Indo-Pacific dynamics.

Population is the fourth pillar of sea power theory. With regard to Mahan’s argument, the people of a state play a very significant role in the development of that state’s sea power. If the majority of the state’s population relies on the sea for a living, the people have strengthened their maritime trade. In addition, the government adopts appropriate policies to promote this maritime trade, but it also indicates the development of sea power. However, about 60% of Indonesia’s population depends on the sea (Rudiarto, 2018). On the other hand, about 37% of India’s population makes its living directly and indirectly by sea (Press Information Bureau, 2010). As a result, since a major portion of India and Indonesia lives by the water, the sea is extremely significant as one of the most cost-effective and important trading routes. To this end, India and Indonesia have launched the ‘SAGAR Initiative’ and the ‘Global Maritime Axis’ project, respectively, to take the practical use of the sea to the zenith of development. Therefore, in the context of building bilateral relations, these projects are expected to increase the maritime power of the state as well as improve mutual trade engagement.

The fifth and sixth elements of sea power theory are character of people and character of government, respectively. In his thesis, Mahan refers to the goodwill,

enthusiasm, and involvement of the people regarding maritime trade, where people's acceptance of the deployment of new technology as well as strong awareness of national security functions as a catalyst for the development of sea power. Similarly, in his study of the Character of the Government principle of sea power theory, Mahan referred to the state or government's willingness and keen interest for maritime trade, rather than the people as previously. He also commended the government's many policies and actions to ensure maritime trade and security as extremely positive moves toward boosting sea power. So, both the states of India and Indonesia have launched a series of policies and projects to enhance their sea power, which has already been mentioned in the fourth policy. At the same time, the people of both states are very conscious of further enhancing their maritime activity and engaging themselves more in the interest of national security. Therefore, both these elements of the theory of sea power have been considered appropriate for both India and Indonesia (Menon, 2021).

Although this theory, developed over a century ago, has been questioned by many strategists in the twenty-first century, the sea power theory played a significant role in America's rise to great power status at the time. Although Mahan's theory of sea power cannot be explained owing to many factors such as connectivity, technology, globalization, sustainable development, and energy security in today's changing world dynamics, elements such as geographical position, physical conformation, and government character are still very relevant as a core strategy in the growth of sea power.

As previously noted, the strategic geographical location is considered one of the key routes for increasing the maritime capabilities of the state as well as increasing trade exchanges. In that sense, one of the conditions for the success of geostrategy is the effective use of geoeconomics. According to geostrategy, geographical location is considered the primary key factor, so on the one hand, it strengthens geopolitics, and on the other hand, it gives geoeconomics a unique dimension. As stated in the first principle of Mahan's 'Sea Power Theory,' geographical location acts as one of the catalysts for the growth of maritime trade. So geographical location provides a special advantage to geoeconomics.

There is no doubt that India and Indonesia have significantly improved geoeconomics in the Indian Ocean region through the effective use of their unique

geographical locations. However, both countries have launched multiple initiatives to defend them, including India's 'SAGAR Initiative' and Indonesia's 'Global Maritime Axis.' Therefore, the geographical location of India and Indonesia has a special relevance in the construction of bilateral trade relations, which has been presented in the light of the research question in the comprehensive examination of the above two projects undertaken by both countries.

In 2015, the then Prime Minister of India, Shri Narendra Modi, in his address to the Parliament of Mauritius, mentioned the SAGAR (Security and Growth for All in the Region) Initiative to promote geo-economic cooperation, peace and stability, and maritime interests among the Indian Ocean countries (G. Padmaja, 2018). It represents the nexus of maritime cooperation, naval security, and economic development. At the same time, this initiative promotes collaboration between non-state actors in the development of trade, tourism, and infrastructure by other agencies (Kanodia, 2020).

However, India's SAGAR initiative is mainly based on five pillars, which represent the current 'Maritime Outlook of India'. The five pillars are:

- I. Maritime security corporation which focused on bilateral and multi-lateral relations.
- II. Trade and economic integration enhancing the prospects of blue economy with regional partners.
- III. Capacity building and disaster management which consisted of maritime infrastructure development and humanitarian assistance.
- IV. Sustainable development of maritime resources, and
- V. Connectivity and infrastructure which includes the construction of ports naval bases and provision of digital services in the region (Tuckfield, 2025).

As a result, India's SAGAR Initiative prioritizes economic engagement in addition to providing net security in the Indian Ocean. Essentially, India initiated the 'Sagarmala' Project in 2015 under its 'SAGAR' Initiative, also known as India's

‘Grand Maritime Geo-Economic Vision (2015-2035)’ (Pradhan et al., 2022). The Sagarmala Project, led by the Ministry of Ports, Shipping, and Waterways, ushered in a revolutionary change in the Indian maritime sector. Some of the areas the project focuses on are:

- I. Modernization and New Port Development**—It has prioritized the construction of new ports in addition to the upgrading of existing ports to boost capacity and efficiency, as well as the introduction of modernization, processes, and computerization in port operations.
- II. Port Connectivity Enhancement**—It is closely focused on enhancing connectivity between the port and port-adjacent regions, as well as optimizing both the time and cost of transporting goods. At the same time, it has further developed inland waterways and coastal shipping to ensure seamless movement of goods.
- III. Port-Led Industrialization**—It encourages the construction of industrial clusters near the port, promoting economic development and reducing logistic costs. Thus, all these clusters attract industries, which makes the proximity and transportation of ports more effective.
- IV. Coastal Community Development**—Its objective is to help coastal communities progress by providing opportunities for skill development and livelihood generation. However, it is incorporated in projects aimed at promoting fisheries, coastal tourism, and improving the well-being of local communities.
- V. Coastal Shipping and Inland Waterways Transport**—It encourages freight transportation via coastal and inland waterways, minimizing dependency on rail and road networks. It is an environmentally friendly effort of the Indian Government’s Transport Project that has helped to alleviate rail and road traffic (Kumar et al., 2025).

However, out of 839 projects launched in 2015, 272 projects have been completed under the ‘Sagarmala Programme,’ resulting in 118% growth in coastal

shipping. Inland waterways cargo movement has been up 700%. Furthermore, nine Indian ports have been ranked among the world's top 100 ports. However, Vizag Port has confirmed its position in the top 20 (Ibid.). As a result, this mega project in India has improved logistics infrastructure and shipping on the one hand. On the other hand, India has developed Coastal Surveillance Networks (CSN) with the Maldives, Mauritius, Sri Lanka, and Sicily, providing it a comprehensive strategic advantage in the region. Similarly, India's Act East Policy prioritizes the formation of CSN in Southeast Asia (Kanodia, 2020). Therefore, in the context of India-Indonesia bilateral trade relations, the Sagarmala Project is particularly essential in economic engagement and shipping, as well as in providing security to the coastal areas of Indonesia, including the Malacca Straits (see figure 2.1). As a result, India has strengthened its engagement with Indonesia geo-strategically and geoeconomically.

India's Sagarmala Project Road & Port Network

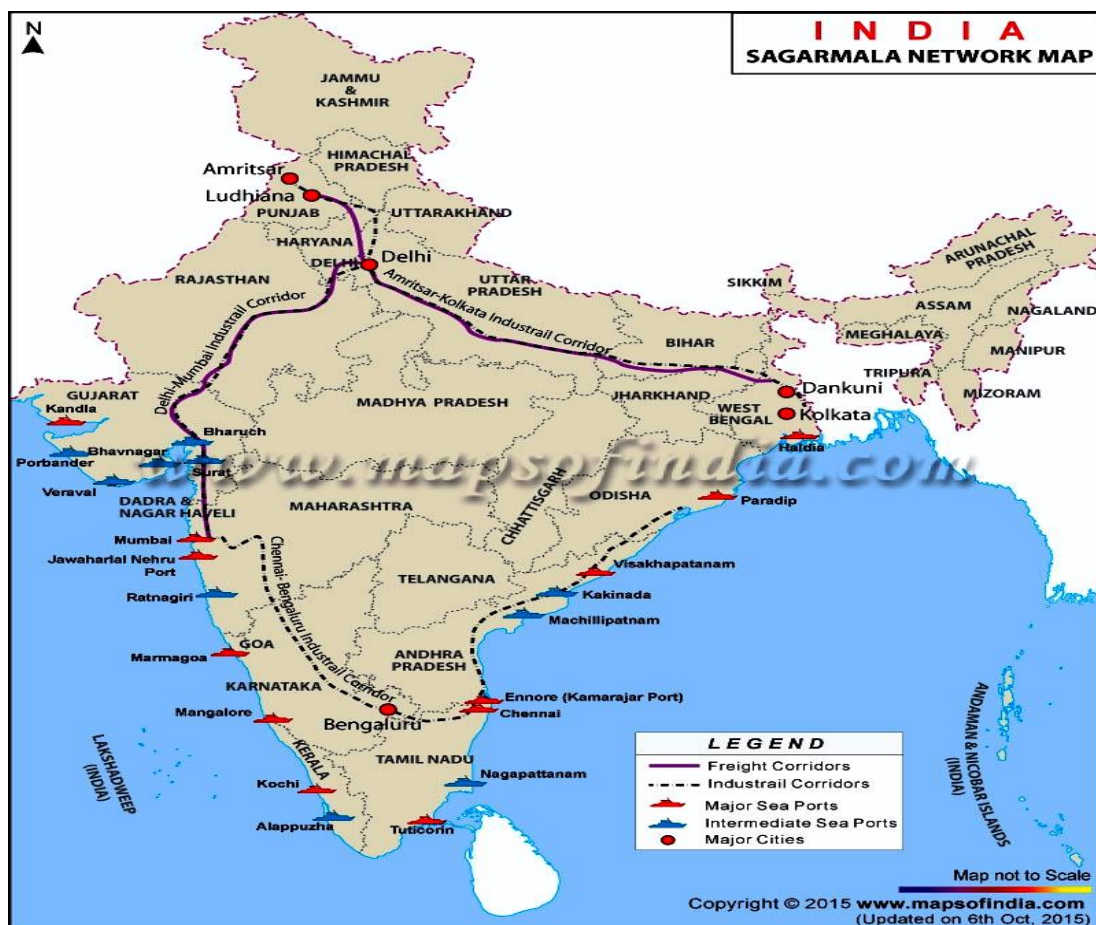


Figure: 2.1

Source: <https://www.mapsofindia.com/maps/india/sagarmala-project-network-map.html>

After coming to power in 2014, Joko Widodo proclaimed in his inauguration speech that “*oceans are the straits and bays of the future of Indonesia’s civilization*” (Sambhi, 2015). At the same time, he proposed to develop strong maritime security, infrastructure, and connectivity in the areas surrounding its borders. In fact, he proposed the construction of the maritime axis again in his major speech at the East Asia Summit (EAS) held in Naypyidaw in November 2014 to realize this goal.

Joko stated that “*the geo political and geo economic gravity in the 21st century had shifted to the Asia Pacific, with the sea increasingly important for the future. Amidst significant and geoeconomic changes, Indonesia had to reorient itself as a ‘Global Maritime Axis’ and as a power between two oceans*” (Ibid.).

At this EAS meeting, Joko raised five pillars to articulate his ‘Global Maritime Axis’ concept, which are:

- I. Rebuilt Indonesia’s maritime culture and recognise the intrinsic link between the country’s identity, livelihood, and future with the sea.
- II. Improve management of Indonesia’s ocean resources, focusing on food security, through the development of the fishing industry for instance.
- III. Priorities maritime infrastructure and connectivity by improving ports logistics shipping and maritime tourism.
- IV. Use maritime diplomacy to eliminate conflicts caused by illegal fishing, sovereignty breaches, territorial disputes piracy and marine pollution and
- V. Develop maritime defence forces to both support Indonesia’s sovereignty and wealth and to maintain navigation safety and maritime security (Ibid.).

Therefore, while the ‘Global Maritime Axis’ provided a major focus on Indonesia’s geostrategic and geoeconomic areas, the Global Maritime Axis has now become an important factor in Indonesia’s identity, economics, and defence. At the same time, it should be said that through the Global Maritime Axis, Indonesia has

begun to pay special attention to further enhancing bilateral cooperation with its foreign partners.

In this context Ristian Atriandi Supriyanto argues that ‘*corporation can now extend beyond material assistance to maritime security policy making and the training of personnel*’ (Supriyanto, 2014).

In 2015, Indonesia’s Ministry of National Development Planning began its mega project, ‘Tol Laut,’ also known as ‘Sea Toll,’ to implement the third of the five pillars of the Global Maritime Axis, which Joko proposed at the EAS in 2014. The ‘Tol Laut’ project aims to accelerate transportation and connectivity between Indonesia’s major ports, such as Belawan of North Sumatra, Tanjung Priok of Jakarta, Tanjung Perak of Surabaya, Makassar of South Sulawesi, and Sorong of Papua (Wicaksana, 2017) (see figure 2.2). The Tol Laut project also examines a number of areas that are considered to be the key objectives of this technology, namely:

- I. Enhance Inter-Island Connectivity**—It emphasizes building a strong connectivity between major ports. At the same time, the establishment of regular shipping schedules has made the transportation of vessels more efficient and transparent.
- II. Strengthen the Port Infrastructure**—With this objective, the old ports will be renovated, as well as the construction of several new ports, which will be equipped with state-of-the-art technology. This includes a multimodal logistic chain. At the same time, it encourages reducing logistic time and transportation cost.
- III. Reduce Price Disparity**—Reduce the excessive price of products in the remote and underdeveloped region of Indonesia, especially in Eastern Indonesia. Additionally, it aims to ensure that vessels can deliver basic goods to remote ports at a fixed price.
- IV. Stimulate Economic Growth**—Ensure that local producers, especially farmers and fish farmers, have better access to markets. Furthermore, a number of initiatives are taken to attract foreign investment (Negara & Das, 2017).

Indonesia's Sea Toll Road Network

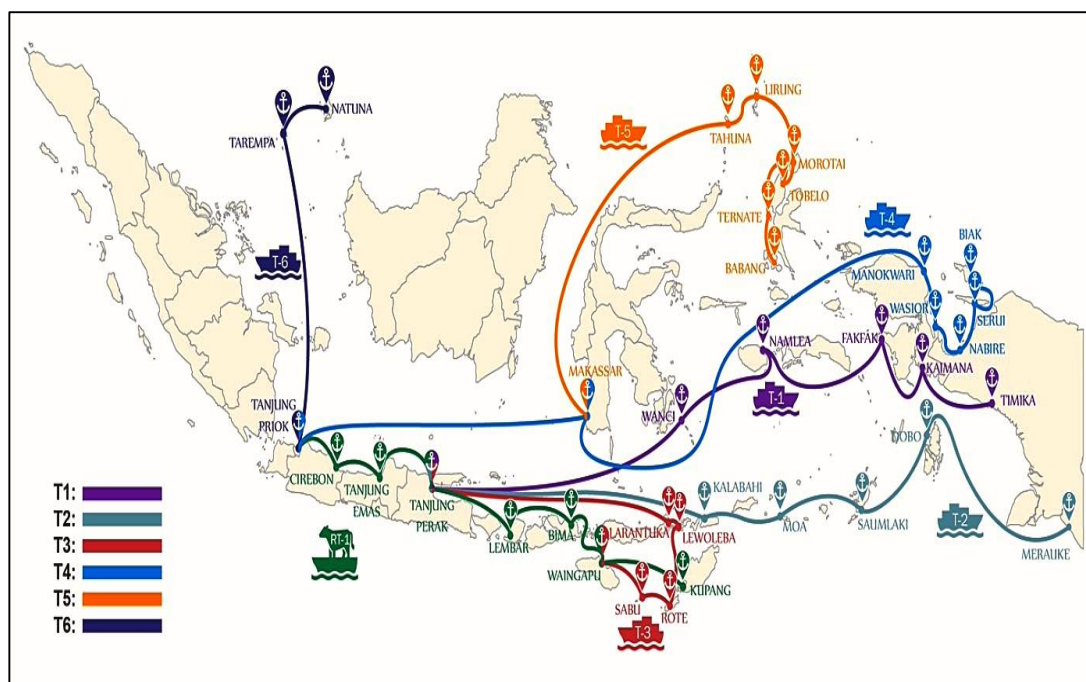


Figure: 2.2

Source: <https://www.its.ac.id/seatrans/id/studi-kelayakan-kebutuhan-armada-kapal-terkait-program-tol-laut/rute-tol-laut/>

In view of the above, there is no doubt that the Tol Laut project, launched in 2015, has achieved many of its goals in the contemporary phase. As a result, one of the project's achievements is a 30% reduction in the wage disparity between Indonesia's western and eastern regions. At the same time, 39 roads in Indonesia are now connected to 115 ports, allowing the people of the remote region of Indonesia to access more stable and affordable goods. On the other hand, cargo shipment increased by 20.5% (Waluyo, 2024).

To make its Global Maritime Axis successful in the face of shifting global dynamics, Indonesia, however, presented a grand logistics and transportation project in 2015. Presently, the project has achieved all of its previously mentioned goals. Therefore, Indonesia is implementing the geo-economic goal through the Tol Laut project to restore its former maritime power status. At the same time, Joko decided to link Tol Laut with China's BRI project. However, while it provides a boost to Indonesia's geo-economic sector, it also poses a challenge to geostrategy. Based on the Yermia study, *'the majority of Indonesian people view China as a threat rather than an opportunity. China's foreign policy initiative is an endeavour to establish itself as*

a dominant global player'. As stated in this report, China only wants to encircle the whole of Indonesia with its BRI project (Iksan et al., 2024).

Joko Widodo has also faced a number of domestic challenges in implementing the project, including domestic political instability, territorial disputes, a lack of diplomatic capacity, the Natuna Island dispute with China, and the US-China dispute. However, it is argued that this Indonesian project exemplifies the 'Indonesia Vision 2045' in greater detail, i.e., this project has expanded Indonesia's geoeconomic and geostrategic sectors on the path to becoming Indonesia's maritime power. Similarly, India is reinforcing its move to being a leader in the blue economy by ensuring the 'Maritime Amrit Kal Vision 2047' through its Sagarmala Programme, which is also bolstering India's maritime industry. As a result, it can be said that both nations' particular visions in the context of India-Indonesia bilateral ties have boosted the state's potential to become a maritime power.

Energy Security: A Dynamic Perception of World Politics

The emergence of multiple major powers in the rapidly changing world order, such as India, Brazil, Japan, China, Australia, and South Africa, indicates a greater development of semi-periphery and periphery states. Needless to say, in line with this overall development, energy demand has accelerated at an ever-increasing rate (Khurana, 2007).

Girijesh Pant argues that '*energy today is not national but global concerned*' (Pant, 2015).

On the other hand, Bhupendra Kumar Singh stated that '*energy is the lifeline of economic development*' (Singh, 2010).

Therefore, energy is being considered as a strategic commodity in recent times, not just as a market commodity. However, to avoid potential threats, states are considering energy as a significant discourse in their national security frameworks to strategize and secure energy supplies. Consequently, energy is becoming one of the most important aspects of domestic and foreign policymaking in the context of growing demand in India, China, Indonesia, Vietnam, and many other countries.

Energy security, however, has emerged as a major global political issue in contemporary years, with renewable energy receiving particular attention because of Russia's declining ties with the United States and Western nations, the annexation of Crimea, the conflict between Russia and Ukraine, the global trade war with the United States, the Israel-Iran conflict, and environmental problems worldwide. Needless to say, the massive increase in energy demand over the past two decades in Asia Pacific countries with energy deficits, including India and China, has greatly accelerated energy security.

Essentially, what does energy security mean? How significant is energy security from a strategic perspective? How much does energy security affect both India and Indonesia in building commercial relations? For a deep understanding of energy security, the research issue from the second section of the chapter has been analysed.

It was previously pointed out that energy has become an integral part of the present-day state system. However, energy has become not only a state's essential commodity but also a strategic one. As a result, energy is linked to the national security of the state. However, during the period of World War I and II, energy was particularly prominent in terms of national security, but after the oil crisis in the Middle East in 1970, the concept of "Energy Security" came to the forefront of world politics. In general terms, *'energy security is the association between national security and the availability of natural resources for energy consumption'* (Sharma, 2019).

IEA defines that energy security as an atom to secure energy supplies at affordable prices (Alami et al., 2017).

On the other hand, Roland Dannreuther consider that the core of energy security is demand security and this is mainly concerned about stable and secure revenue for development (Dannreuther, 2017).

In a different perspective Asia Pacific Energy Research Centre (APEREC) defines energy security accordingly to the concept of the 4 A's of energy security which are energy resource availability, accessibility barriers, environmental acceptability and investment cost affordability (Alami et al., 2017).

However, several scholars believe that the concept of energy security is particularly ambiguous. As a result, it has been impossible to establish a globally agreed definition of energy security. Thus, energy security has been characterized in light of shifting global politics, rising energy demands by governments, and contemporary environmental challenges. Therefore, by reviewing the above definitions, it can be easily understood that the fundamental objective of modern states is to provide cheap and easy access to energy (Sharma, 2019). Thus, energy security is bound to a certain rhythm of demand and supply. When there is an imbalance in energy demand and supply during a global political crisis, especially when the price of energy rises in the global market, other sectors of the state, such as manufacturing and information technology, are disproportionately impacted. As a result, the economies of the states continue to deteriorate. Moreover, in this context, Shebonti Roy Dadwal explained a more comprehensive definition of energy security would consider the security of both supply and demand (Dadwal, 2009).

Ashok Sharma argues that *'the most distinctive difference in energy security concepts is found between energy imports and exporters resulting from the emphasis on security of supply for the former and security of demand for the latter'* (Sharma, 2019).

However, it cannot be neglected that the international position of states plays a direct role in creating a stable balance of energy demand and supply. For example, countries like China, the United States, France, and the United Kingdom did not face any challenges during the oil crisis and the *Arab Spring* in the Middle East. Although there is a particular crisis in the energy sector in the world market, the manufacturing sectors of all these countries remain active without interruption. Therefore, energy security affects all the domestic, international, and strategic positions of the states.

Alami et al. stated that *the issue of energy security is indispensable from geopolitical conception of a country's geographical position and its potential in the international political constellation* (Alami et al., 2017).

Therefore, interdependence in the energy sector is driving all states to engage in international cooperation on the one hand, while energy security has also increased the possibility of competition and conflict among countries in pursuing and securing their

energy resource supply. Girijesh Pant said energy defines economic relations within the society as well (Pant, 2015).

But how relevant is energy to geopolitics and multi-strategic spheres? In that context, the strategic map of the energy market has been changing drastically in recent times. Energy relations between states are being built according to new power dynamics. Needless to say, there is also a power perspective of energy.

Girijesh Pant argues that *energy dynamics shows that those who control it?* (Ibid.)

However, Lutz Kleveman points out that countries with energy resources or geographically situated in the energy traffic routes will obviously seek to take the best benefits of the energy flows (Kleveman, 2007).

In modern times, developed and developing countries have prioritized renewable energy due to environmental concerns, yet hydrocarbons continue to dominate. The fundamental cause for this is a lack of appropriate technology as well as adequate opportunities for technology innovation. Additionally, the lack of investment in all these areas is particularly responsible. Energy is intrinsically connected to the modern economy. In recent years, emerging economies have been generating enough energy to keep their production lines running, meet the energy needs of large populations, and boost production. However, coal, oil, and gas are the cheapest energy sources in these countries. Needless to say, gasoline occupies a special place among the above elements. According to the Statistical Review of World Energy 2023, the Asia-Pacific region accounts for 47 percent of the world's total energy demand. India ranks second, next to China (with the largest margin), on this list (Energy Institute, 2024). On the other hand, according to the International Energy Outlook 2017, India and China are projected to account for more than half of the world's energy demand growth by 2040 (International Energy Agency, 2017).

However, 98% of the world's countries are energy importers. As a result, these countries are dependent on the remaining two percent of energy-rich countries to keep their economies afloat. Energy-rich states, therefore, engage in both conflict and cooperation to secure their national interests. Essentially, this is how global geopolitics takes shape. For example, due to the 1973 Arab-Israel war, the oil embargo resulted in a curtailment of oil supplies. There was also a price shock. In addition, efforts are being

made to make global energy policy more transparent and specific. Similarly, when the Gulf War led to internal geographical conflicts between oil-rich states, the United States intervened militarily in international geopolitics, and importing states entered into bilateral agreements with these oil-rich states to stabilize oil supplies. In 2006, 2014, and 2022, there were pipeline crises and price disputes in Europe over the Ukraine-Russia conflict. As a result, the European Union focuses more on its energy diversification. However, the European Union has imposed a number of sanctions on Russia.

On the other hand, several developed and developing countries have formed security alliances to ensure energy security, particularly to keep energy supplies flowing while regional dynamics remain secure and stable. One is the United States-Saudi Arabia Energy Partnership, set up in 1945 (Cook & Indyk, 2022), and the other is the EU Renewable Energy Integration, founded in 2000 with the goal of fostering cross-border green energy cooperation among Norway, Germany, and the European Union (European Environment Agency, 2020). Similarly, in 2000, an agreement was signed between the United States, Qatar, Australia, and the European Union to make global gas trade more flexible. Indonesia signed the Comprehensive Economic Partnership Agreement (CEPA) with UAE in 2022 to secure energy security (Satardien & Sharma, 2024). The India-Middle East-Europe Corridor (IMEC) is signed in 2023. This economic corridor project envisions an extensive connectivity that begins with a maritime route from India's west coast to the United Arab Emirates, then travels by rail via the Middle East (Jordan, Saudi Arabia), to Israel, and finally to Europe via Greece, Italy, or France (Sareen, 2025). Besides, the India-UAE Green Hydrogen Agreement was signed in 2023 to promote green hydrogen (Shetty, 2025). However, on the other hand, to secure energy security, China signed agreements with Uzbekistan, Tajikistan, Kazakhstan, South Africa, Jordan, and Morocco through its BRI project (Ulrichsen et al., 2025).

As a result, cooperation agreements between energy-importing and exporting countries, conflicts, sanctions, military operations, and threats—all these play an important part in ensuring energy security. This is how global politics influences energy security in context. In addition to the tools mentioned above, geostrategy has a specific impact on governments' energy security. However, one of the tools of geostrategy is the geographical location of the state. For example, about 30% of global

trade and 42% of global crude oil passes through the Indian Ocean annually, with over 100,000 ships transiting through it, making the Indian Ocean region (IOR) known as the 'Centre of Global Commerce' (Ahmad, 2024). Furthermore, the control of maritime chokepoints, the management of uninterrupted supply chains, and the building and successful utilization of pipeline projects between energy-importing and energy-exporting countries are identified as the primary geo-strategies of energy security. Indonesia, Malaysia, the Singapore-controlled Strait of Malacca, India's greater access to the Indian Ocean, and the appropriate use of highly crucial straits such as Hormuz and Bab-el-Mandeb make the energy security-focused geo-strategies of Asia-Pacific states evident in global politics.

Needless to say, both India and Indonesia use geostrategic strategy to achieve their economic development objectives in the Indian Ocean region. But to what extent has energy security protected national interests in expanding trade relations between the two countries? Or has energy diplomacy contributed to the two countries' growing interdependence? All of these scenarios are presented within the framework of multiple international relations theories, which adequately explain them.

When assessing energy security, it is significant to examine this issue from multiple viewpoints, including international relations, security studies, and energy policy.

Realism is the most well-known of the theories of international affairs. As a result, a number of scholars have referred to realism as the core theory of the study of international relations. However, in response to this theory, the concept of power politics becomes particularly useful in the construction of international relations. From the writings of E.H. Carr, Morgenthau, Waltz, and others thinkers of Realism, it can be said that the state pursues three principles to protect its national interests: statism, survival, and self-help. So, to keep the national interest intact, the state judges its energy security from the perspective of statism and survival or power politics. For this, states deploy military intervention or force to seize control of energy resources. For example, the US military presence in the Persian Gulf, the Iraq invasion of the US, economic sanction on Iran and so on. As a result, energy is identified as a strategic resource from a point of view of realism. The rise and decline of the energy industry in international geopolitics elicit unique responses (Antunes & Camisão, 2018). The

state uses military action in an effort to increase its authority because energy security is seen by realism theory as the main instrument for doing so. Thus, according to this view, the state puts more emphasis on conflict than on collaboration in order to ensure its energy security.

The second major theory of international relations is liberal theory. Liberal theory emphasizes cooperation rather than conflict. Woodrow Wilson, Michael Doyle, Robert Keohane etc. believe that conflict will end when democracy is established all over the world. They also laid special emphasis on building larger institutions. This is because they argue that the organization of states into larger institutions plays a major role in the pattern of conflict. However, the conflicts that are being organized between governments over energy are producing uncertainty among undeveloped and developing countries, and discriminatory energy policies are fostering uncertain geopolitics worldwide. As a result, liberal theory prioritizes preventing energy uncertainty, fostering interstate collaboration to ensure global energy market stability, and, most importantly, establishing international institutions. Moreover, global energy trading promotes interdependence. As a result, the risk of conflict is reduced. For instance, the energy integration policy of the European Union, OPEC oil production coordination, the International Energy Agency's energy policy monitoring, etc. (Moravcsik, 1992).

The third major theory of international relations and security studies is constructivist theory. In essence, constructivist theory rejects realistic theory's notion of states' concrete objectivity. According to Alexander Wendt, the concept of state security is socially constructed, shaped by perceptions, norms, and discourse. That is, the energy security context of the state is not the result of anarchic management but a socially constructed discourse (Wendt, 1992). For instance, the European Union views its dependence on Russian gas imports as a security risk. However, Russia characterizes its gas supplies to the EU as a partnership, meaning that the EU has a negative view of Russia because of the ideological unity of Western nations. Consequently, a threat is being evaluated by characterizing energy security as a strategic commodity rather than an essential commodity, which is giving the fluctuations in geopolitics a particular shape. It is true that the energy security crisis is merely a constructed rhetoric.

In addition to the above three theories of international relations studies, one theory that has been particularly influential in reviewing energy security is Critical Security Studies (CSS). CSS mainly deals with the power politics of the state system, discrimination, and global hierarchy. Needless to say, CSS addresses issues from a normative point of view rather than an objective one. Theorists such as Ken Booth and Ole Weaver have been particularly influenced by the emancipation concept in critical theory. But they have analysed energy from the perspective of human security and surveillance. They argue that energy security is a socially constructed phenomenon. Furthermore, this socially constructed concept specifies the power dimension in global geopolitics. But in contemporary times, energy has become the primary means of keeping human civilization vibrant. As a result, developed military power nations are discriminating against the Global South's oil-import-dependent nations by exerting unilateral authority over them. Ideally, CSS focuses on energy security, secure supply chains, regional development, clean energy, source diversification, and policy formulation. Thus, large energy-importing countries like India, China, and Indonesia are emphasizing energy demand through mutual cooperation to ensure human security (Mulligan, 2011).

In the framework of energy security, an analysis of the four appropriate theories found that realism, liberalism, and constructivism each secured the national interests of developed states in the Western system of government. That is, the periphery states remain intact. However, as Asia Pacific states began to rapidly accomplish economic development goals, energy security became an increasingly important requirement for these countries. However, the growing energy demands of all of these states have made them dependent. As a result, the lack of a significant military force comparable to that of the Western world, as well as discrimination against them by international organizations, has caused tremendous concern among peripheral states. Nonetheless, the Critical Security Approach ignores the concept created by the West, instead suggesting building cooperation within the Global South. The CSS lays special emphasis on energy source diversification and clean energy, especially to ensure regional stability and human security. However, according to the CSS, energy-importing countries in the Global South, such as India and Indonesia, can take collaborative initiatives to build their bilateral relations by working together in the

context of energy security. However, before discussing the rationale for depicting this scenario, it is necessary to describe the energy manifestations of both states.

India is one of the states in the Asia Pacific region that relies solely on energy imports. Lydia Powell characterized India's energy situation as a 'traditional deficit' (Powell, 2015). Although India's fossil fuel supplies are limited, its energy demand is extremely high. As of 2010, India's oil reserves accounted for 0.4% of global oil reserves. However, India's oil production and consumption vary drastically, with figures of 35.4 million tonnes and 148.5 million tonnes, respectively (Singh, 2010). However, this consumption has increased dramatically in recent years, reaching 224.753 million tonnes (British Petroleum Company, 2022). Similarly, in the gas and coal sector, India's gas reserves are 0.6% of the world's reserves. The annual gas production and consumption are 39.3 bcm and 51.9 bcm, respectively. The current gas consumption as of 2022 is 62.2 bcm (Ibid). However, India has coal reserves of 58.600 million tonnes. That is why the International Energy Agency has included India among the top five countries of the world in 2012 (International Energy Agency, 2012). However, there is a significant shortfall in India's annual coal production and consumption, at 211.5 million tons and 245.8 million tons, respectively. In modern times, that number has nearly doubled. As per statistics for 2022, India's coal consumption is 479.841 million tons (British Petroleum Company, 2022). Despite having the world's largest coal reserve, India imports coal to fulfil its energy needs. Meanwhile, India's coal reserves are of very low quality. In contemporary times, both developed and developing nations around the world have prioritized renewable energy to minimize carbon dioxide emissions, but hydrocarbons have retained their dominance. To ensure its energy security, India has diversified its import sources. Additionally, India holds stakes in companies in several oil-exporting countries, such as Saudi Arabia, Iran, Kuwait, Oman, Nigeria, Algeria, Sudan, Libya, Egypt, Syria, Kuwait, etc. (Khurana, 2007; Rajeev, 2010) (see figure 2.3). On the contrary, Turkmenistan-Afghanistan-Pakistan-India (TAPI) and Iran-Pakistan-India (IPI) has signed the contract for the construction of the pipeline project to ensure oil supply (see figure 2.4). However, to ensure energy security, India is constantly facing multiple challenges, such as

- A. The government's inability to set policies to ensure energy security.

- B.** Oil PSUs constrained by complicated state restrictions/regulations.
- C.** Not paying special attention to the advancement of new information technology.
- D.** Geopolitical turmoil hinders implementation of energy pipeline project.
- E.** Inadequacy in the distribution of domestic energy.
- F.** Limited oil storage capacity.
- G.** Insufficient investment in the energy sector.
- H.** Lack of specific policies and implementation on clean energy.

Indian Overseas Investments in Oil and Gas

Country	Invested Blocks	Investment by PSU/Joint Venture
Australia/East Timor	103	BPCL
Brazil	BC-10, ESM 470, SM 1413	OVL
Colombia	Omimex de Colombia	Manasarovar Energy Limited, a joint venture of ONGC with Sinopec
Colombia	RC 8, RC 9, RC 10	OVL
Cuba	25, 26, 27, 28, 29, 34, 35, 35A, 36	OVL
Egypt	North Ramadan 6	OVL
Gabon	Shakthi	OIL, IOCL
Iran	Farsi Offshore	OVL, IOCL, OIL

Libya	NC 188, NC 189, 81-1, Contract Area 43, 86, 102 (4)	OVL, IOCL, OIL
Myanmar	A1, A3, AD-2, AD-3, AD-9	OVL, GAIL. Even though India was the early investor, the gas contract was won by China
Nigeria	OPL 279, OPL 285, OPL 205	OMEL
Nigeria/Sao Tome & Principe	2	ONGC, Narmada
Oman	56	GAIL, BPCL, HPCL
Qatar	Najwat Najem	OVL (100% ownership)
Russia	Sakhalin-1	OVL. This is a very major oilfield
Syria	XXIV, Al Furat Project	ONGC, OMEL + China National Petroleum Corp.
Turkmenistan	Block 11-12	OMEL
Vietnam	6, 1, 127, 128	OVL
Yemen	82, 83	OIL, IOCL

Figure: 2.3

Source: Rajeev, S. (2010). India's Energy Security. *SSRN Electronic Journal*.
<https://doi.org/10.2139/ssrn.2125751>

TAPI & IPI Pipeline Project Map



Figure: 2.4

Source: <https://heritage.org>

Indonesia, on the other hand, has a very different energy security picture than India, owing to rising energy demand in the Asia Pacific area, particularly in Southeast Asia. While India relies on other countries to meet its energy demands, it is not entirely dependent on Indonesia. Indonesia is a resource-rich country in Southeast Asia. Until 2000, Indonesia was considered an oil exporter. But to meet the energy needs of the growing population, Indonesia became an oil-importing state in 2003 (Alami et al., 2017). However, Indonesia was the first oil-importing country in Southeast Asia. However, other components of the energy sector, such as coal and gas, are exported by Indonesia. So, in a sense, Indonesia cannot be called a completely energy-dependent country. In the statistics of 2017, Indonesia's gas reserves were estimated at 92.5 trillion cubic meters (Ibid.). However, according to the BP Statistical Review of World Energy 2022, Indonesia's annual gas production and consumption were 59.3 bcm and 37.1 bcm, respectively (British Petroleum Company, 2022). Similarly, Indonesia's coal reserves are estimated at 31.95 billion tons, but annual coal production and consumption are 15.15 million tons and 3.28 million tons (Ibid.; Muliawati, 2025). Indonesia's top coal exporters are China, India, Japan, South Korea,

and Malaysia (see figure 2.5). However, China, Japan, South Korea, Taiwan, Thailand, and other nations are Indonesia's gas exporters (*International - U.S. Energy Information Administration (EIA)*, 2021) (see figure 2.6). Conversely, Indonesia imports oil from Nigeria, Saudi Arabia, Angola, Gabon, Australia, and other countries (see figure 2.7). However, Indonesia's annual oil production and consumption are quite different, at 33.8 million tonnes and 67.593 million tonnes, respectively (British Petroleum Company, 2022).

Indonesia's coal exports by destination

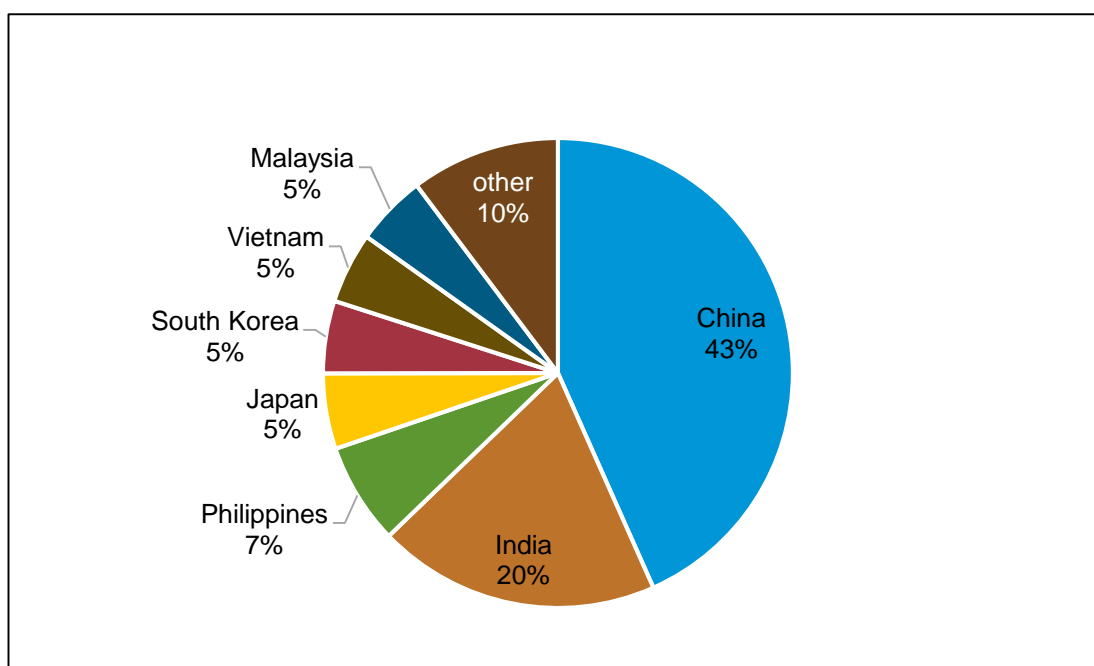


Figure: 2.5

Source: International Energy agency. <https://www.iea.org/countries/indonesia>

Indonesia's liquefied natural gas exports by destination, 2024

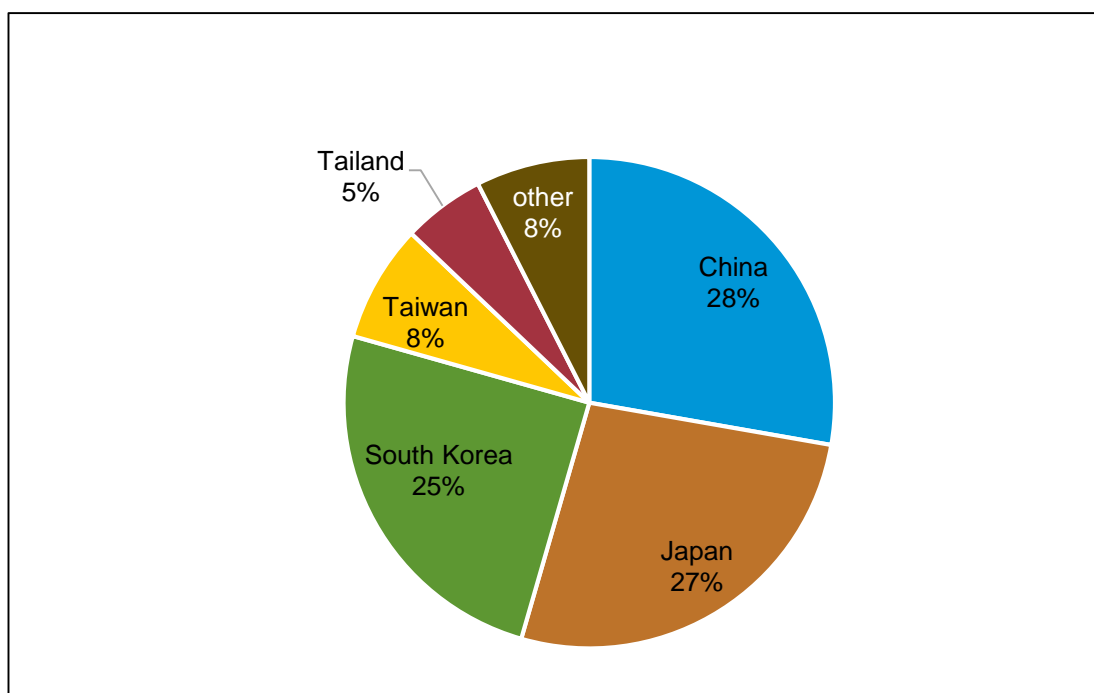


Figure: 2.6

Source: International Energy agency. <https://www.iea.org/countries/indonesia>

Indonesia oil crude and condensate imports by source, 2024

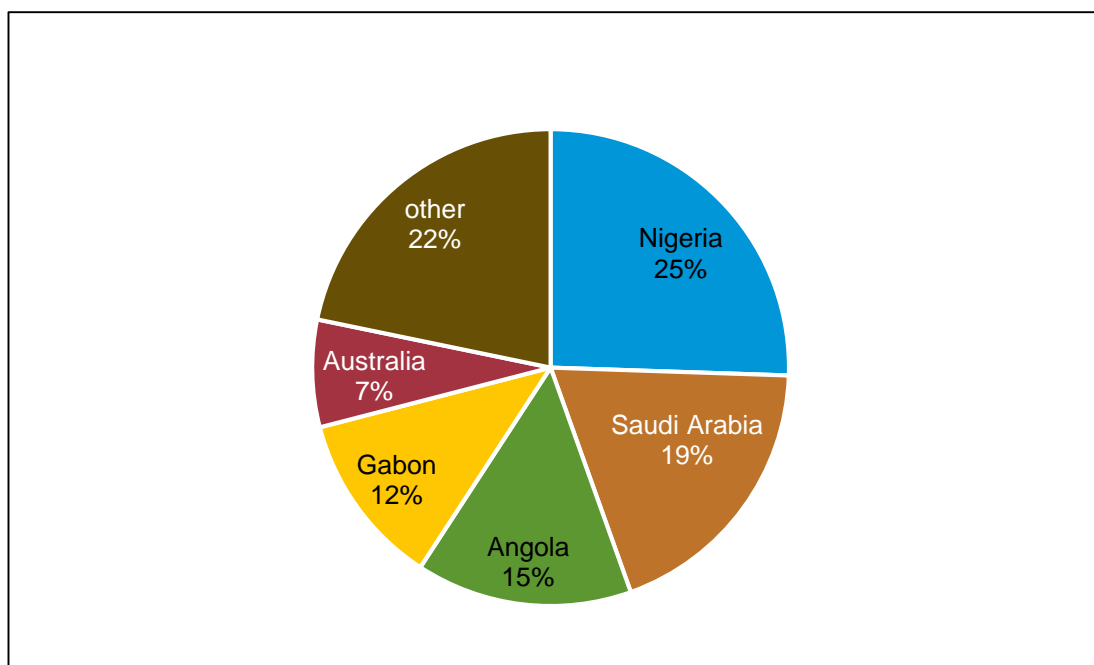


Figure: 2.7

Source: International Energy agency. <https://www.iea.org/countries/indonesia>

However, despite having a large energy reserve, Indonesia faces energy challenges such as

- A.** Substantial latency in the distribution of energy resources to consumers as a result of poor connectivity.
- B.** Limited oil storage capacity.
- C.** Unfavourable foreign investment climate.
- D.** Multiple problems in implementing tax policy.
- E.** Absence of policies and goodwill to allow foreign investment.
- F.** The government's lack of enthusiasm for clean energy.
- G.** Maintaining the manual system rather than concentrating on innovation and technological advancement and
- H.** Unable to identify an optimal energy access policy.

In this context, the Erahman et al. study stated that Indonesia's energy security is less satisfactory and it should be improved particularly in the aspect of acceleration of economic development policies and energy diversification target (Erahman et al., 2016).

Analysing the energy situation and problems of both countries in the context of energy security, it is evident that India's energy dilemma, or crisis, is far more serious than Indonesia's, but the energy challenges are nearly identical. Needless to say, India's energy consumption is vastly higher than Indonesia's primary energy consumption. (see figure 2.8) Thus, the Vajpayee government in India, on the one hand, made a significant push for energy diversification, but the Singh government emphasized policy primacy. Indian Prime Minister Shri Narendra Modi, in India Energy Week (IEW) 2025, addressed:

“India is driving not only its growth but also the growth of the world, with the energy sector playing a significant role. He emphasized that India’s energy ambitions are built on five pillars: harnessing resources, encouraging innovation among brilliant minds, economic strength and political stability, strategic geography making energy trade attractive and easier, and commitment to global sustainability” (Press Information Bureau, 2025).

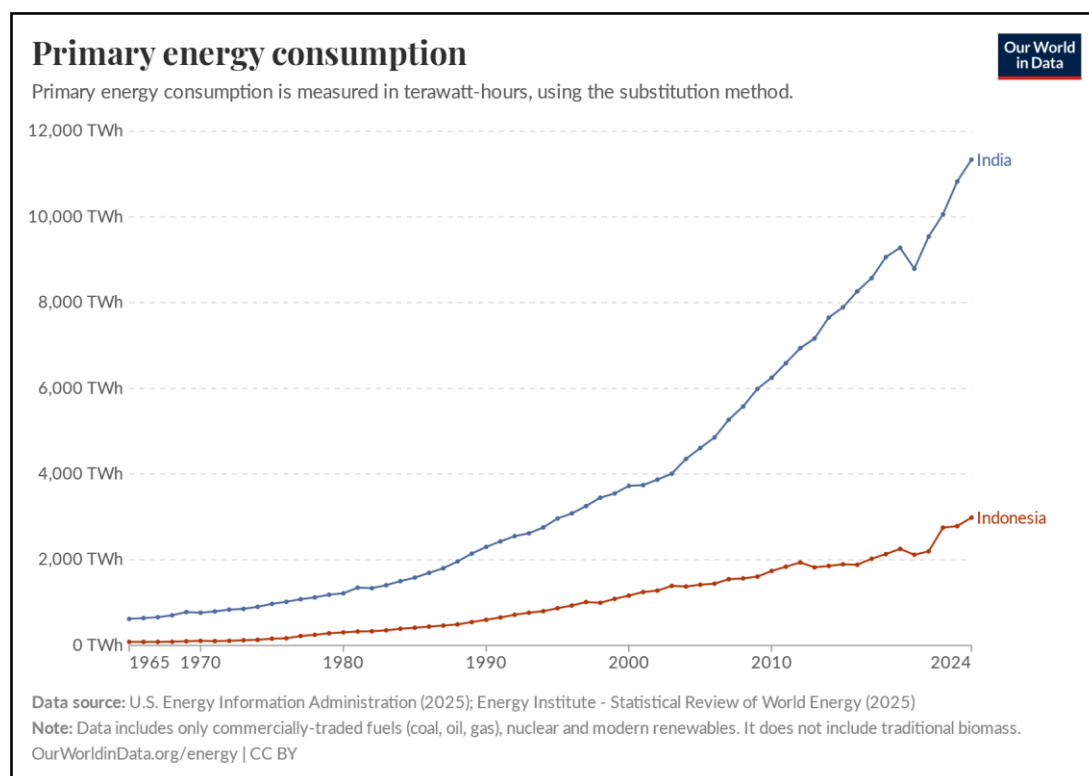


Figure: 2.8

However, in 2007, Indonesian President Susilo Bambang Yudhoyono emphasized the importance of Indonesia’s national energy security in ensuring energy supply security. Nonetheless, so far, Indonesia has followed a domestic-oriented or inward-looking approach to energy policy. Faridazed said that *‘the energy sector has not been optimally utilised in the Indonesian foreign policy’* (Alami et al., 2017).

Ashok Sharma argues that *“economy and energy are dependent on each other one of the biggest contributors to any modern economy is energy India is no exception to this India’s growing economy is dependent on its capability to provide energy to its fast-growing economy”* (Sharma, 2019).

Therefore, the issue of energy security has a special impact in the context of India-Indonesia bilateral relations in the research chapter under discussion. Given the growing energy needs of both countries, cooperation between India and Indonesia has played an effective role in building bridges. ‘Human Security’ and ‘Global South Cooperation’ go a step further in developing this bilateral relationship. However, national interests have always come first in both countries’ specialized energy diplomacy. This is essentially why both countries have signed military treaties with energy-exporting nations.

Ashok Sharma said that energy security therefore can only be achieved efficiently through global cooperation and not isolation (Ibid.).

In 2017, India and Indonesia established the Energy Forum to ensure energy security. At the same time, an MoU on oil and gas exploration was signed by the Republic of India’s Ministry of Petroleum and Natural Gas and Indonesia’s Ministry of Energy and Mineral Resources. This MoU establishes the Cooperative Institutional Framework on the basis of mutual benefit between the states (Embassy of India, 2017). Simultaneously, initiatives like India’s International Solar Alliance on clean energy have deepened energy security cooperation between India and Indonesia. Assessing India’s potential towards renewable energy, Jeremy Rifkin said that ‘India is the Saudi Arabia of renewable energy sources, and if properly utilized, India can realize its place in the world as a great power’ (Pant, 2015). Therefore, it cannot be denied that India is moving on the path of self-reliance in the field of energy security.

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Chapter: III

Evolution of Business Relations and Connectivity Between India and Indonesia (1991-2023)

Relations between two or more states, according to the discipline of international relations, have always set the world order in motion. In the ancient times, these interstate relations, or bilateral relations, were controlled by the military power of the state. However, in the 21st century, business has become one of the main pillars in the sphere of interstate relations. The resultant economic and business amalgamations—corporations, competitions, and conflicts—are given a definite shape. Needless to say, a country's primary driving factor is its economy. In this regard, commercial exchanges are the state's primary source of economic development. On the basis of historical records, ancient states fuelled their needs by exchanging surplus products. Meanwhile, gradually, with the introduction of currency into this system of commerce, the exchange of currency for products began. As a result of the currency exchange, the states' economic prosperity began to grow. In general, this governance appears paradoxically straightforward, yet in a relative sense, this commercial transaction continues to function as a tool of the state machinery—which leads to the effective implementation of diplomacy and foreign policy. To boost their economic success in the 1600s, the British East India Company and other European trading organizations expanded their commercial activities in numerous Asian regions dramatically. But this tremendous yearning sparks severe competition among them. As a result of the infighting among Europeans, the world's order experienced a significant trade crisis. Finally, Britain was able to triumph over these kingdoms and establish commercial domination in the region. However, following World War II, these commercial transactions influenced the entire world order by establishing bilateral partnerships. International organizations like the WB, IMF, and GATT were essentially established to facilitate and improve the regulations of commercial transitions. Adherence to the liberal point of view, sovereignty, capitalism, and the laissez-faire economy promotes the state's prosperity. Thus, free trade generally fosters economic integration in

particular, as well as the state's economic success. However, with the advent of globalization in the international system in the 1990s, each state became connected to one another via commercial relationships. As a result, the global economy's dynamics engender dependencies that transcend territorial bounds. Moreover, states began to prioritize economic, security, and military integration, as well as cultural exchange. Conflict and cooperation have become context-specific as a result of the emerging world order. Keohane and Nye elaborate on this issue in their theory of complex interdependence. For example, the billion-dollar trade deal has boosted economic engagement, but the competition between the US and China has publicly caused political unrest. Therefore, in the twenty-first century, trade strengthens diplomatic, security, military, and strategic ties in addition to fostering economic contact between the two states. However, understanding the various facets of this interdependence necessitates deeply discussing the relationship between politics and the economy.

In terms of trade relations, states focus on the exchange of goods, investment, improved market conditions and economic development of the state. However, the inclusion of governmental interests and national security in international relations as such leads to trade relations to diverge from concrete economic theory. Accordingly, 'International Political Economy' (IPE) is built on the integration of disciplines such as International Relations, Comparative Politics, Sociology, and Anthropology (Balaam & Dillman, 2019). It is argued that understanding the international political-economic paradigm is critical for reviewing trade relations in the framework of international relations.

In a general sense, the term "Political Economy" is made up of the combination of the two words 'Politics' and 'Economy', respectively (Mosco, 2009). Therefore, 'International Political Economy' refers to examining and execution of political economy in transnational and international contexts. However, the term 'International Political Economy' is also sometimes referred to as 'Global Political Economy.' In terms of connotations, there is no difference between international political economy and global political economy. International political economics is primarily concerned with state market systems, domestic issues, political dimensions of actors, non-state actors, individual organizations, NGOs and MNC's policy making, goal setting, and its strategies at the international and international levels (Balaam & Dillman, 2019).

Michael Veseth, in his book “What is international political economy,” states that “international political economy examines the interaction between the economy and politics in individual states and the international system” (Veseth, 2008).

Renowned political economist Susan Strange argues that ‘International political economy is that it is the study of the social political and economic agreements that affect the global systems of production exchange and distribution’ (Strange, 1994, p. 121).

However, IPE as a dynamic interdisciplinary discipline deals with three specific dimensions namely political dimension, economic dimension and societal dimension to examine the entire world order theoretically as well practically (Balaam & Dillman, 2019).

IPE in its political dimension examines the power politics among states, non-state actors, NGOs, individuals, and social groups, TNCs and the specific goals, policies, and implementation of these organizations. For example, multiple economic sanctions were imposed by the United States on Russia indirectly through the World Bank and the International Monetary Fund due to the Ukraine-Russia war. Additionally, Britain’s Brexit from the European Union has become an international issue.

IPE deals with the issues related to how the sufficient resources of states, individuals and social groups are distributed in its economic dimension. Political Economy also examines the day-to-day distribution of wealth between public and private institutions. Since the present economic system functions as a platform for both buying and selling goods, it also offers a pattern of human behaviour which attempts to construct global web relationships through financial management. Political scientist Charles Lindblom argues that ‘The economy is nothing but a system of adjustment of social behaviour!’ (Lindblom, 2002, p. 23). For instance, the amount of revenue that the famous information and technology manufacturer Apple collects from the sale of its products is much higher than in any small state, which illustrates the distribution of resources on the one hand. On the other hand, the user of the products of this company can also easily be considered a privileged class of society, by which the shape of human behaviour becomes clear.

Economists Robert Heilbroner and Lester Thurow believe that the international context does not reflect social problems as much as political and economic problems do in international politics (Heilbroner & Thurow, 1994). Even today, scholars of IPE assert that ‘states and markets do not exist in social vacuum’ (Balaam & Dillman, 2019, p. 9). There are several social groups within the state and at the international level that mainly deal with issues related to identity, norms, race, religion, environment, climate change, world peace, asylum, migration, etc. These organizations impose significant pressure at the international, transnational, and national levels, leading to tension rather than a long-term solution in global management. However, it must be said that these organizations play a very important role in shaping global behaviour patterns. For example, the publication of a comprehensive research paper by HRW and Amnesty International on the Arab Spring revolutions (Steinberg, 2012).

After analysing these three dimensions of international political economy, it can be determined that bilateral trade constitutes an integrated and independent dimension of economics and politics in the nomenclature of international relations. This dimension examines the internal trade of the state in the transnational context as well as in the international scope. Generally, IPE addresses issues on the basis of appropriate research questions by an analytical approach through available data.

However, British scholars do not consider quantitative and statistical test to be appropriate in solving problems of IPE as it is an interdisciplinary subject, instead they try to give a holistic analysis of the solution of problems by combining historical and philosophical approaches. Therefore, most of the IPE scholars adopt this holistic approach to solving global issues because they feel that this approach is more flexible than other disciplines. As IPE, analysts are asked to ‘how something should be studied and with what tools’ (Balaam & Dillman, 2019, p. 13). In that sense, it can be said that IPE solves global issues through a multi-dimensional approach in order to obtain more transparent and effective results.

How does bilateral trade affect international relations and international politics, and how does IPE analyse the interplay of international politics and bilateral trade? — is very crucial for this research paradigm. The multidisciplinary approach of IPE examines bilateral trade not only from the perspective of commerce or economics, but

also analyses the international, transnational and social factors associated with bilateral trade.

Scholars of IPE usually examine any phenomenon at different levels of analysis to make their research more effective. Any social group, international organization, NGO, TNC, and state actor configures the levels of analysis to present its issues in light of the stages mentioned in the overview of international conflict in the book “Man, The State, and War” by political scientist Kenneth Waltz.

The levels of analysis that IPE uses to substantiate its research are:

The Global Level

The Global Level is the broadest stage of analysis of any issue in IPE. At this stage, IPE mainly analyses global factors such as climate change, crude oil prices, technology innovation, war situation, human rights violations, multilateral trade agreements. However, it can be said that all events that have a global impact are analysed by IPE at the global level (Waltz, 1959/2001). For instance, due to the war between Russia and Ukraine, the price of oil has increased in the international market.

The Interstate Level

In the Interstate Level, IPE mainly deals with how trade, cooperation, agreement signing, and defence exercises between states are facilitated by the balance of political, economic, and military power between two or more the state. However, the relationship between one state and another through bilateral interests is presented as the main focus of the interstate level of IPE (Waltz, 1959/2001). Indeed, in the progress of economic development, the development of the neighbouring states along with the mutual status of the state, the review of the Interstate Level emerges as one of the factors that greatly affects the Global Level. For example, Singapore’s financial progress has accelerated the economic development of the entire Southeast Asian region, including Malaysia, Indonesia and Thailand. However, this alternative economy has become a very significant topic of discussion in the context of the global arena today.

The Societal Level

How do multiple social groups, interest groups and pressure groups within a nation state influence or pressure the government by specific lobbies to achieve their

objectives in terms of policy making which is reflected in the foreign policy or domestic decision making of the state. When such a matter affects globally, IPE examines it in the context of its Societal Level (Balaam & Dillman, 2019,). Thus, IPE emphasizes the similar interests of groups at this level of analysis. For instance, the Indonesian government has introduced new regulations to tighten import restrictions, which leads to the protectionist stance of Joko's views (Gupta & Pane, 2024).

The Individual Level

The Individual Level, mainly focuses on psychology, personality and beliefs. Although the study of IPE takes the individual level as a narrow approach to the analysis of international factors, it has a particular impact on the global system. However, international policy is significantly impacted by decisions taken by state policymakers based on their personal convictions. For example, the decision of UK Prime Minister Boris Johnson to leave the EU (Walker, 2021).

After reviewing these levels of analysis of IPE, it can be inferred that any phenomenon that has a global impact and can come to certain conclusions based on the information available through appropriate research questions. Therefore, IPE is critically examined in terms of levels of analysis through its three critical dimensions.

The theorists of IPE, in order to give a holistic interpretation to any issue through a multidisciplinary approach, bring the foreign policy agenda in the context of bilateral trade relations into the context of not only economic, but also political, national interests.

Professor Susan Strange developed a 'Theory of Four Power Structure' based on Waltz's levels of analysis in order to analyse IPE more structurally such as Production and Trade, Money and Finance, Security, and Knowledge and Technology (Strange, 1988, p. 26).

Strange has used his 'Theory of Power Structures' to answer research questions such as who benefits from the trade, finance, and security policies of state actors, non-state actors, MNCs, and international organizations in the global system, what kinds of policies they set, what kinds of constraints they face, which has made the analysis of IPE more effective. Therefore, this structure is regarded as the main foundation of the 'International Political Economy.'

Sometimes although the problem of one structure affects the other structure, this problem sometimes leads to a good deal between state actors, as well as create conflicts. For example, in the context of the Russia-Ukraine War, India and China took advantage by buying oil from Russia at very low prices. In this context, Susan Strange argues that “Many disputes arise when states try to shape and determine the structures of the global political economy within which other states their political institutions, their economic enterprises.... and people have to operate” (Strange, 1988, pp. 24–25).

The Four Power Structure (Model)

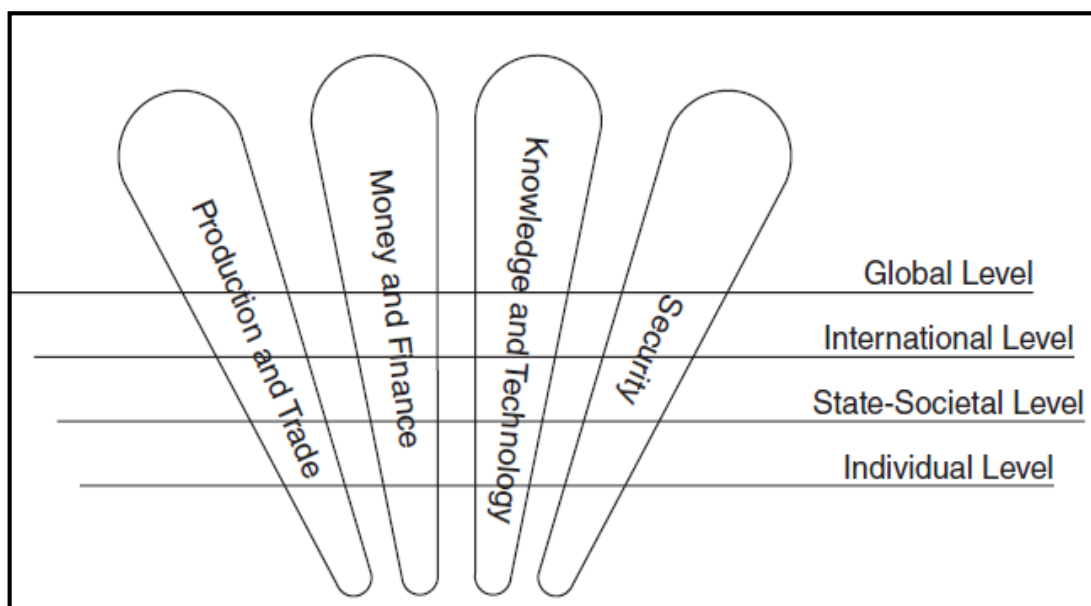


Figure: 3.1

Source: (Balaam & Dillman, 2019)

The Production and Trade Structure

The economist Susan Strange presents production and trade as the basis of society, emphasizing the Marxian concept of economy. Therefore, he has tried to see through this model who produces, for whom it produces, what are the methods followed and above all what is produced (May, 1996). However, when IPE is discussed in the context of market systems and trade, it is analysed as a global level according to the levels of analysis. But there has been a significant change in trade policy due to the shift in the manufacturing sector from the western states to Southeast Asia, East Asia and South Asia, which represents the inter-state level. Despite this, social groups, pressures and interest groups within states influence trade policies of states in their

favour through their specific lobbies, which exposes the societal level of IPE. Eventually, it can be said that changes in the international production structure have also brought about particular changes in the role of state actors in the context of international trade. Also, there are multiple changes in the distribution of benefits arising out of excess production. For example, after the Covid-19 pandemic, when the China Plus One Policy of multinational companies created a huge potential for investment in India, India received positive support from many countries at the international and regional level (Madden, 2023).

The Finance and Monetary Structure

Susan Strange, in her theory, has tried to determine mainly by this structure who, under what conditions accesses money, and how or whether a certain amount of wealth is distributed among states? In this context, David N. Balaam and Bradford L. Dillman said that 'money is often viewed as a means not an end in itself.' Through trade and services, money flows from one state to another, whereas in the case of investment or debt repayment, the flow of money moves from one state to another, which basically indicates the global level. Sometimes there is a crisis in the financial structure when state leaders oppose the strong regulations of MNCs. That is, if the international most influential leaders decide to regulate the international market based on their own beliefs, then there can be a situation like international financial crisis. Strange stated that 'the disorder within the financial structure, and the international economy as a whole, has been the result of the US exploiting its position for its own particular ends rather than for the general welfare' (Strange, 1988, p. 96). For instance, the unregulated financial markets of the 1990s led to financial crises in Mexico, Asia, Africa, and Latin America (Balaam & Dillman, 2019). Strange argues that 'power in the financial structure therefore lies in the ability of an authority to create or control the creation of credit in the international economy' (May, 1996, p. 181).

The Security Structure

The renowned scholar of public administration Abraham Maslow has discussed the security needs in the second phase of his 'Need of Hierarchy' theory. He has argued that an individual looks after his own security after completing his basic needs, it can be natural disaster or financial or physical (Maslow, 1954). However, the same applies to states. On the other hand, according to the neorealist theorist Waltz, due to anarchy

in the international sphere, each state increases its military power to ensure national security, which creates a balance of power in the international arena. However, Strange claims that all of the individuals, groups, or authorities that offer security sell extremely high-quality, sophisticated weapons to the so-called fragile nations that are concerned of security, which in a wider context reflects the two states' economic interaction. Strange asserts that "Thus the security structure inevitably has an impact on the who-gates-what of economy both national and international" (Strange, 1988, p. 45). For example, The Philippines purchased BrahMos missiles from India in response to China's growing threat from territorial conflicts over the South China Sea in Southeast Asia.

The Knowledge and Technology Structure

The fourth and final stage of Susan Strange's power structure theory is 'The Knowledge and Technology Structure.' Strange points out that 'Power derived from knowledge has been the most overlooked and underrated source of power in studies of international political economy' (May, 1996, p. 182). Post modern thinker Michel Foucault contended that *knowledge is power*. Therefore, it can be said that any power can be gained by knowledge (Foucault, 1961). Whether it is military power or financial power. Presently, knowledge and technology are regarded as important sources of prosperity and power. The advancement of information technology has led to massive growth in the energy sector, including medical, industrial, engineering. Consequently, the exchange of information technology between underdeveloped and developing countries represents trade, security and economics in the larger context. However, each structure of Strange's theory works independently, but each structure is directly and indirectly connected to each other. According to strange each of these structures constructs a complex web of relationships that constitute the larger international political economy (Balaam & Dillman, 2019,).

Susan Strange in her 'Theory of Power Structure' attempts to understand international political economy not as a discipline, but as an amalgamation of issues unfolding from the core to the periphery using a practical approach in the context of relevant research questions. In response, renowned economist Pranab Bardhan, "political economy refers to the distribution of political and economic power in a given

society and how that influence says the direction of development and policies that bear on them” (Bardhan, 1999).

However, political economy, within the context of neoliberal economics, seriously examines the interrelationships, trade exchanges, political, economic and social issues of not only developed economies, but also developing and underdeveloped economies. As classical economists such as Smith and Ricardo studied political economy mainly in the context of Liberalist, Marxist and Structuralist theorists such as A. G. Frank and Immanuel Wallerstein analysed political economy through their ‘*Dependency Theory*’ and ‘*World System Theory*,’ respectively. However, the focus of the discussion of all theories has come to be states behaviour and power politics (Balaam & Dillman, 2019).

However, in the alternative world order, not only power politics or states behaviour, political economy is included in the discussion of social norms, ethnicity, social behaviour, discourse analysis which is known as the *Theory of Constructivism*. *Constructivism* is a new and alternative approach of ‘IPE’ and ‘International Relations.’ Additionally, *constructivism* fundamentally opposes the realist approach, as constructivists simply observe the distribution of military forces and economic capabilities in the material world. The constructivists mainly analyse IPE in terms of how a variety of non-state actors influence the behaviour of states and markets. However, for the constructivists, the main object of discourse is transformation of an idea or set of beliefs about something (Balaam & Dillman, 2019, p. 105).

Constructivism uses a number of tools to analyse International Political Economy, representing the identity of socially constructed ideas, values, norms, and groups associated with the structure of ‘International Politics’ or ‘International Relations.’ Constructivism also emphasizes economic aspects, such as military aspects, because military and economic factors have been recognized as both hard power and soft power, depending on the situation and perspective of power exercise (Balaam & Dillman, 2019).

In the context of globalization, IPE mainly deals with global politics, international institutions, monetary policy of MNCs, social issues, human rights crisis. In terms of Strange’s trade structure it can be said that trade in a globalized world has given a unique dimension to international management. Nonetheless, business

relations characterize the political dilemma as a zero-sum game, whereas mutual trade policy provides a win-win situation. For example, although the bilateral conflict between China and the United States manifests itself in the political sphere, China is the third largest trading partner of the United States in terms of commercial exchanges. In accordance with *dependency theory*, the core, i.e., developed states, collects more revenue from the periphery, i.e., underdeveloped states, through economic conditions and capabilities that exist as a gradual, ongoing process. However, the trading mechanism plays a very effective role in building trade relations between two developing states, not only economic capabilities, but also political and military capabilities. In *The Central Paradox of Our Time*, Gray writes: “There is nothing in today’s global market that buffers it against the social Strains from highly uneven economic development within and between the world’s diverse societies” (Gray, 1998).

Since the 1980s, the concept of semi-periphery has changed according to Wallerstein’s *World System Theory* as the periphery states began to change from agricultural to manufacturing economies. Wallerstein explained semi-periphery as “not the result merely of establishing arbitrary cutting-points on a continuum of characteristics” (Wallerstein, 1974).

Giovanni Arrighi and Jessica Drangel, however, criticize Wallerstein for ignoring the economic and political-military interactions of his world system structural mechanism (Arrighi & Drangel, 1986). Therefore, it can be said that the change in economic structure and political discourse has had a special impact on the bilateral trade relations between the semi-periphery states.

In the neoliberal system, bilateral trade relations between two emerging economies are creating semi-peripheral integrity on the one hand, and challenging the core economy on the other. But does the sustainability of this bilateral relationship depend solely on trade exchanges, or do political relations serve as the main means of ensuring economic security in the face of attractive market conditions for the two states? Or, in response to developed economies engaging in the global power politics, do the semi-peripheral states seek to form economic blocs through bilateral trade relations?

Economic similarity, geo-political tensions, cultural affinity, demographic transition make India and Indonesia seemingly compatible, but according to Wallerstein's 'World System Theory,' how relevant semi-periphery vs semi-periphery relations have become is worth examining.

The main focus of this chapter is to present the sustainable trade relations and connectivity between the two semi-peripheral states, India in South Asia and Indonesia in Southeast Asia, respectively, in an ontological manner in the context of the evolution of bilateral relations. In the new world order, India and Indonesia have grown as emerging economic giants. In terms of GDP, these two nations are ranked fifth and sixteenth, respectively, in the World Bank's Report (2022). Although India and Indonesia are close to each other in global economic indicators, the patterns of economic development of both countries are quite different. After independence, under the leadership of Nehru, India adopted a parliamentary system on the lines of the British Westminster model. On the other hand, the unitary presidential system was established in Indonesia under the leadership of Sukarno. Surprisingly the friendship between the two countries was based on NAM in the bipolar world at that time, officially this friendship began a decade ago in 1951 with the signing of the 'Treaty of Friendship' agreement (*Treaty of Peace and Friendship*, 1951).

However, the trade activities of India and Indonesia have set a special precedent for bilateral trade in recent times, the history of trade between the two states goes back a long way, as evidenced by the history of trade relations between Srivijaya and the Majapahit Empire of Indonesia (Church, 2009). In other words, the foundation of bilateral relations between the two countries has been laid mainly through trade since historical times. Exclusively trade, in the view of mercantilism, enhances nation-states and safeguards them from multiple groups in international society. Therefore, trade not only provides economic benefits but also ensures security (Balaam & Dillman, 2019).

The US emerged as the superpower when the collapse of the USSR became inevitable with the destruction of the Berlin Wall in 1989. In addition, several countries such as China, Japan, Israel, Russia, Brazil, India emerged as major powers. In this period of international politics, the multipolar world is built on the one hand, while on the other hand the global industrial centre of gravity is shifted from the North Atlantic (Anderson & Strutt, 2015).

As we know that two emerging economic giants, India and Indonesia, have recently emerged as the countries with the highest GDP growth rates in South Asia and Southeast Asia, respectively. But the evolution of trade exchanges between the two countries from 1991 to 2023 within the time frame mentioned in the thesis is very important in the context of the development of bilateral relations. It is crucial to examine both states' economic transformations prior to conducting an analysis of evolution of their trade interactions. Therefore, economic reforms or the adoption of new economic policies are the means by which economic transformation occurs. One of the major objectives of this chapter is the political leaders' particular viewpoints that underpins these economic reforms.

The emergence of India as a major power in the uni-multipolar world has had a special impact not only on international politics but also on the international political economy. However, after independence, when a parliamentary democracy with a federal polity is established in India, the central government takes independent decisions in certain areas such as currency, foreign trade, telecommunications, environment, etc (Ahmed & Varshney, 2012). Thus, to strengthen the fragile economy, the then-prime minister of India, Nehru, employed the "Interventionist Model," also known as the "Nehru-Mahalanobis Model," in the Indian economy, under the direction of famous statistician Prashant Mahalanobis. The main objective of this model was 'long-term planning by state' (Alagh, 1994). In this plan of action, nationalization was prioritized in the Indian economy, which led to the establishment of heavy industries. In order to fulfil state necessities, emphasis was simultaneously placed on boosting self-sufficiency by reducing exports and importing less from overseas. However, Nehru's socialist vision was the driving force behind such an Indian economic pattern (McCartney, 2019). Until 1965, the Indian economy, which was run on a socialist pattern, saw massive growth in the public sector as the public sector took precedence over the private sector. Even so, after 1966, when the growth rate slowed down GDP began to fall (Alagh, 1994).

When Indira Gandhi came to power in 1966, she realized the status quo of the Indian economy and passed the MRTP Act in 1979 to eliminate monopolies in the market system (McCartney, 2019). Furthermore, after 1971, when Mrs. Indira Gandhi took the initiative to alter the prevailing economic policy, interest groups opposed it (Alagh, 1994). Adnan Naseemullah refers to this a feature of the Indian economy that

deals with morals, social values, and mutual obligation as 'Economic Conservatism' (Naseemullah, 2017). After the 1980s, when imports began to increase, there was a structural shift in the Indian economy. T.S. Papola points out economic development is usually associated with structural change. Nonetheless, it can be said that economic development is inextricably linked to the changing labour force and the distribution of national goods (Papola, 2006).

Kuznets empirically demonstrated that growth is brought about by changes in sectoral composition (Kuznets, 1966).

In accordance with the structural shift, T.S. Papola categorized the Indian economy into three phases: services, industry, and agriculture (Papola, 2006). Fisher and Clark propose that in accordance with the stage of income growth, the demand for industrial goods rises when the need for agricultural products declines. The demand for industrial goods later shifts increasingly toward services as income rises more significantly (Fisher, 1939; Clark, 1940).

Kuznets examines the economic structural shift of developed states in terms of demand, taking into account the distribution of GDP in the states' agricultural, industrial, and service sectors (Kuznets, 1971). Despite the demand for agricultural products in feudal societies, an extensive growth in the industrial sector since the *Industrial Revolution* has led to a decline in the agricultural sector. Similarly, with the emergence of deindustrialization in the 20th century, the dominance of the service sector in developed states continued to grow. In 2002, Kuznets analysed the service led economy by referring to the distribution of GDP in the service sector of developed countries. The figures for the distribution of GDP in the services sector in developed countries are US 75%, UK 73%, France 72% and Japan 68% (Papola, 2006, p. 12). Therefore, the statistics of the distribution of GDP in the agricultural industry and service sector of the US and the UK in 2004 clearly indicate the change of economic pattern (see figure 3.2).

GDP Shares in Various Sector (%)

Country	Agriculture	Industry	Service
United States	2	23	75
United Kingdom	1	26	73

Figure: 3.2

Source: (Papola, 2006)

However, in the case of India, these structural changes have not followed the same pattern. Indeed, according to India's economic patterns, there seemed to be significant upswing in the industry sector (see figure 3.3). In contrast to western countries where the service industry developed after industrialization, India has evolved as a post-industrial service economy. But Cohen and Zysman argues that 'the economic growth cannot be sustained without growth of manufacturing sector' (Cohen & Zysman, 1987).

GDP Shares in Various Sector of India (%)

Sector	1990	2000	2010	2023
Agriculture	27.6	21.6	17.0	16.0
Industry	27.5	27.3	30.7	25.0
Services	37.0	42.7	45.0	49.8

Figure 3.3

Source: World Development Indicators

McCartney mentions two external constraints to highlight the importances of manufacturing in developing countries, the first constraint is 'terms of trade'. Argentine economist Raul Prebisch argues that *"as manufacturing productivity increased, domestic wages are likely to be rigid in core countries as they are protected by tight labour markets and trade unions, which would prevent export prices falling. Productivity gains would benefit core countries in the form of higher wages and profits. In periphery countries productivity gains would reduce costs of production. In an environment of competitive markets, a surplus of labour and flexible wages, this would*

lead to lower export prices, which would again benefit core countries. The dynamic is that all the gains from trade are transferred to consumers and producers in core countries” (McCartney, 2019, P. 37).

Second constraint is ‘balance of payment’. Prebisch also argues that *“Due to the low-income elasticity of demand for agricultural goods, periphery countries are likely to experience a slow growth of demand and export revenue for primary export products over time” (McCartney, 2019, P. 38).*

Nicholas Kaldor, in analysing the superiority of manufacturing with reference to empirical evidence, observed that ‘the faster the rate of growth of manufacturing in the economy, the faster will be its growth of GDP’ (Kaldor, 1967). Thus, rapid industrialization was responsible for the rapid economic expansion that took place in East Asia after 1965 (McCartney, 2019).

Arvind Panagariya defined India as an agrarian economy in the framework of his analysis, focusing on the agricultural sector’s around 57% contribution to its GDP in 1950–51 (Panagariya, 2008). However, one of the main reasons for the Indian economy’s extant scenario is usually attributed to the moral economic philosophy of Congress leaderships, which encouraged state-directed development. However, whenever non-Congress governments have taken power, they have pursued a business-centric approach rather than a moral economy; the BJP government, in particular, has continually promoted pro-business development and nationalism (Naseemullah, 2017).

In 1991, when there was a balance of payments crisis in India, the then Finance Minister Dr. Manmohan Singh introduced the LPG policy to shift the ongoing economic strategy to reform the Indian economy (Ghate, 2012). With the advent of economic liberalization in the Indian economy, the GDP rate remains increasing rapidly. While the GDP growth rate was 5.7% before until 1990 and the GDP ranking was 17th, the GDP growth for 2023 is 7.58% and the GDP ranking is 5th (World Bank, 2024).

As the GDP growth rate of the Indian economy has increased since liberalization, the Indian economy’s dependency on agriculture has diminished. For instance, agriculture contributed 50% of GDP in 1950, but by 1990 and 2023, it had declined to 27.26% and 16.0%, respectively (McCartney, 2019).

In the 1990s, India was the world's eighth fastest growing economy, but by 2008, it came in to third (Ghate, 2012).

As foreign trade was allowed under the LPG policy, the tariff was reduced by 37%, and the MRTP act was abolished. On the other hand, RBI allows up to 51% FDI in equity investments (McCartney, 2019). India's investment (outflow) was 0.0018% of GDP in 1990, but it has increased from 0.1547% in 2013 and 0.4370% in 2023 (World Bank, 2023a).

As reported by the International Monetary Fund (IMF), India is the world's fifth largest economy, with a GDP of \$3550 billion and PPP of \$13104 billion ("World Economic Outlook Update, July 2023," 2023). Whereas the scholars have emphasized liberalization as the catalyst of this shift in the Indian economy, Rodrik has recognized inclusivity in Indian politics as one of the primary drivers of financial progress. Thus, political ideology and vision are critical in practically every discipline, including economic development, considering political leadership has a significant impact on policymaking (Ahmed & Varshney, 2012).

Kochanek stated that "The 1990s witnessed a change, as industrial associations especially the configuration of Indian industries, started sponsoring, and participating in, debates about policies in general" (Kochanek, 1995).

Southeast Asia, widely regarded as the centre of gravity of contemporary world politics, is not just a strategic location, but also an alternative world order with new economic models that are challenging the entire Western bloc. The rise of Indonesia as the largest economy (\$1.37 trillion) and one of the main pillars (territories) of Southeast Asia has been referred to be a paradigm shift in international geopolitics. After 300 years of Dutch rule, Indonesia declared a federation on December 27, 1949. However, President Sukarno officially abolished the federal structure on August 17, 1950, and adopted the unitary presidential system. Following independence, parliamentary democracy was established in Indonesia on October 28, 1956, under the leadership of President Sukarno, but it did not persist (Kahin, 2003). Sukarno imposed martial law in Indonesia on March 14, 1957, marking the end of the country's liberal phase. On the other hand, the rise of guided democracy. Therefore, in 1963, President Sukarno declared himself president for life and presided over a political system in Indonesia. However, the PKI attempted a coup d'état in Indonesia in 1965, but failed.

On the other hand, on March 11, 1966, Indonesian Army General Suharto seized political power in Indonesia, effectively putting an end Sukarno’s ‘Guided Democracy.’ subsequently, Suharto established an authoritarian rule in Indonesia with his ‘New Order’ in 1967 (Widodo, 2006). Additionally, Suharto’s authoritarian regime, culminated by the Golkar Party, lasted almost 32 years (Church, 2009).

Dick classifies Indonesia’s economic and political ups and downs from independence to the present era under multiple headings (see table 3.1).

The periods of Political and Economic Change in Indonesia in 20th Century

Year	Politics	Economics
1957-66	Guided Democracy	<i>Stagnation and Decline</i>
1966-73	Modest Reform	<i>Economic Recovery</i>
1974-98	Repression	<i>Rapid Development</i>
1998-	Democratization	<i>Crisis and Stagnation</i>

Table: 3.1

Source: (Dick, 2003).

Dick refers to the ‘Stagnation and Decline’ phase in the economic analysis of Guided Democracy in the Indonesian regime led by Sukarno from 1957-66. During this period, Sukarno began to focus more on politics than economics. However, Sukarno, due to his anti-imperialist beliefs, adopted the Soviet model over the laissez-faire economic model after obtaining independence. In accordance with the state-directed economy, he nationalised 100 Dutch companies, including 250 plantations, 40 trading firms, and 200 mining and basic industries (Patunru, 2018). At this stage, similarities can be observed between the Indian economy and the Indonesian economy. On the one hand, India nationalized heavy industry, rail, post, telecommunications, finance, and banking sectors as part of its Five-Year Plan; on the other hand, Sukarno and his ‘Guided Democracy’ continued to function as ‘Guided Economy’ (Bandyopadhyaya, 1977). The guided economy led to an inflation and debt crisis in

the Indonesian economy, as well as a decrease in foreign exchange. In fact, in 1958, Indonesia's foreign currency reserve was 442 million but in 1966 it came down to 330 million and annual rate of GDP growth was about 3%, resulting in a per capita growth of 1% per year (Grabowski, 2011). However, Sukarno introduced the Eight-Year Plan in 1960 to make the economy self-sufficient. Although food, cloth and basic necessities are the main goals of this plan for the first three years, the next five years are set to achieve self-sustained growth (Bandyopadhyaya, 1977). However, Sukarno's master plan was abandoned in 1964 when Indonesia's economy further collapsed (Aswicahyono & Hill, 2017).

With the change of power in 1966, the Indonesian economy began to be run for political purposes by the 'New Order' under the leadership of Suharto (Widodo, 2006). In order to stabilize Indonesia's economy, Suharto also accepted foreign direct investment and the capital market. Additionally, to relax the trade policy, market-friendly reforms are introduced (Patunru, 2018). Prior to 1980, Suharto introduced policy reforms in three major areas: Fiscal System, Trade Regulation, and Financial System (Azis, 1994). Dick defined this phase as the 'Economic Recovery' phase (Dick, 2003).

The two oil booms in Indonesia in the 1970s (1973-74 and 1978-79 respectively) led to massive growth in non-tradable sectors, including construction and trade (Patunru, 2018). Consequently, these sectors create plenty of new job opportunities (Booth, 2000). Along with this, rapid social development took place in Indonesia, which was reflected in the decline of poverty in Indonesia. The poverty reduction rate was 40.1% in 1976, followed by 28.6% in 1980, 21.6% in 1984, and 15.1% in 1990 (Booth, 2000).

During Suharto's three-decade dictatorships, three key sectors expanded drastically: agriculture, manufacturing, and services. In the 1980s, Indonesia had a GDP growth rate of 6.1%. The growth rates in manufacturing, services, and agriculture were 12.6%, 7.0%, and 3.4, respectively. However, the manufacturing sector grew by 12.5% in the 1990s as well service 7.6%, and agriculture 2.0% (World Bank, 2015).

Thus, Dick used the term 'Rapid Development' to describe Indonesia's phase of rapid growth (Dick, 2003). Following the second oil boom, Suharto dissolved the protectionist policy, leading to strict deregulation, export promotion, and devaluation

throughout the entire nation of Indonesia (Patunru, 2018). Until 1985, Indonesia was considered an import-oriented economy due to its protectionist policy, but it is now classified as an export economy. Furthermore, Indonesia has evolved from an agriculture-based to a service-based economy, reflected by the service sector’s growth in its present GDP (Stern & Kennedy, 2003) (see figure 3.4). In terms of economic growth under the Suharto regime, Chalmers Johnson characterized Indonesia as a ‘*Capitalist Development State*’ (Thee, 2012).

GDP Shares in Various Sector of Indonesia (%)

Sector	1990	2000	2010	2023
Agriculture	21.5	15.7	13.9	12.5
Industry	39.4	42.0	42.8	40.2
Services	39.1	33.4	40.7	42.9

Figure: 3.4

Source: World Development Indicators

After the fall of the Suharto-led regime in 1998, democracy returned to Indonesia. Under Presidents Habibie (1998-1999), Wahid (1999-2000), and Megawati (2001-2004), the Indonesian economy underwent multiple waves of reforms. In a way, the government is forced to pursue a liberal policy (Patunru, 2018).

However, protectionism returned to Indonesia’s economy after Susilo took office in 2004 and imposed trade regulations and license requirements for the import and export of textiles, steel, sugar, and cloves. The protectionist approach is reflected in Susilo’s new laws on minerals and coal mining (law 4/2009), horticulture (law 13/2010), food (law 18/2012), farmer protection and empowerment (law 19/2013), industry (law 3/2014) and trade (law 7/2014) (Anderson & Strutt, 2015).

On the subject of internationalism, however, then-President Joko Widodo referenced Sukarno when he addressed at the 2017 IORA Leaders’ Summit, emphasizing that ‘Internationalism cannot live without nationalism.’ However, Joko’s approach to protectionism becomes clear from this statement (Patunru, 2018). The structural shift of Indonesia’s overall economy is mainly reflected in GDP growth rate,

FDI inflows, import-export statistics. Also, the economic structure of Indonesia becomes clear in terms of ASEAN countries (see figure 3.5).

GDP Annual Growth of ASEAN Countries

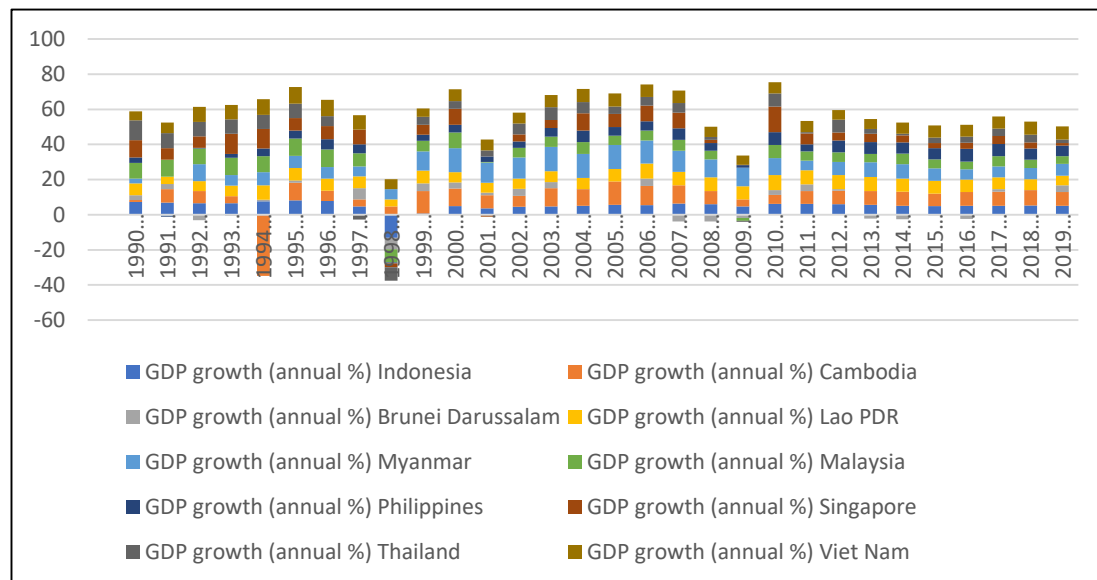


Figure: 3.5

Source: (World Bank, 2020)

Kim Anderson asserts that the rapid growth and industrialization of South, Southeast and East Asia has been able to build the only neo economic model outside of the Western model (Anderson & Strutt, 2015). In this alternative world order, on the one hand, India has emerged as an economic major power, while on the other hand, Indonesia is known as one of the major economic giants in Southeast Asia.

In the context of the mutual attribution of these two emerging economies, it can be said that there are similarities as well as contrasts in the structural shift of the two economies. subsequently in the 1980s, Indonesia's second oil boom started to formally phase of liberalization. Thus, liberalization in Indonesia started after rapid revenue collection, whereas liberalization in India started in 1991 as a consequence of the balance of payments crisis (Ahmed & Varshney, 2012). While Indonesia's economic progress has seen massive growth in the manufacturing and service sectors, India's growth has been only in the service sector (see figure 3.4).

Apart from this, Indonesia has become an export-oriented economy by focusing on the manufacturing sector, whereas India remains an import-oriented country (Mishra, 2011). Kim Anderson and Anna Strutt imply that the growing market of China

and India is a major factor in Indonesia's export growth because of their respective rankings in the top 10 trading destinations for Indonesia (see table 3.2) (Anderson & Strutt, 2015).

Indonesia's Top Trading Partners

Country	Export Share
China	US\$65.9 billion (22.6%)
United States	\$28.2 billion (9.7%)
Japan	\$24.8 billion (8.5%)
India	\$23.4 billion (8%)
Malaysia	\$15.5 billion (5.3%)
Singapore	\$14.4 billion (4.9%)
Philippines	\$12.9 billion (4.4%)
South Korea	\$12.8 billion (4.4%)
Taiwan	\$8.7 billion (3%)
Vietnam	\$8.3 billion (2.8%)

Table: 3.2

Source: (Workman, 2021)

In 1991, when India adopted a neoliberal economic policy and joined the Association of Southeast Asian Nations (ASEAN) as a sectoral partner, Southeast Asia became one of the top destinations for India's imports and exports, followed by Singapore, Indonesia, Malaysia, and Vietnam. Additionally, since India became an ASEAN dialog partner in 1996, it started engaging in bilateral trade with ASEAN member states. In accordance with Wallerstein's *World System Theory*, Indonesia and India have strengthened their bilateral trade relations over the years 1991–2023, based on their respective economies. However, the extent to which these commercial

transactions have affected the bilateral relations of both the states can be understood by analysing the evolution of the relationship.

Hla Myint and Anne O. Kruger stated that ‘Economic development the process whereby simple low-income nation economics transformed into modern industrial economics’ (Myint & Krueger, 2024). Therefore, economic development can be assessed by the structural changes take place across the state’s economic structure. T.S. Papola defined structural change as sustaining economic growth rather than just economic development (Papola, 2006). W.W. Rostow, an American economist, conducted a structural analysis of economic growth in 1960 in his work, “Stages of Economic Growth” (Rostow, 1960). In this article, he lays out five stages of economic growth, known as *Rostow’s Stages of Growth Model*: The Traditional Society, Pre-Condition to Take Off, The Take-Off, Drive to Maturity and Age of High Mass Consumption.

Rostow’s Stages of Growth Model

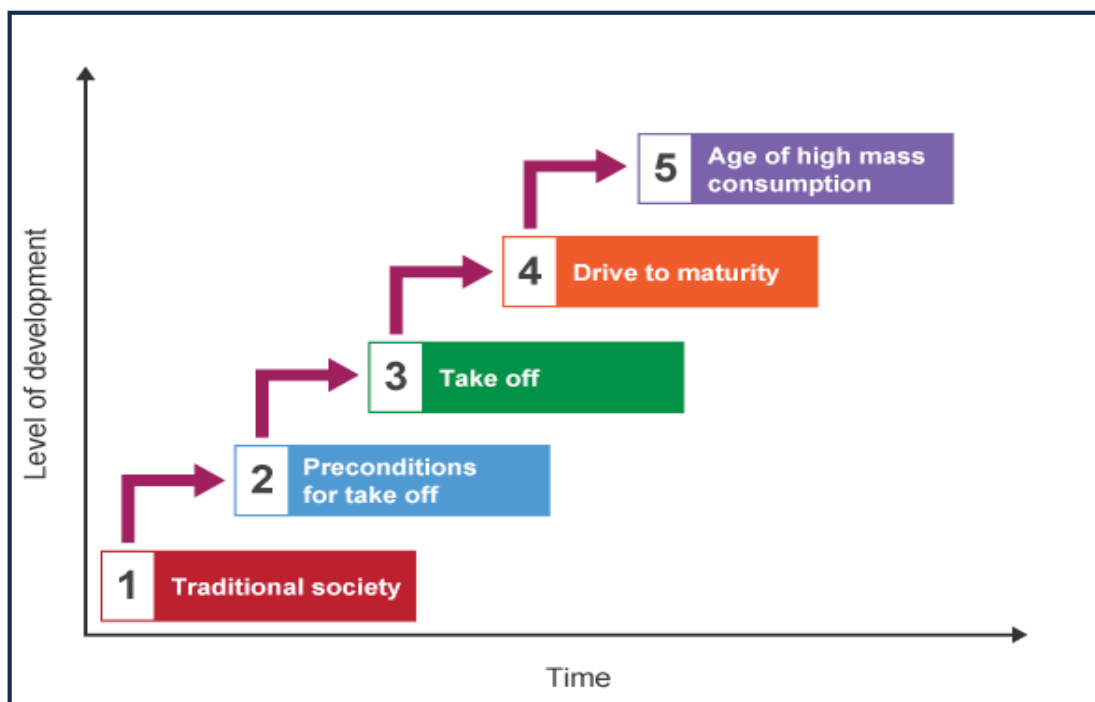


Figure:3.6

Source: (BBC, 2019)

Rostow defines the development process as a linear process that is regulated by long-term preparation (Thaha & Galib, 2022). On the other hand, with respect to

modernization theory, 'development can be achieved by following the development process used by developing countries today' (Thaha & Galib, 2022).

The Traditional Society

Rostow referred to the first stage of his 'Stages of Growth' model as 'The Traditional Society'. Rostow defines traditional society as the state's restricted productive structure, agrarian economy, low levels of commercial transactions, unskilled labour, along with hereditary & hierarchical social structure. For example, in terms of economic advancement, post-independence India and Indonesia's agricultural economies, particularly from the 1950s to the 1980s, are largely comparable to Rostow's traditional society (Papola, 2006; Stern & Kennedy, 2003). The similarity of the economic patterns of India and Indonesia characteristically follows 'The Traditional Society' phase of Rostow in the scope of the evolution of bilateral relations.

Pre-Condition to Take Off

Rostow described the 'Pre-Condition to Take Off' phase as the second stages of economic development or following level of traditional society. Rostow identifies several prerequisites for analysing this stage, including the rise of the manufacturing sector, the growth of credit institutions, economic progress with a focus on social values, the establishment of an industry or firm, and its long-term production. Additionally, increase the investment rate by 5–10% (Thaha & Galib, 2022).

As developing countries, the economic developments that took place in India and Indonesia following the adoption of liberalization in 1991 and 1985, respectively, are regarded as 'Pre-Condition to Take Off' stage.

The Take-Off

Rostow defines 'The Take Off' as the third stage of his 'Stages of Growth' model. To characterize economic progress at this stage, he stated that the state's economic condition refers to a series of developments, including the industrial revolution, dynamic societal change, modernization in every sector, greater urbanization, and a sustained growth process, as well as investment of at least five to ten percent of national income. For instance, the Strategic Partnership Agreement between India and Indonesia in 2005 and the Comprehensive Economic Cooperation Agreement

(negotiation) in 2011 have facilitated 'The Take-Off' stage in the relations between the two countries.

Drive to Maturity

The fourth stage of Rostow's 'Stages of Growth' model is 'Drive to Maturity.' At this stage of economic growth, after taking off, it continues to move forward. However, there are frequently ups and downs in the process. Rostow mentions the widespread use of technology, the increase and diversification of national income, the improvement of living standards, the shift of labour from agriculture to industry, the 20% decrease in workforce in the agricultural sector, the rise and modernization of multiple industries, including rail, road, hydropower, and steel, and the investment of more than 10% of national income as development indicators (Thaha & Galib, 2022). However, Rostow refers to this stage as the self-sustaining economic growth phase. In the context of bilateral trade relations, the advancement of financial transactions between India and Indonesia since 2014 has been referred to as the remaining 'Economic Maturity' phase.

Age of High Mass Consumption

The fifth and final stage of economic development is the 'Age of High Mass Consumption.' Rostow identified high-income developed economies at this stage. High living standards, the prosperity of the economy under the capitalist system, the growth of national power, the development of social welfare, and, most importantly, the investment of more than 20% of national income are the subjects Rostow highlights in this stage of high consumption. Known as the Asian economic tiger, Singapore and Japan are prime examples of this stage.

Using his 'Stages of Growth' model, Rostow examined the state's economic development in a linear process, guiding it in a certain direction with thorough planning. The model's four stages apply to developing countries, whereas the fifth stage portrays an advanced, established economy.

However, in the context of the present research, the commercial relationship between India and Indonesia, which remained from 1991 to 2023, corresponded to the second, third, and fourth stages of Rostow's model in terms of economic development.

According to Rostow's *Stages of Growth* model, India and Indonesia's 32-year trading partnership is classified into four stages based on economic events between the two countries: 1991-2005, 2005-2011, 2011-2014, and 2014-2023. Thus, Connectivity between the two countries is just as crucial as import, export, and investment in commercial exchanges. Needless to say, without strong connectivity, trade exchanges can never reach a greater level, one of the examples of which is Singapore.

However, although the first section of the chapter examines investment, including import-export, the second section explores connectivity in the context of the evolution of trade relations through ontological premises.

To study bilateral trade relations, the preceding four stages have been thoroughly explored in the context of the evolution of import-export and investment through a series of agreements, joint ventures and MoUs signed between India and Indonesia.

Trading Exchanges between India and Indonesia

The periodic analysis of trade between India and Indonesia is given below:

I. Import – Export Phase (1991-2005)

It has already been mentioned that diplomatic relations between India and Indonesia went into effect with the signing of the 'Treaty of Friendship' in 1951 (*Treaty of Peace and Friendship*, 1951). However, in 1953, the trade agreement between India and Indonesia established commercial relations between the two countries (*Trade Agreement Extensions*, 2023). This trade agreement between India and Indonesia has been extended multiple times due to trade progress. Before the adoption of liberalization, the economic pattern of both the countries (India and Indonesia) was very limited in terms of trade in socialized economy and guided economy respectively. However, when India liberalized in 1991, its LPG policy welcomed foreign trade and FDI by foreign enterprises. Additionally, in 1991, India accelerated bilateral trade in Southeast Asia through its Look East Policy.

In 1991, India's total trade with Indonesia was \$214.25 million (imports \$67.25 million, exports \$147 million) (see figure 3.7). On the other hand, Indonesia's total trade volume with India was \$282.5 million (imports \$226.4 million and exports \$56.1 million) (see figure 3.8). The export and import shares of India's bilateral trade with Indonesia were 0.821% and 0.345%, respectively, in terms of total trade figures for

1991 (see figure 3.9). Comparatively, the export and import shares of Indonesia's bilateral trade with India were 0.193% and 0.875%, respectively (see figure 3.10). In 1992, India's total trade with Indonesia, including imports and exports, stood at \$221.73 million (see figure 3.7). Additionally, Import and export growth was 0.37%, 5.26% respectively (see figure 3.13 & 3.11). Whereas, Indonesia's total trade with India, including imports and exports, was \$285.8 million (see figure 3.8). The growth rates for imports and exports were 4.81% and 24.03%, respectively (see figure 3.14 & 3.12). During the visit of the then Indonesian Minister of Industry, Mr. Hartarto, to India, an agreement was signed between M/s Ballarpur Industry and an Indonesian company for the construction of the Rayon Pulp Joint Venture, Sumatra, in 1992 (*MEA Annual Report 1992-93, 1992*). Which indicates the primary basis for building business relations between the two countries.

India's bilateral trade with Indonesia was substantially greater in 1993 and 1994, worth \$354.53 million and \$594.3 million, respectively (see figure 3.7). And the growth rate of total trade increased to 59.89% and 67.63% respectively. However, in 1994, India's import and export growth rates grew to 164.65% and 18.22%, respectively (see figure 3.13 & 3.11). On the other hand, Indonesia's total trade with India stood at \$596 million in 1994 (see figure 3.8). Though the export growth rate reached by 177.96 percent, the import growth rate remained -5.11%. Additionally, the growth rate of bilateral trade stands at 36.91%. Therefore, the import and export shares of Indonesia's bilateral trade with India stand at 0.995% and 0.693% respectively (see figure 3.10). Notably, in 1994, India invested \$179 million in Indonesia through 15 joint ventures to boost bilateral trade relations.

India's Trading Exchanges with Indonesia in (US\$ Million)

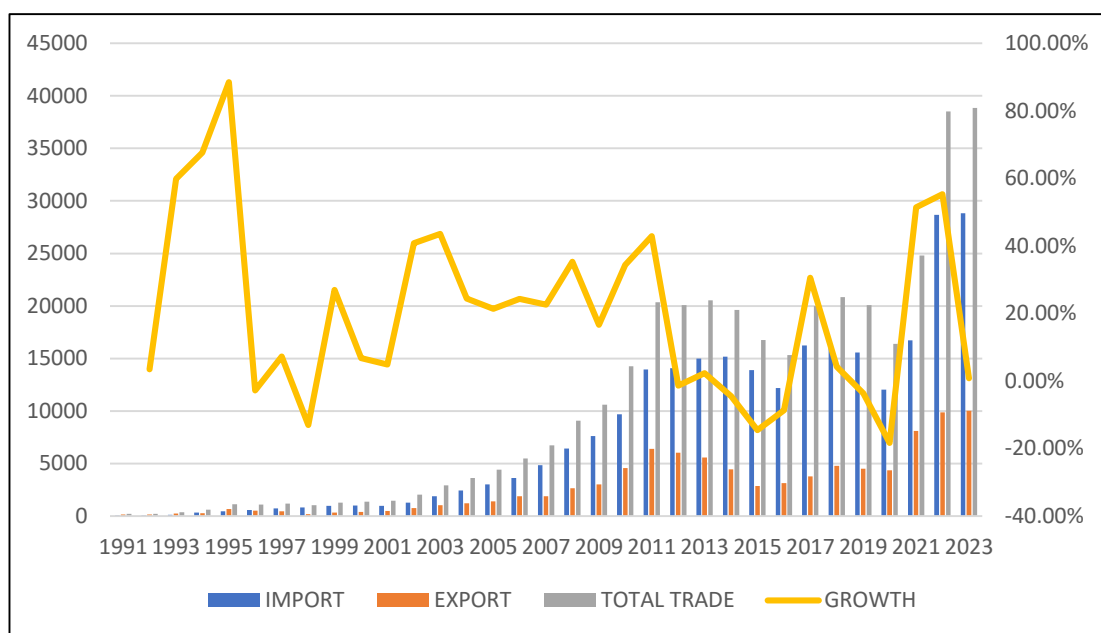


Figure:3.7

Source: <https://wits.worldbank.org/> and <https://comtrade.un.org/>

On 17 August 1995, when Indonesia celebrated its 50th year of independence, it awarded the “*Bintang Republik Indonesia Adipurna*,” Indonesia’s highest honour, to commemorate the contributions of former Indian Prime Minister Jawaharlal Nehru (*MEA Annual Report 1995-96*, 1995). Essentially, conferring this greatest recognition has a significant impact on bilateral trade. In terms of bilateral trade, India and Indonesia exchanged \$1120.5 million and \$859.8 million, respectively, in 1995 (see figure 3.7 & 3.8). Additionally, India’s trade growth rate remained 88.54% at that time. However, compared to 1994, Indonesia’s trade growth rate grew by 44.26%. At the 5th ASEAN Summit in Bangkok (14th-15th December 1995), India was recognized as a full dialogue partner, which had a significant impact on bilateral trade in 1996. At this time, Indonesia represents a bilateral trade share with India of 1.066% in exports and 2.018% in imports (see figure 3.10). However, the total trade volume between India and Indonesia increased to \$1089.5 million and \$1397.1 million, respectively (see figure 3.7 & 3.8). At the annual meeting of the Joint Business Council in 1996, FICCI opened a new office in Indonesia to promote trade between India and Indonesia (*MEA Annual Report 1995-96*, 1995). In addition, a Cultural Exchange Programme Agreement was signed to further strengthen bilateral trade relations between India and Indonesia.

Indonesia's Trading Exchanges with India in (US\$ Million)

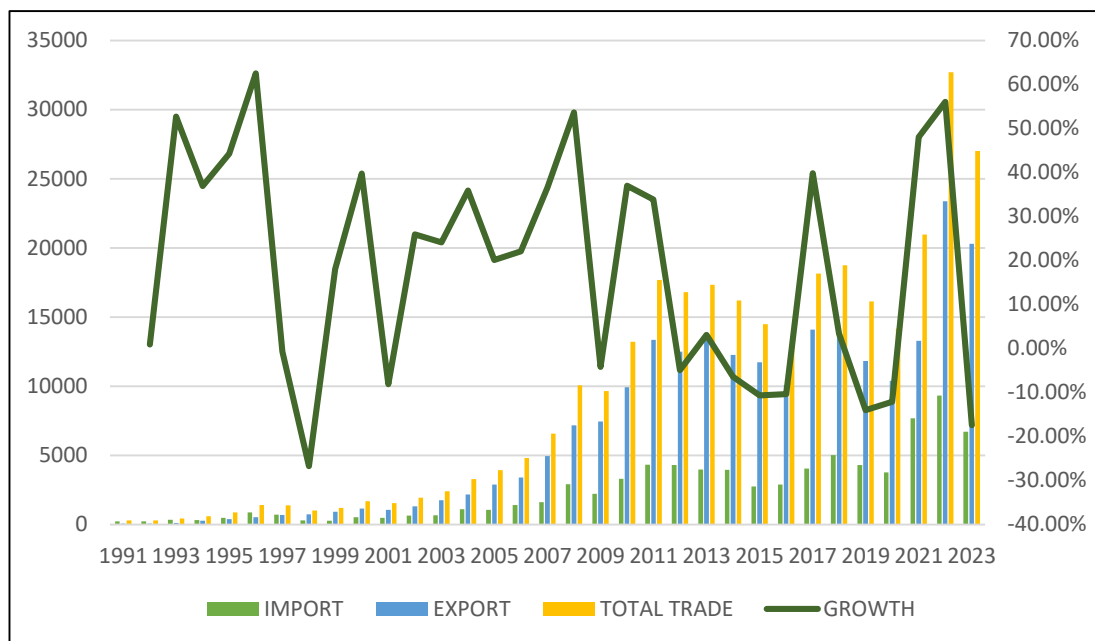


Figure: 3.8

Source: <https://wits.worldbank.org/> and <https://comtrade.un.org/>

As the Asian Economic Crisis erupted in 1997, Indonesia suffered significantly. Indonesia's annual GDP growth rate dropped to 4.70% in 1997, from 7.82% in 1996 (see figure 3.15). Thus, Indonesia's inflation rate rose by 11.6% in 1997. However, the IMF analysis indicates that the Asian Economic Crisis has had not much impact on the Indian economy. In 1997, India's GDP grew by 4.05%. India's total trade with Indonesia in 1997 was \$1386.9 million, reflecting negative growth over 1996 (see figure 3.7). The 1997 financial crisis, combined with the fall of Suharto's dictatorial governance in 1998, pushed Indonesia's economy even further backward. The GDP growth rate decreased by -13.13%, and the inflation rate increased excessively, which was 65.0%. On the other side, India's GDP increased by 6.18% in 1998 (see figure 3.15). However, both India and Indonesia had a negative impact on the mutual growth rate of bilateral trade, with India at -13.0% and Indonesia at -26.76%.

Suharto's overthrow in 1998 brought democracy back to Indonesia, and the country's economy also saw advancements. Comparatively, Indonesia's GDP growth rate was 0.79% in 1999 and reached 4.92% in 2000. Similarly, in 1999 and 2000, bilateral trade between India and Indonesia expanded by 18.07% and 39.74%, respectively (see figure 3.7 & 3.8). On the other hand, Indonesia's trade with India increased to \$1288.8 million and \$1376.2 million in 1999 and 2000, respectively.

Simultaneously, the import and export shares were 0.88%-1.928% (1999) and 0.922%-1.826% (2000) (see figure 3.10).

In 2001, India and Indonesia signed an MoU to set up a Joint Commission to enhance bilateral trade between the two countries. In essence, this Joint Commission sets up the work plan for bilateral agriculture sector cooperation at the agricultural level (Consulate General of India, 2019). However, India's trade with Indonesia grew to \$1443.7 million in 2001 and \$2032.9 million in 2002 (see figure 3.7). With respect to statistics, the growth rate of trade went up by 40.81% in 2002. On the other side, Indonesia's trade growth rate hit 25.94% in 2002 (see figure 3.8). Finally, the India-Indonesia Joint Commission Meeting was conducted in 2003, and the India-Indonesia Expert Working Group was formed to promote bilateral economic and commercial relations. During this period, Indonesia became the top supplier of crude palm oil to India, while Indonesia also became a very important market for India in terms of agricultural and commodity exports (*MEA Annual Report 2003-04*, 2003). In 2004, when the trade volume of both countries touched \$3 billion, not only trade but also investment progress was seen in the bilateral trade relations. Thus, in order to build the toll road segment, the Indonesian government granted IRCON a \$10 million investment in 2004. However, both states' respective import shares in 2004 were 2.37% and 2.453% (see figure 3.9 & 3.10).

During then-Indonesian President Susilo Bambang Yudhoyono's visit to India in 2005, the Joint Declaration on the 'New Strategic Partnership' between India and Indonesia was signed by Susilo and Prime Minister Manmohan Singh (Consulate General of India, 2024). This 'New Strategic Partnership' aims to enhance not only defense, diplomatic, and technological partnerships but also economic ties. The 'New Strategic Partnership' envisages bilateral trade volume of \$10 billion by 2010 to strengthen economic ties between India and Indonesia. By 2010, the 'New Strategic Partnership' intends to boost India-Indonesia economic relations by targeting a \$10 billion bilateral trade volume (*MEA Annual Report 2005-06*, 2005). However, the 'New Strategic Partnership' in 2005 provided a new impetus to India-Indonesia relations. In terms of the development of bilateral relations, the period from 1991 to 2005 can be referred to as the 'Pre-Strategic Cooperation Phase.'

II. Import – Export Phase (2005-2011)

The signing of the ‘New Strategic Partnership’ between India and Indonesia in 2005 had a major impact on India’s bilateral trade figures with Indonesia in 2006. Total trade volume stands at \$ 5480.3 million (imports \$3610.4 million, exports \$1869.9 million) (see figure 3.7). The trade growth rate in 2006 increased by 24.30%. On the other side, Indonesia’s imports and exports were \$1407.4 million and \$3391 million, respectively (see figure 3.8). Until 1997, Indonesia had a large import share in trade with India, but its export share rose after 1997. In 2006, Indian automobile manufacturer Bajaj Auto launched the CNG three-wheeler in Indonesia; the same year, two well-known Indonesian corporate houses, Selim and Ciputra Group, invested in India. India-Indonesia bilateral trade crossed the 6 billion milestone in 2007, with both countries’ commercial growth rates increasing by 22.59% and 36.58%, respectively. India became Indonesia’s third largest trading partner in the ASEAN region in 2007 in terms of bilateral trade figures (*MEA Annual Report 2008-09*, 2008). Therefore, the 2008 global financial crisis had a major impact on the economies of both India and Indonesia. Consequently, the Indian rupee and the Indonesian rupiah depreciated by 22.9% and 16.3% (January 2008), 28.43% and 28% (November 2018), respectively, against the US dollar. The GDP growth rates of India and Indonesia were not significantly impacted by the 2008 financial crisis, as reflected by their respective growth rates of 7.3% and 6.1%. However, both countries’ stock markets have suffered significant losses. The Indian stock market is down -52.4%, while Indonesia’s stock market is down -50.6% (Jose, 2008; Zain, 2018). The target of \$10 billion in bilateral trade between India and Indonesia set by the ‘New Strategic Partnership’ in 2005 was achieved in 2009. While the 2008 Global Financial Crisis had no effect on the 2008 GDP statistics, the 2009 GDP figures are widely reflected, with India at 5.4% and Indonesia at 4.0% (see figure 3.15). Thus, in 2009, the trade growth rates for both nations were 16.64% in India and 4.23% in Indonesia. However, this year, in order to promote business strategies, the Government of India displayed the ‘Made in India’ project in Bali, Indonesia (*MEA Annual Report 2009-10*, 2009).

India's Import & Export Share with Indonesia

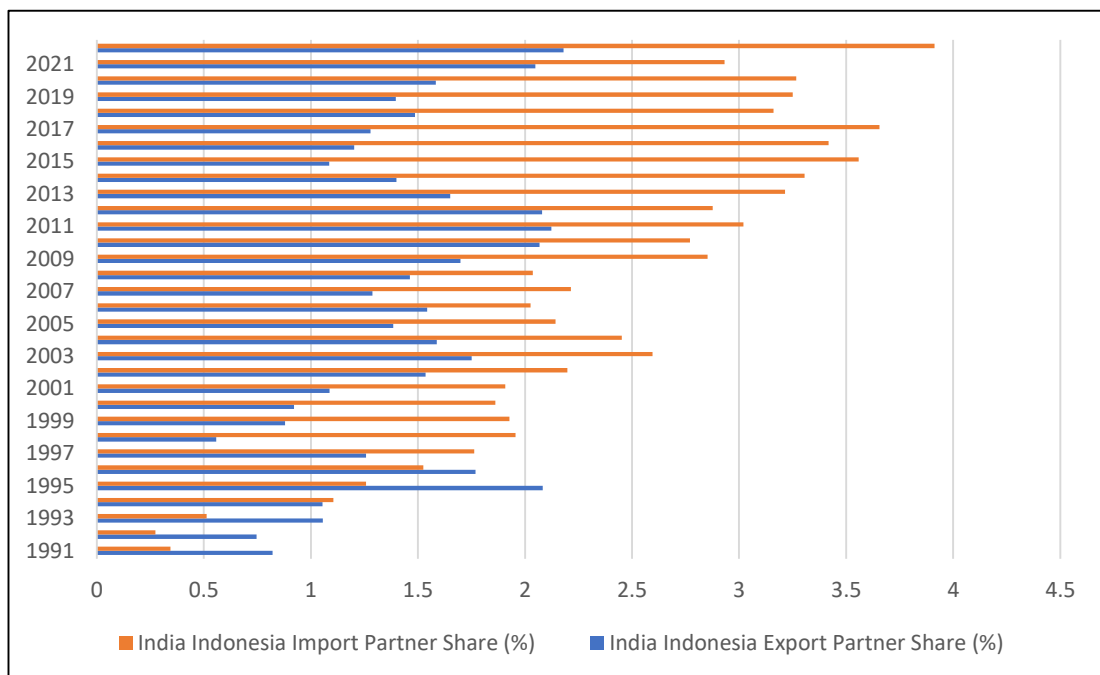


Figure: 3.9

Source: <https://wits.worldbank.org/>

In 2010, bilateral trade between India and Indonesia continued to grow after the Global Financial Crisis. As an aftermath, India became Indonesia's second-largest trading partner (*MEA Annual Report 2010-11*, 2010). In 2010, India's bilateral trade with Indonesia was \$14,252 million, while Indonesia's trade with India was \$13,210 million (see figure 3.7 & 3.8). The growth rate of bilateral trade between India and Indonesia in 2011 was 42.89% and 33.83% respectively. In this year, when Indonesian President Susilo came to India as the chief guest of India's Republic Day, 16 MoUs were signed between the two countries in various sectors (Consulate General of India, 2024). Moreover, the 2nd round of pre-negotiation meeting was held for the construction of CECA between the two states. Considering the attempts to build CECA in light of the expanding economic relations between the two nations, this period (2005–2011) might be referred to as the 'Pre-Negotiation Phase of CECA.'

III. Import – Export Phase (2011-2014)

After the CECA negotiations between India and Indonesia in 2011, India signed 18 trade agreements with Indonesia, worth an estimated \$15 billion including include

airports, seaports, railways, toll roads, river navigation, and power plants developed and operated (Consulate General of India, 2024). Furthermore, both India and Indonesia have set a target of \$25 billion in trade by 2015 to continue the growth of bilateral trade between the two sides (Consulate General of India, (Bali) 2024). However, in 2012, India’s trade with Indonesia stood at \$20,090 million, where imports were \$14,064 million and exports were \$6,022 million (see figure 3.7). On the other side, Indonesia’s overall trade volume with India is \$16,802 million, with imports of \$4306 million and exports of \$12496 million (see figure 3.8). The Government of India launched the India Business Forum (IBF) in the Embassy of India in Jakarta to enhance trade and economic engagement with Indonesia in 2012 (Consulate General of India (Medan), 2019).

Indonesia’s Import & Export Share with India

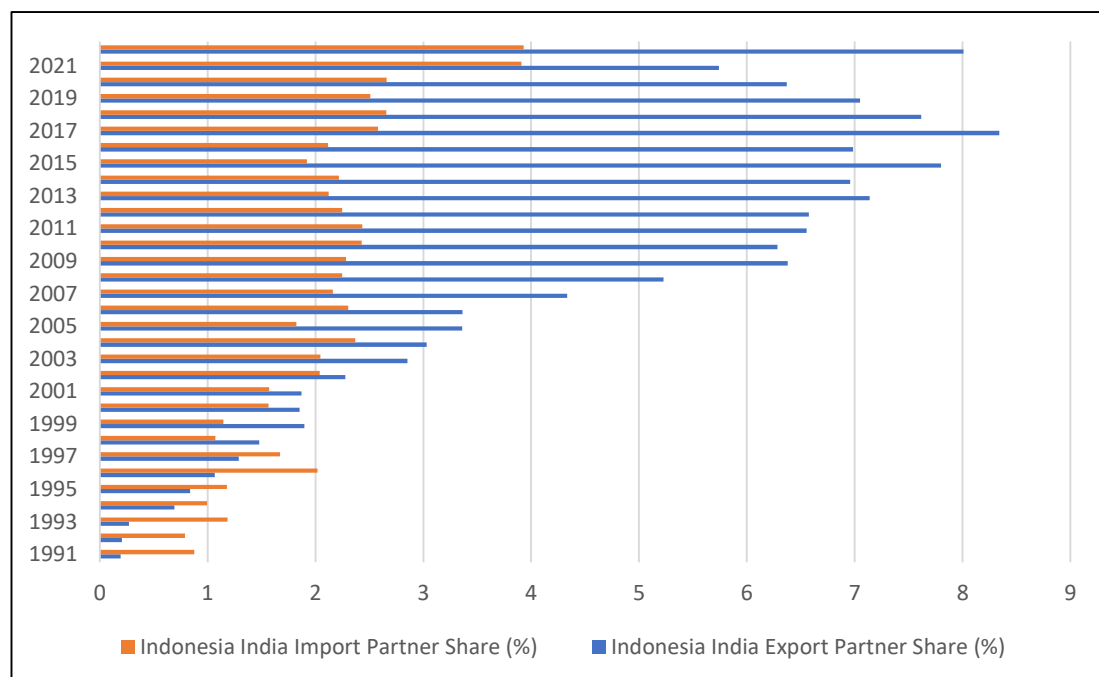


Figure: 3.10

Source: <https://wits.worldbank.org/>

During the visit of then Indian Prime Minister Manmohan Singh to Indonesia in 2013, the two countries signed MoUs on drug trafficking, cooperation in disaster management and combating terrorism, as well as agreed on five specific issues namely strategic engagement, defence and security corporation, comprehensive economic partnership, cultural and people to people links and cooperation in common challenges (MEA Annual Report 2013-14, 2013). In 2013, trade between the two nations increased

by 2.27% in India and 3.09% in Indonesia. Moreover, India’s import and export shares with Indonesia are 3.215% and 1.651%, respectively, whereas Indonesia’s share is 2.124% and 3.138% (see figure 3.9 & 3.10).

India’s Export Growth Rate with Indonesia

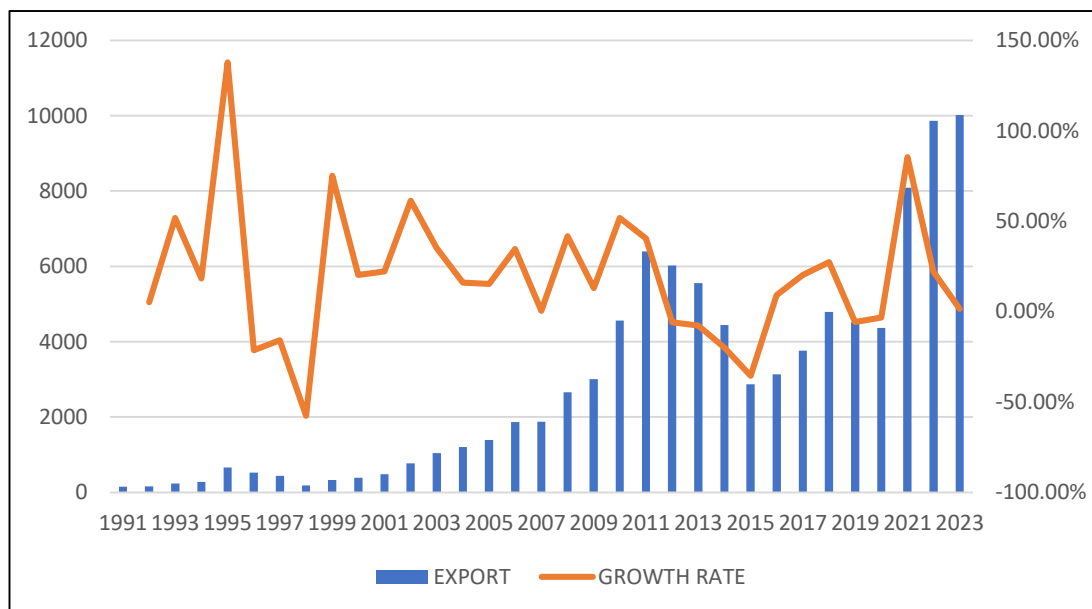


Figure: 3.11

Source: <https://wits.worldbank.org/> and <https://comtrade.un.org/>

Indonesia’s Export Growth with India

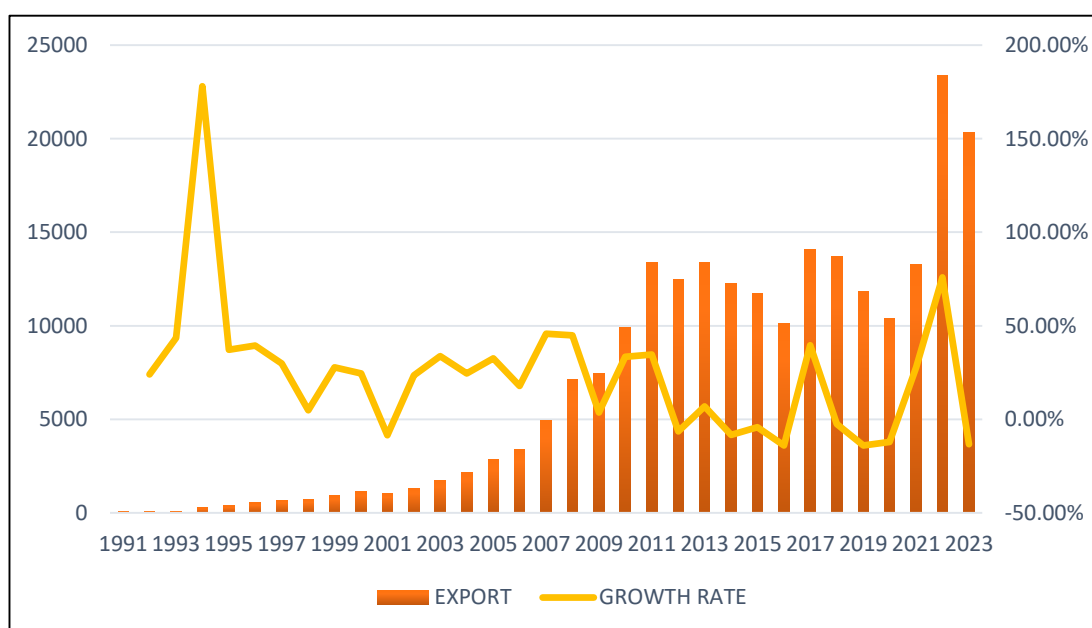


Figure: 3.12

Source: <https://wits.worldbank.org/> and <https://comtrade.un.org/>

In 2014, there was a change of political power in both India and Indonesia. In addition, on 13 November 2014, at the EAS Summit held in Nay Pyi Taw, Myanmar, Indian Prime Minister Narendra Modi upgraded the 'Look East Policy' to the 'Act East Policy' (Singh, 2018). In addition to economic engagement, India's foreign policy reform prioritizes culture, connectivity, commerce, and capacity building. Therefore, the Act East Policy makes relations more effective not only with Southeast Asia but also with East Asia. When Narendra Modi met the then newly elected President of Indonesia, Joko Widodo, at the EAS Summit, the two heads of state prioritized economic engagement. However, in 2014, trade between the two states was \$19,630 million for India and \$16,201 for Indonesia (see figure 3.7 & 3.8). The significant increase in the economic advancement and trade volume of both states, particularly the increase in combined trade from 6 billion in 2005 to an expected 35 billion by 2014, illustrates 'The Take Off' stage of Rostow's model. In terms of economic engagement and advancement between the two countries, the 2011-2014 phase is recognized as the 'Post Negotiation Phase of CECA.'

IV. Import – Export Phase (2014-2023)

With the shift of power in both nations in 2014, India launched its new action-oriented foreign policy, while Indonesia started its free and active foreign policy. In the context of bilateral trade, however, India and ASEAN signed the ASEAN-India Trade in Service and Investment Agreement in 2014 (Ministry of Commerce and Industry, 2020). However, this agreement was initiated by CECA-ASEAN in 2003. Thus, AIFTA was established in 2014 as a bilateral agreement between India and ASEAN. Moreover, the signing of the FTA with ASEAN has a huge impact on India-Indonesia business relations. Although the total trade volume of India with Indonesia in 2015 stood at \$16771 million but the trade volume decreased slightly in 2016 which was \$15320.5 million (see figure 3.7). However, in terms of bilateral trade figures in Southeast Asia, India became Indonesia's largest trading partner. During the visit of Indonesian President Joko Widodo to India in 2016 at the invitation of Prime Minister Modi, three MoUs were signed, and the two leaders emphasized the importance of the 'Comprehensive Strategic Partnership' (*MEA Annual Report 2016-17*, 2016). Following 2016 investment data, India's investment in Indonesia totalled US \$15 billion. The third-round meeting of the BTMF, which was signed in 2011, was held in 2017 to give more importance to trade as India became Indonesia's largest trading

partner. However, in this meeting, India promoted its ‘Make in India’, ‘Invest India’, and ‘Startup India’ projects.

India’s Import Growth with Indonesia

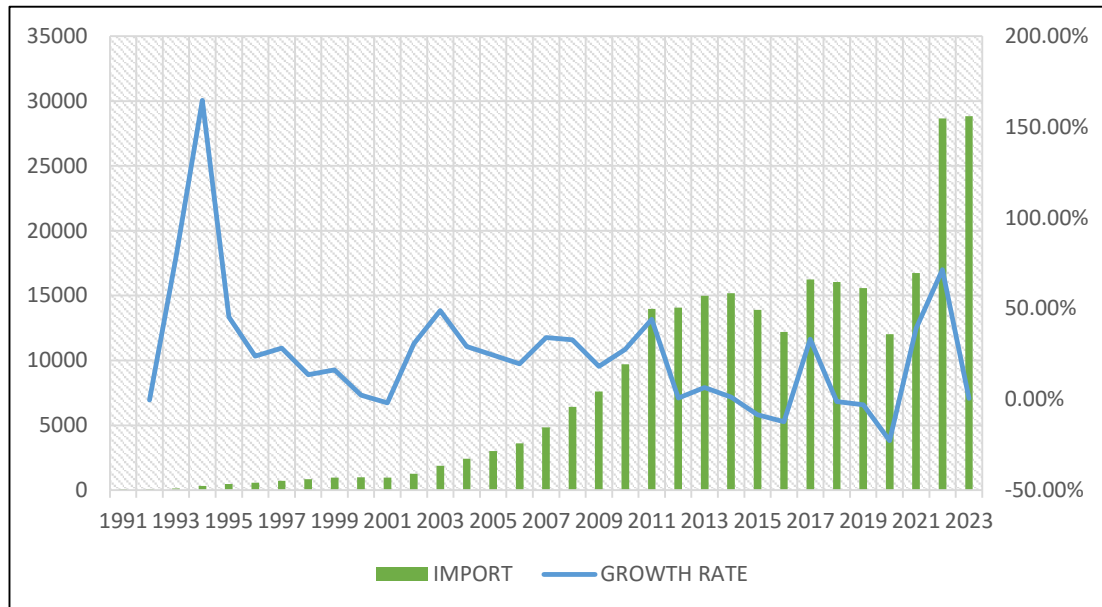


Figure: 3.13

Source: <https://wits.worldbank.org/> and <https://comtrade.un.org/>

Indonesia’s Import Growth with India

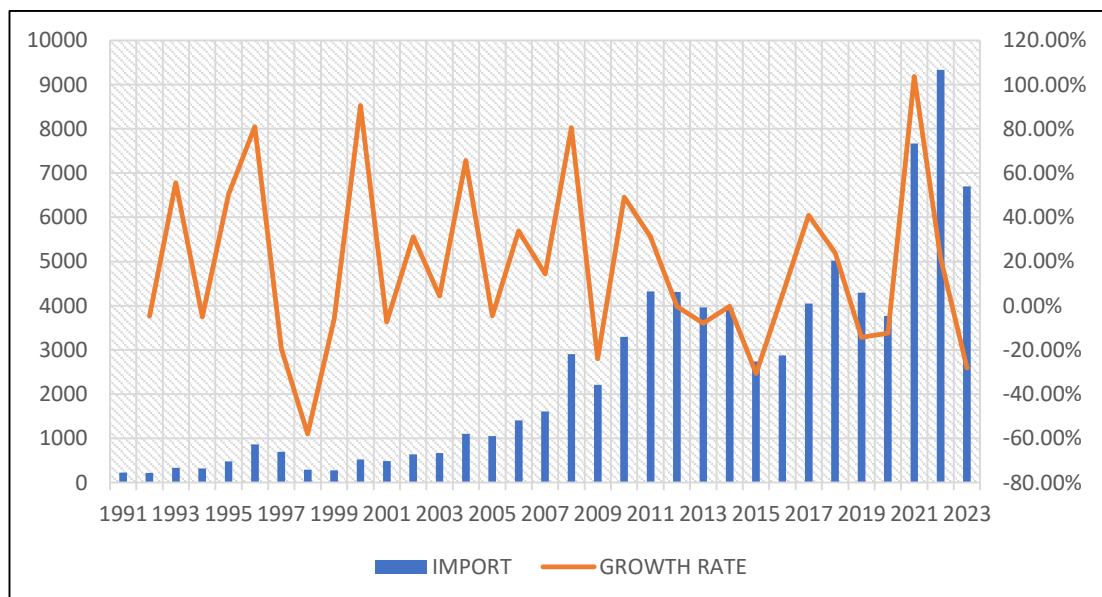


Figure: 3.14

Source: <https://wits.worldbank.org/> and <https://comtrade.un.org/>

In order to remove double taxation on trade, India and Indonesia agreed to the DTAA in 2012. However, the agreement came into force in 2016 between the two countries. Consequently, there is a huge impact on the trade figures of both countries in 2017. India-Indonesia trade in 2017 was worth \$19,998 million and \$18,132.5 million (see figure 3.7 & 3.8). However, trade growth increased by 30.53 and 39.4 percent, respectively. On the other side, both the states' GDP growth rates remained 6.80% and 5.07%, respectively (see figure 3.15).

After 2011, once again in 2018, then Indonesian President Widodo came to India as the chief guest of the Republic Day of India. Furthermore, Modi had visited Indonesia in May 2018 at Widodo's invitation. During Joko and Modi's dialogue, 15 MoUs were signed, while the 'Strategic Partnership' was expanded into a 'Comprehensive Strategic Partnership' to enhance both states' security, defense, and economic cooperation (Consulate General of India (Medan), 2019). The two leaders also inaugurated the 'Shared Vision for India-Indonesia Maritime Cooperation in the Indo-Pacific,' which aims to boost maritime connectivity. The trade volume of both countries in 2018 was \$20,839 million (India) and \$18743 million (Indonesia) (see figure 3.7 & 3.8). In terms of these bilateral trade transactions, Indonesia remains India's largest trading partner. However, in 2019, when the bilateral trade of both the countries showed a down growth, Indonesia became India's second largest trading partner in the ASEAN region (*MEA Annual Report 2019-20*, 2019). As per the 2019 trade figures, India and Indonesia accounted for \$20,079 million and \$16,119 million, respectively. On the other hand, India's trade growth was -3.65%, while Indonesia's was -14.0% (see figure 3.7 & 3.8).

Both countries attended the third edition of BTMF meetings in 2020 to assess trade progress; however, the economic slowdown caused by the global COVID-19 pandemic has had an effect on the two states' trade transactions (Consulate General of India (Medan), 2019). Bilateral trade between India and Indonesia grew at a relatively negative rate in 2020 compared to 2019, with a decrease of -18.40% in India and -12.17% in Indonesia (see figure 3.7 & 3.8).

In 2021, the growth in trade between the two countries was 51.40% (India) and 48.02% (Indonesia). Therefore, despite the increase in trade volume between the two states, Indonesia remains India's 2nd largest trading partner in the ASEAN region (*MEA*

Annual Report 2021-22, 2021). In 2022, when Indonesia hosted the G20 meeting, India held a series of high-level meetings with Indonesia, where all issues, including economic cooperation, defense, security, culture, connectivity, and investment, were discussed, the impact of which is reflected in trade statistics. As before, Indonesia became India’s largest trading partner in the ASEAN region.

This trend continues in 2023 as well. The bilateral trade between the two countries in 2023 stands at \$38,840 million: India (imports \$28,820 million, exports \$10,020 million) and Indonesia (imports \$6,700 million, exports \$20,300 million) (see figure 3.7 & 3.8). Needless to say, after 2022, India hosted the 2023 G20 meeting. It is said that this mutual relationship between the two countries sets a major milestone by successively hosting the G20 meeting. In 2023, the GDP growth rates for India and Indonesia stood at 8.2% and 5%, respectively (International Monetary Fund, 2023) (see figure 3.15).

GDP Growth of India & Indonesia

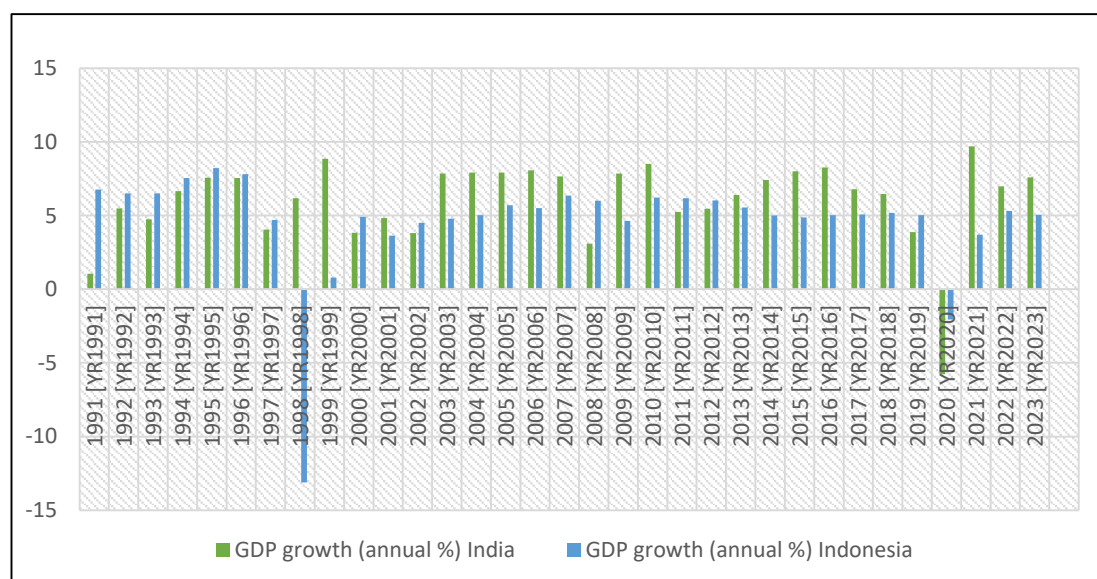


Figure: 3.15

Source: <https://wits.worldbank.org/>

However, India-Indonesia bilateral trade has seen tremendous progress during 1991-2023. In addition, a ‘Comprehensive Strategic Partnership,’ including combating terrorism, maritime cooperation, connectivity, and SEZ-related agreements, has been signed between the two countries, which has strengthened the diplomatic relations of the two countries. Thus, both countries are mutually emphasizing greater potential in

energy and tourism sectors. The long 32-year relationship is outlined by Rostow's 'Stages of Growth' theory, which is analysed at different levels of economic activity. However, after India's trade and investment agreement with ASEAN was signed in 2014, statistics for India's trade with member states improved dramatically. Following this growth, according to Rostow's theory, the position of the relationship between both states is known as the 'Drive to Maturity' Stage. Moreover, this stage is considered a continuous process. In terms of overall interpretation (2014-2023), this phase can be referred to as the 'Comprehensive Strategic Partnership Phase.'

Bilateral Investment: An Appraisal on Building Relations Between India and Indonesia

It is observed that transactions are as important as mutual investments in the analysis of bilateral trade relations. UNCTAD (2016) defines a 'bilateral investment is an agreement between two countries regarding promotion and protection of investments made by investors from respective countries in each other's territory' (UNCTAD, 2016). However, the trade relations between India and Indonesia have improved significantly in terms of receptive import and export figures, but little progress has been made in terms of investment. In particular, the amount of Indonesian investment in India has not created any milestones in the relations between the two states. Indonesia's investment in India in 2023 was \$6.17 million, while India's investment was \$85 million (Ministry of Commerce and Industry, 2023; Bank Indonesia, 2023). Foreign investment began to flow into India in 1991 when the liberalization policy was adopted. But Western countries contributed the most to this investment. These countries include the US, UK, Germany, France, Netherlands, Switzerland and Mauritius. However, Mauritius is the largest investor in India (Ministry of Commerce and Industry, 2023). On the other hand, Singapore and Japan are the two major Asian investors in India.

The most prominent countries among Indonesia's top investors are Singapore, China, Japan, Hong Kong, the United States, Malaysia and Taiwan (Team, 2024). Indonesia's total investment in India from 1991 to 2005, especially till the signing of the 'New Strategic Partnership,' was \$30.32 million, while India's total investment was estimated at \$500 million (see figure 3.16 & 3.17). In 2010, Indonesia invested the largest amount in India in this decade, amounting to \$433.06 million. However, it

was only 0.48% of India’s total investment, while India’s investment was only one million US dollars, which is 0.0072% of the total investment in Indonesia. In 2010, total FDI (inflow) to Indonesia and India was \$13,771 million and \$27,417 million, respectively (The World Bank, 2024). As per GDP statistics, this investment accounted for 1.64% in India and 2% in Indonesia.

FDI Inflows from Indonesia to India

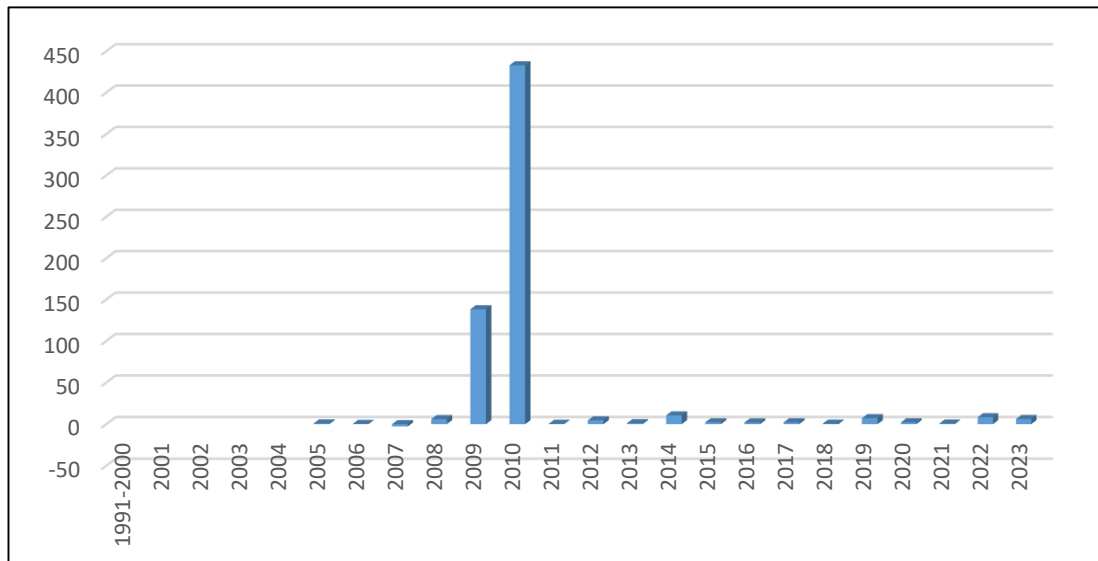


Figure: 3.16

Source: DIIP

FDI Inflows from India to Indonesia

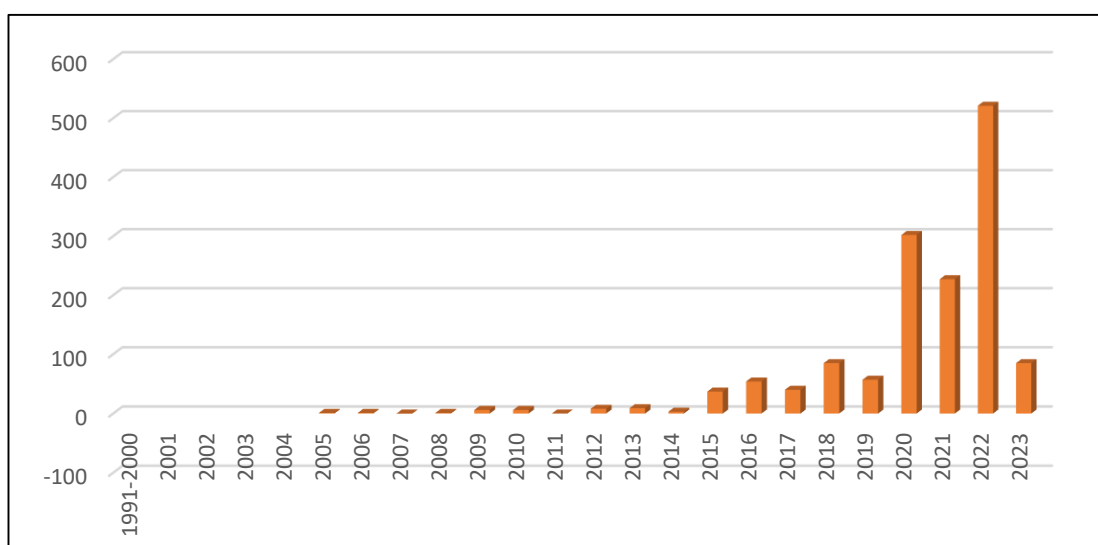


Figure: 3.17

Source: BI

In contrast, the outflow of foreign direct investment (FDI) in 2010 was \$15,947 million for India and \$2,664 million for Indonesia (The World Bank, 2023). This indicates that India's share of both outflows and inflows was significantly more than Indonesia's in 2010. The shift in power of both states in 2014, as well as the impact of India's notably active foreign policy on imports and exports, is evident in the investment sector. In 2014, India's investment was \$3 billion. On the other hand, Indonesia invests in India \$10 million. During the signing of the ASEAN-India Trade and Investment Agreement in 2014, India's investments in Indonesia have been increasing since 2015. However, the level of investment in Indonesia was relatively low. Mutual investments between the two countries were 37 million (India) and 2.06 million (Indonesia) respectively, in 2015. With respect to FDI inflow and outflow, in 2015, both states were: India (inflows \$44481 million, outflows \$7572 million) and Indonesia (inflows \$16641 million, outflows \$5937 million). However, the BJP's pro-business economic strategy fostered FDI growth in India. On the other hand, due to the protectionist approach of Joko Widodo, there is a lot of negative impact on both the FDI inflow and outflow sectors in Indonesia. India's investment in Indonesia was \$302 million, rising to \$521 million in 2021, despite the fact that global economic development slowed in 2020 owing to the COVID epidemic. Indonesia, on the other hand, invested \$2.24 million in 2020, \$0.74 million in 2021, and \$8.35 million in 2022 (see figure 3.16).

The year 2023 is significant for India's economic engagement from 1991 to 2023 since, on the one hand, India hosts the G20 meeting, and on the other, it ranks 15th in FDI inflows and 20th in outflows (UNCTAD, 2024). The amount of FDI inflow in 2023 was \$28163 million, and outflow was \$13341 million. Indonesia ranked 18th with an FDI inflow of \$21,628 million and 31st with an outflow of \$7073 million (UNCTAD, 2024).

Indonesia, after all, invested \$653.38 million in India during this 32-year period from 1991 to 2023, while India's investment was \$1442.655 million in Indonesia. However, the amount of investment in Indonesia by Singapore Gateway is about \$54 billion (Bonesh, 2023).

During 2023, India's overall FDI contribution to GDP was 0.79%, compared to 1.61% for Indonesia (World Bank, 2023b). As per the IMF's forecasts, both nations

have the most potential developing economies attending the future. There is no denying the fact that India and Indonesia have become increasingly attractive to each other in terms of GDP growth, FDI inflows, outflows, improved market conditions as well as progress in the services and manufacturing sectors. However, according to the Indian Embassy in Jakarta, more than 30 Indian companies and joint ventures are actively operating in Indonesia. Yet, at present, the number of Indian companies in Indonesia is approximately 82, whereas the number of Indonesian companies in India is only 5 (Embassy of India, Jakarta, 2024). Indian enterprises are involved within a variety of sectors, including IT, services, and manufacturing.

It has been discussed earlier that Indonesia is a country rich in natural resources; in comparison to that India is far behind Indonesia. As a consequence of rapid economic progress, particularly in the energy sector, significant advances in industry, manufacturing, and infrastructure development lead to an upsurge in energy consumption. Thus, India and Indonesia have agreed to sign agreements for specific cooperation in the coal, oil, gas, and renewable energy sectors. Several Indian firms have made significant investments in Indonesia's coal, oil, and gas exploration sectors, despite the fact that India has become Indonesia's major coal buyer. In addition to the energy sector, Indonesia has become a huge investment potential for India in the pharmaceutical, IT, and food processing sectors. But the tourism industry cannot be overlooked. Needless to say, the cooperative approach and ambitions of both countries to become India's third largest economy by 2027 and Indonesia's fifth largest by 2045 are likely to have a significant impact on the advancement of bilateral ties (Bonesh, 2023).

Connectivity: An Integral Part of Bilateral Business

In this research chapter, the evolution of bilateral trade relations and connectivity that has been constructed between India and Indonesia is presented ontologically. Ideally, the first section addresses the evolution of the two nations long trade relationship in the context of specific research questions, while the second section discusses the role of connectivity in strengthening the relationship, including its relevance and benefits as well as investment projects, challenges, and policy recommendations. Nevertheless, connectedness is an important attribute in traditional disciplines, particularly mathematics, biology, physics, economics, finance, and

energy policy. Yet, the term connectivity is now being used to describe the growing interconnectedness of actors in the globalized world (Buzna et al., 2024). In recent times, the word ‘connectivity’ has been addressed as a buzz word in diplomacy, economic integration, and international relations. However, the origin of the term ‘connectivity’ has not been traced to a specific time period, but is thought to have originated in the late 1890s. Thus, the term ‘connectivity’ began to gain popularity in the context of computing and telecommunication, particularly internet connectivity, during the second half of the 20th century (Gaens et al., 2023). The Merriam-Webster dictionary defines connectivity as ‘the state, quality, or ability of being connective or connected’ (Merriam-Webster, 2024).

The Greek word ‘Oikoumene’ refers to the network of civilized city-states. After all, its existence relies on the state’s economic, political, and cultural relations (Buzna et al., 2024). With respect to To Anh Tuan, the term ‘connectivity’ is frequently used, but it has not been feasible to provide a clear and concise explanation (Tuan, 2020). Viktor Buzna et al. argue that connectivity is a key aspect in geopolitical strategy and in the realm of great power rivalry. They essentially signify connectedness in the context of international geopolitics: “Connectivity refers to the relationship between two or more actors the system structure determines the pathways through which actors interact with each other” (Buzna et al., 2024).

English sociologist Antony Giddens stated that “Connectivity can be interpreted as a process in which the actors of the system based on their perception and interest, shape the structure of the system” (Giddens, 1984).

However, in his book ‘Connectography: Mapping the Future of Global Civilization,’ Parag Khanna presents “connectivity as nothing less than our path to collective salvation, the new meta-pattern of our age, or simply destiny - as well as a fascinating conglomerate of technology, geography, and human relations” (Khanna, 2017).

In response to the neorealist theory of international relations, connectivity is one of the primary sources of political players’ relative power, and it has a substantial impact on their position within the system. Simultaneously, connectivity attempts to develop the entire system by employing various techniques and types of connections based on inherent capabilities. In the view of structural realism, due to there being no

solitary power or governmental body to oversee the entire world system, this anarchic framework is interrelated in terms of relative power. Waltz primarily stated that ‘The structure of a system continuously changes with shifts in the distribution of capabilities across the system’s units’ (Waltz, 1979).

Liberals, on the other hand, believe that mutual welfare relationships create a status quo within the system. Essentially, they define connectivity as an interdependence that enables state actors to interact with one another (Buzna et al., 2024). But this interdependence is not symmetrical.

Systems theory characterizes a system as a significant pattern of interaction between non-state actors and state actors. However, as the scope of interdependence rises, so does the stability of the system, as well as its complexity (Buzna et al., 2024).

It has already been said that the connectivity paradigm, which is being heavily addressed in international relations, is not a new addition; rather, connectivity is a postmodern concept that is progressively appearing in international relations theory. Moreover, in the context of international relations, communication theory refers to direct or digital interactions between states. However, connectivity generally refers to both hardware and software across states (Osius & Mohan, 2013).

The global financial crisis of 2008 devastated all sectors of the developed world, including emerging economies, especially Southeast Asia. In 2010, ASEAN first formally adopted connectivity through its Master Plan, realizing this future scenario. Subsequently, China, Japan, India, the US, and Russia started giving special emphasis to connectivity development. China’s BRI in 2013, the Asia-Africa Growth Corridor in 2016, which was constructed by an India-Japan joint venture, and India’s Act East Policy in 2014 are particularly noteworthy (Plagemann et al., 2021).

Despite the fact ASEAN’s master plan in 2010 prioritized bilateral trade promotion, investment promotion, and infrastructure development in international relations, a realistic and pragmatic definition of connectivity evolved at the Asia and Europe Meeting (ASEM) in 2017. The ASEM implies that ‘connectivity is about bringing countries, people, and societies closer together’ (Gaens et al., 2023).

Although connectivity is employed as a cornerstone of geostrategy in international politics, the relevance of connectivity in economic ties is underscored

(Plagemann et al., 2021). However, according to the Chinese concept, connectivity expresses the ability to influence the context of geopolitics, but significantly never expresses cooperation; rather, it prioritizes competition (Buzna et al., 2024).

In 2013, Chinese President Xi Jinping launched the OBOR project to revive China's past trade route known as the 'Silk Road.' In addition, China took the initiative to build the 'Maritime Silk Road' to facilitate and improve trade exchanges with the Indian Ocean littoral states. However, instead of using these two mega projects in a different sense, the Chinese government merged these two projects in 2017 and announced them as BRI. Evidently, China's BRI project is defined as infrastructure development and connectivity building, but analysts determine it as one of China's geostrategies for establishing domination in the Indian Ocean (McBride et al., 2023). Examples include Colombo and Hambantota ports in Sri Lanka, Gwadar port in Pakistan, and Kyaukpyu port in Myanmar. In order to counter China's growing influence in the Indo-Pacific, a series of initiatives have been taken, such as the Indo-Pacific Strategy of the US, the Free and Open Indo-Pacific of Japan, the Sagarmala project of India, the Greater Eurasia Initiative of Russia, and the Connecting Europe and Asia Strategy by the EU (Tuan, 2020). Evidently, one of the key components for facilitating financial interaction, business ties, and trade as well as achieving sustainable development goals is connectivity. However, in the twenty-first century, competitive connectivity has evolved into an arms race (Khanna, 2017).

Johannes Plagemann, Sreeradha Datta & Sinan Chu has divided competitive connectivity into two categories, namely, Horizontal Competition and Vertical Competition.

A. Horizontal Competition

'Horizontal Competition' in the general sense, is caused by connectivity projects built between different nation-states. But one of its objectives is to defuse the geopolitical tensions between the actors. Countries that undertake connectivity projects through horizontal competition will be unable to achieve a meaningful competitive advantage as long as third-world countries do not support them. Needless to say, today almost all the countries of Asia, from Bangladesh to Indonesia, are showing special skills in adapting to geostrategic demands. The CPEC projects between China and Pakistan, as well as the Bangladesh, China, India, and Myanmar

(BICM) Economic Corridor, are examples of Horizontal Competition (Plagemann et al., 2021).

B. Vertical Competition

On the other hand, the competition between the connectivity projects carried out at different levels of the existing politics within the nation-state is known as ‘Vertical Competition.’ However, it can be said that nation state-controlled connectivity projects will not always take place within the state. For example, there are several sub-regions in Asia where connectivity initiatives have been taken in the past, many of which were minor powers in Asia. Such as the Motor Vehicle Agreement with Bangladesh, Bhutan and Nepal which allows easy access of vehicles from one state to another. Therefore, ‘Horizontal Competition’ effectively emphasizes inter-system connectivity, whereas ‘Vertical Competition’ emphasizes intra-connectivity (Plagemann et al., 2021).

The continuous expansion in interdependence between great powers in recent times has created a paradoxical situation in a relative sense. However, the application of Bart Gaens connectivity by an analytical framework to review the functional links at multiple levels of social organization of actors in regional systems with a global order is represented by six logics: Cooperation, Copying, Questioning, Contestation, Containment, and Coercion.

Cooperation: It allows the actors to construct favourable connective networks through mutual trust. For example, the India-Japan Joint Venture for the Asia-Africa Growth Corridors.

Copying: When an actor tries to build a connection with another actor or non-actor through emulation, it is called copying. In this case, however, there could be two explanations: either the state assumes itself inferior through copying, or the actors do not promote what they have to copy. For instance, China’s ODA model, which is reflected in Japan’s economic cooperation initiative.

Questioning: The objective is to sustain the balance of power by collaborating with major players. For example, India joined NAM with friendly relations with the United States and the Soviet Union.

Contestation: When an actor receives a special kind of advantage from another actor through connectivity, For example, the presence of Chinese and Japanese naval bases in Djibouti.

Containment: Generally speaking, when one actor isolates another actor from a group of actors, in addition, connectivity builds relationships among different actors. For instance, building the quad devoid of China.

Coercion: When an actor makes a connection with another actor by using force for his own benefit. This is usually done in a military, economic, institutional, and diplomatic way. Coercion, the phenomenon caused by connectivity, significantly indicates imperial pursuits. For instance, South China Sea arbitration under UNCLOS (2016).

Bart Gaens, Ville Sinkkonen and Henri Vogt present six logics behind the application of connectivity, as well as several spheres of connectivity construction, including economics and financial exchange, and security (Gaens et al., 2023).

To examine the impact of connectivity in the evolution of bilateral trade relations between India and Indonesia in the second section of the research chapter referred to above by the logic of cooperation in the economic and financial exchange and security spheres, respectively, how connectivity has helped to make bilateral trade relations between India and Indonesia more effective, and what role connectivity plays in building maritime security, is presented by the analysis of research questions.

Southeast Asia, known as the emerging economic hub of the 21st century, especially the Association of Southeast Asian Nations (ASEAN), has set a unique precedent in terms of economic progress. Indonesia is one of the founding members of ASEAN and the 16th largest economy in the world. However, in terms of commercial transactions, Indonesia ranks sixth in Southeast Asia, following Singapore, Malaysia, Thailand, Brunei, and Vietnam (Statista, 2020). In other words, Indonesia remains behind in literally any kind of bilateral, trilateral, and multilateral business. However, one of the reasons for this backwardness of Indonesia in the field of trade is the reluctance of political leaders towards international trade and the lack of proper infrastructure. Current India-Indonesia bilateral trade stands at \$65,840 million (2023) as compared to the trade volume in 1991 was \$496.75 million. Currently, it has increased by approximately 13167.51%. Hardware and software

connectivity is undoubtedly the driving force behind these growing trading exchanges between India and Indonesia. In accordance with Ted Osius, hardware connectivity mainly refers to rail, road, air, and maritime, especially infrastructure development. On the other hand, 'software connectivity' usually refers to customs codes, transit regulations, training on capacity building, technology transfer, or people-to-people contact (Osius & Mohan, 2013).

Geographically, Indonesia is a water-locked country in the Southeast Asia region that consists of approximately 17,500 islands. Essentially, waterways and airways are Indonesia's primary routes of foreign trade. However, since maritime shipping is cheaper than air shipping, most of Indonesia's total trade is carried out by waterways. Consequently, while India has taken the initiative to build IMTTH, KMTTP, and MIEC with member states to strengthen bilateral relations with ASEAN, no such initiative has been taken with Indonesia (De, 2011). Since Indonesia relies on waterways to carry out trade, the port's adaptability for international container shipping is especially notable. At present, the total number of sea ports in Indonesia is 348, but there are only 25 major ports (Romero, 2022). In comparison, the total coastline of India's mainland and islands is 7516.6 kilometres. There are 229 seaports in this entire region, but the number of major seaports is only 13 (Rastogi, 2019).

McKinsey Global Institute, while studying India-ASEAN connectivity, concluded that if an additional 1% of GDP is spent on infrastructure development, it could result in the creation of 3.4 million additional jobs in India and 700,000 in Indonesia. Therefore, it can be argued that infrastructure development not only facilitates connectivity but also generates a large number of new job opportunities that will boost the state's economic growth (McKinsey Global Institute, 2013).

On the other hand, ERIA has prioritized multi-modal transport in their studies to enhance regional commercial activity (Kimura & Kobayashi, 2009). Therefore, if the diversified trading route is used in bilateral trade transactions, on the one hand, the traffic problem will be solved, on the other hand, it will be more effective to build a strong connectivity with multiple major ports.

Major seaports used in India-Indonesia bilateral commercial transactions play a crucial role in the development of sea route connectivity. Although the number of major ports in India and Indonesia is 13 and 25 respectively, the trade of both the

countries takes place through a few ports (see table 3.3). Among all these ports, the port of Chennai, located in the Indian state of Tamil Nadu, has contributed greatly to the bilateral trade of India. Scholars refer to this port as India's gateway port to ASEAN and East Asia.

Port Connectivity of India and Indonesia

Origin	Destination	Duration (Days)
Chennai	Jakarta	16
Chennai	Surabaya	18
Cochin	Jakarta	15
Kolkata	Jakarta	22
Krishnapatnam	Surabaya	18
Mundra	Jakarta	18
Nhava Sheva	Jakarta	16
Nhava Sheva	Belawan	16
Nhava Sheva	Surabaya	17

Table: 3.3

Source: (WeFreight Shipping LLC Global Headquarters, 2024)

The state of Tamil Nadu, which is recognized as a growing and promising economic powerhouse in southern India, remains a prominent position in the automobile sector. At the same time, South and East Asia, especially ASEAN, have emerged as important trading hubs for India. Additionally, Chennai Port in the state of Tamil Nadu has built a crucial connectivity route with Southeast Asia. Tamil Nadu has established both external connectivity with Southeast Asia and internal connectivity, particularly with the rest of India. One of the examples is the merger of National Highways 4, 5, and 46. In addition to the Chennai Port, the port of the province that provides a special link to Southeast Asia is the Ennore Port, located on the Coromandel Coast, 24 kilometres north of Chennai Port (De, 2011). On the other hand, Jakarta Port is the most popular port in terms of trade between India and Indonesia. Jakarta Port is

located on the coast along the mouth of the Ciliwung River, north of Indonesia's capital city. Jakarta is Indonesia's capital city, and it is well-known as the nation's leading educational centre as well as for industries, particularly automobiles, electrical and mechanical engineering, chemicals, and finance (Ahmed, 2022).

Therefore, the development of connectivity between India's Chennai Port and Indonesia's Jakarta Port is reflected in the state's Linear Shipping Bilateral Connectivity Index Statistics. The India-Indonesia index points in Q4 2006 was 0.2619, Q4 2010 was 0.2479, Q3 2015 was 0.2191, and Q1 2021 was 0.2210 (approximately) (UNCTAD, 2023). Although both states failed to achieve a particular position in the top ten partner list of the Connectivity Index of both states, the progress made in the points of the India and Indonesia Connectivity Index from 2006 to 2021 may be clearly gauged from the state's connectivity growth. In addition, the evolution in the state's Linear Shipping Bilateral Connectivity Index ranking has made clear the extent of connectivity in India and Indonesia.

During the visit of the Indian Prime Minister to Indonesia in 2018, the two Heads of State took initiatives related to connectivity through the 2018 Joint Statement...

“Underline the importance of stronger connectivity especially on sea links, in order to facilitate economic cooperation, and people to people contact.”

The first JTF formed for this purpose has taken several positive initiatives to build connectivity between India's Andaman and Nicobar Islands and Indonesia's Aceh Island (Sakhuja, 2020). In addition to maritime connectivity, direct air connectivity between India and Indonesia has been built in 2023. It connects Mumbai in India and Jakarta in Indonesia (PTI, 2016). At the same time, direct flights from Delhi to Bali and Bangalore to Bali will start soon. Connectivity is widely reflected in the construction of sea and waterway links between nation states, as well as the boom in infrastructure development, marine resource exploration, fisheries, economic engagement and tourism sectors through investment and commercial trade. While nation-states emphasize building physical links through hardware connectivity, on the other hand, software connectivity, people-to-people contact, and maritime connectivity are also given great importance. In this regard, technology assistance, such as sufficient training for security personnel, customs codes, transit regulation, and capacity building, makes a substantial contribution to improving maritime security. For

example, the Bilateral Defence Cooperation Agreement 2001 between India and Indonesia, the India-Indonesia Coordinated Patrols 2002, Indonesia's Global Maritime Fulcrum Agenda 2014, and India's SAGAR initiative 2015 accords, on the one hand, significantly contributed to maritime security. The India-Indonesia Security Dialogue, which includes *Samudra Shakti*, the Multilateral Exercise MILAN or Komodo, the Defence Minister Dialogue, the Maritime Domain Awareness Programme, Maritime Security, Trade, and People-to-People contact, has been activated between the two countries (Embassy of India, Jakarta, 2024). In this regard, P. Gopal stated that "increased maritime connectivity will be unarguably led to enhance trade and people to people interaction both of which will Intel augmented security collaboration between Maritime agencies in both countries" (Gopal & Alverdian, 2021).

Challenges

The hardware and software connectivity engagement between India and Indonesia, on the one hand, has brought about significant modifications and enhancements in trade, political and cultural exchanges, infrastructure development, investment, and security; on the other, both countries are facing multiple difficulties to make it work. Professor Prabir De points out the following challenge in his research:

1. Lack of coordination between the two states by the railway network
2. The lack of standard highways operating in all weather conditions
3. Inefficient and underdeveloped borderlands and customs stations
4. The absence of a suitable transit corridor and
5. Inadequate Security (De, 2011)

In accordance with the RIS Connectivity Report, multiple challenges have surfaced in the context of India's maritime connectivity with Southeast Asia, including

- Insufficiency of port capability
- Lack of skilled human resources
- Absence of institutional mechanism
- High cost of port management with high facilities, etc. (ASEAN-India Centre, 2014).

Recommendations

The escalating security threats, piracy, arms robbery, and natural disasters in the IOR have not only impacted bilateral trade between India and Indonesia, but the presence of China and the US in the region is also intended to undermine peace and security substantially. Scholars and strategists have proposed a number of recommendations for policymakers in India-Indonesia joint venture initiatives, viz.

- I. Building Comprehensive Awareness in the Maritime Domain
- II. The immediate enforcement of the Maritime Law
- III. Special emphasis on coastal management
- IV. Incorporating the marine environment and economic development in the 'Maritime Security Matrix'
- V. Promoting cooperation on a common issue
- VI. To resolve territorial and maritime disputes peacefully and
- VII. Promoting the role of multilateral institutions (ASEAN-India Centre, 2014).

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Chapter: IV

Big Power Conflicts: Challenges and Consequences in India–Indonesia Relations

Contemporary world politics have fostered a chaotic scenario in the Indian Ocean. However, analysts, scholars, and policymakers regard world instability as a potential catastrophe for the Asia-Pacific region. Needless to say, the Indian Ocean is of great significance in terms of both commercial and military security due to its strategic proximity. In the words of Robert Kaplan, Indian Ocean as “form [ing] centre stage for the...twenty-first century” (Vajpeyi, 2013).

Additionally, he adds, “The Indian Ocean is also an idea. It combines the centrality of Islam with global energy politics and the rise of India and China to reveal a multilayered, multipolar world” (Kaplan, 2010).

Therefore, the Indian Ocean is critical to both regional and international political systems. In both the commercial and military security dimensions outlined above, the Asia-Pacific region adjacent to the Indian Ocean has emerged as the epicentre of world politics. However, the Asia Pacific region is the world’s largest, encompassing East Asia, Southeast Asia, South Asia, Oceania, and the Pacific Rim. But contemporary scholars contend that the term ‘Indo-Pacific’ is more appropriate than the Asia-Pacific region, which borders the Indian and Pacific oceans. Russia and China, on the other hand, prefer the ancient name “Asia Pacific” to “Indo-Pacific.” In 2007, then-Japanese Prime Minister Shinzo Abe employed the term ‘Indo-Pacific’ in his address titled “Confluence of the Two Seas.” The term was coined by German geopolitician Karl Haushofer in 1920 (Teekah, 2024). In the context of demography and economy, the Indo-Pacific region encompasses 40 countries and 45% of the world’s surface area, making it home to four billion people. The region’s overall GDP is \$47.1 trillion. At the same time, the region contributes 46% of the world’s total trade. However, the region’s largest economies, excluding the United States, are China, Japan, India, South Korea, Australia, and Indonesia, respectively (Singh, 2019 & Global Affairs Canada, 2022).

Therefore, the growing economies of the Indo-Pacific region, especially in East Asia, Southeast Asia, and South Asia; the greater market systems; the long maritime area and the adjacent Exclusive Economic Zone; the rich offshore natural resources; and the geostrategic location have become an unprecedented combination of geo-economics and geopolitics. This region has been an attraction for major and middle-power states, owing to the aforementioned factors. As a result, academics refer to the region's overall ascent as the 'Asian Century' or 'Asia's Rise' (Rosyidin, 2017). Furthermore, multilateral cooperation, security, and economic integration, as well as commercial exchanges through multilateral regional organizations such as ASEAN, BIMSTEC, and EAS, have enhanced the region.

As mentioned earlier, there are important aspects of becoming more attentive to the major and middle power states in the region. Among the major powers in the region, however, are the United States, China, India, Japan, Russia, Australia, France, Britain, and the European Union. Of course, each state is linked to the region in the context of its national interests to realize certain objectives. After World War II, the world was divided by two different ideologies, capitalism and communism. There is a double whammy in world politics. However, to eliminate the security crisis in this bipolar world order, a military alliance led by the two major powers, the United States and the Soviet Union, was created. In Southeast Asia, the US-led military alliance known as SEATO was formed to mitigate the security crisis. Therefore, the current issues of security and economic integration among the major powers in the region are not a new phenomenon. However, when the Soviet Union collapsed in 1990, so did the US-led SEATO coalition. However, when the United States established its absolute dominance in world politics, the United States withdrew from the region. As a result, the region was rendered power vacuum, whereas countries such as India, China, Japan, Singapore, South Korea, the Philippines, Indonesia, Malaysia, Thailand, and Vietnam became financially strong as a result of economic liberalization. Meanwhile, China and India are expanding their military capabilities. However, the extent to which China's and India's economic and military clout has helped propel both countries to the ranks of Asia's rising powers cannot be ignored.

Amitabh Acharya says "while 'rising power' refers to countries that have clear potential to become major powers, 'emerging power' refers to countries that are not heading for major power states" (Ibid.).

Mahbubani stated that (2011), the 21st century belongs to Asia and will see the end of Western dominance Asia's rise market by the rapid economic development of China India and other Asian countries represents a seminal turning point in history (MacDonald & Lemco, 2011).

Therefore, Zakaria's concept of the 'Post-America World' highlights the shift of power in global politics (Zakaria, 2008). However, the Asia Pacific region's booming economy, abundant natural resources, improved marine access and geostrategic proximity, and the busiest trade route have increased its importance in global politics. Even in light of this magnitude, the major powers continue to seek engagement with the region through a variety of avenues in order to achieve specific goals while taking into consideration their national interests. On the one hand, strategies for economic integration, connectivity development, energy security, cultural exchange, and the advancement of bilateral and multilateral trade and investment are being developed and implemented by Japan and India. In fact, India is extremely active and eager to fulfil all of these objectives by becoming a net security provider in the region. On the other hand, unlike Japan and India, China ensures not only economic and trade connectivity in the region but also rail and road connectivity, infrastructure development, port modernization, energy security, etc. through its BRI and Maritime Silk Road projects. At the same time, China has been trying to build geo-economic and geopolitical dominance to strategically reduce the Malacca dilemma. That is, if there is a power vacuum in the region after 1990, China is attempting to fill it by implementing the strategy mentioned above. However, China's expanding hegemonic influence in the region, as well as its aggression in the South China Sea, has compelled the United States to focus on the region. After the collapse of the Soviet Union and the emergence of the unipolar world order led by the United States, the United States withdrew its military from the region. However, the rise of Asia in the 21st century, especially China's military modernization and the threat of the occupation of Taiwan, has led the United States to once again increase its presence in the region. Thus, China's emergence as a potentially rising power continues to pose a challenge to the United States' regional supremacy. The numerous reports from the United States. In 2008, the Defense Department's US submission to Congress had a significant impact on Washington's attitude toward regional stability and alleged proactive containment efforts (Lacharite, 2022).

However, the preceding discussion has recently provided a comprehensive overview of the region's relevance as well as the specific interests of the major powers. Which help us deeply understand the major power conflict in the region. But before delving into this further, it is crucial to grasp the backdrop of major power conflicts and their implications in terms of power theory—which facilitates analysing the primary focus of the research chapter.

However, the concept of power in international relations has always been considered a core aspect. However, researchers sometimes refer to power as the nucleus of global politics. Therefore, the fact that power is a very relevant element in the arena of international relations and world politics cannot be ignored. Conversely, in the discourse of sociology, especially in the traditionalist interpretation, the concept of power was determined by the qualitative aspect, i.e., ethics, morality, classical philosophy, and context-dependent phenomena. There was no scientific explanation. Therefore, the traditionalist interpretation of 'power' is ambiguous as to how power is managed or used by the user group. Thus, positivist evidence validates the traditional approach that moral principles do not justify the exercise of power. Instead of analysing the entire social system subjectively, a group of academics set out to examine each event that occurred within the social system quantitatively rather than qualitatively. These groups always interpret the social issue, the precise scientific logic underlying the setting, the empirical evidence, and the causal relationship. Philosophers of state theory, such as David Easton, Arthur Bentley, Charles Merriam, and Graham Wallas, who became known primarily as behavioural scientists, were inspired by these positivist theorists' new method of interpreting society to concentrate on empirical evidence rather than the normative perspective of state discourse.

However, in the context of the concept of power, behaviourists have examined it using empirical evidence in an objective rather than normative approach. Power was once considered a tool of the elite class. That is, the dominant group has always characterized and defined the bearer and recipient of power. In a general sense, power refers to ability, influence, and control. However, theorists have defined power from multiple perspectives. For example, Machiavelli and Hobbes described the concept of power as the basis of international politics (Jha, 1977).

In the words of George Cornwall Lewis, the word power, 'when used in a political science appears to signify the position of the means of influencing the will of another either by persuasion or threats or of constraining his person by the application of physical force' (Baldwin, 2016).

Robert Dahl in his seminal work 'The Concept of Power', define that '*A has power over B to the extent that he can get B to do something that B would not otherwise wish do*' (Dahl, 1957).

Laswell and Kaplan said that power is participation in the making of decisions (Lasswell & Kaplan, 2000).

According to the Morgenthau, "*power may comprise anything that establishes and maintains the control of man over man... it covers all social relationships which serve that end from physical violence to the most subtle psychological ties by which one mind controls another*" (Jha, 1977).

On the other hand, Kenneth Waltz '*power is defined in terms of the distribution of capabilities among units in the international system*' (Waltz, 1979).

However, K.J. Holsti defines power as '*the general capacity of a state to control the behaviour of others*' (Holsti, 1995).

Thus, power determines the shape of society, politics, and the economy. The aforementioned is reflected in the definition of power provided to theorists. However, it has long been established that the context of power is an essential component of political science and international relations. Remarkably, many political scientists have underlined the relationship between political science and power in their analysis. As

David Easton stated, '*political science is the study of the authoritative allocation of values as it is influenced by the distribution and use of power*' (Jha, 1977).

In fact, Karl W. Deutsch examined that '*it consists of more or less incomplete control of human behaviour through voluntary habits of compliance in combination with threats of probable enforcement*' (Deutsch, 1989).

Charles A. McClelland indeed observes: it has been accepted for several decades by many scholars that Power is the organising idea for the whole discipline of political science (McClelland, 1966).

Thus, Lasswell characterizes 'political science as the study of influence and the influential and the study of shaping and sharing of power' (Lasswell & Kaplan, 2000).

Additionally, international political theorists such as Morgenthau, E.H. Carr, George F. Kennan, and others have interpreted political phenomena purely in terms of power. They argued that 'power politics as the law of all international life, whose principles provide as guide as to how foreign policy is in fact conducted and as to how it should be conducted' (Jha, 1977).

However, all these theorists have explained the concept of power in the context of positivism. As a result, the use of force, control, influence, and threat have repeatedly come up in the discussion of these theorists as elements of power. However, the fact that there are additional viewpoints on the exercise of power should not be neglected. The concept of soft power has become one of the central aspects of power in the domains of political science and international relations in the 21st century. However, before going into depth, it is essential to understand the categorical division of power. According to academicians, security analysts, and experts, power can be broadly classified into four categories based on its nature: hard power, soft power, smart power, and structural power.

Hard power is defined as the ability of a strong state to threaten, influence, or coerce a weak state to serve its national interests. Hard power is determined by a state's economic strength in addition to its military capability. For example, the United States' invasion and establishment of control over Iran and Afghanistan indicate the country's military capability, yet the imposition of economic sanctions on Iran reflects the country's economic strength in world politics. Thus, a state's exact military capabilities and economic strength pertain not only to its hard power but also to what is called the centre state of the centre-periphery system. Machiavelli, Hobbes, Morgenthau, Robert Dahl, and Kenneth Waltz interpret power primarily in terms of hard power.

On the other hand, soft power fosters the exact opposite of hard power; that is, by soft power, a state pursues a cooperative approach instead of conflict with another state for the purpose of fulfilling its national interests. Needless to say, soft power emphasizes cultural exchanges, technology transfer, investment, people-to-people contact, educational exchange programs, foreign policy, etc. Instead of the military

threat posed by hard power, soft power prioritizes the win-win approach, whereas hard power emphasizes the zero-sum approach. However, in recent times, relatively peripheral states, unable to exert influence over other states through their own military capabilities, have been trying to exert influence over other powerful states through the effective use of soft power. These countries include China, India, Japan, and Vietnam. However, in the context of soft power, Joseph Nye says, *'the ability to get what you want through attraction rather than coercion or payments'* (Baldwin, 2016).

However, in the twenty-first century, military competence and economic might are not the only characteristics that determine hard power equipment. Rather, the true nature of both elements is revealed based on the application of these two elements. That is, a powerful state's military strength reflects soft power when it provides security, aids in disaster relief operations, and conducts military drills, rather than the threat of a particularly weak state in another country. Soft power examples include the US presence in the Philippines and Malaysia, as well as military exercises between the US and Vietnam in the South China Sea. However, economic aid is regarded as soft power, whereas financial sanctions are one of the indicators of hard power. Thus, it is evident how hard and soft power are categorized according to how they are applied to the various components of power.

The third part of the categorical division of power is smart power. In general, the concept of smart power is built on the amalgamation of hard and soft power; that is, when a state uses hard and soft power simultaneously in the context of its national interests and security, it is considered smart power. The concept of smart power was developed by Joseph Nye in 2000 after he introduced the concept of soft power in 1990. According to him, *"smart power means learning better how to combine the hard power of coercion or payment with the soft power of attraction into a successful strategy"* (Nye, 2008).

On the other hand, Hillary Clinton, US Secretary of State (2009), states that smart power is the wise application of both hard and soft power diplomacy backed by the world's strongest military (Council on Foreign Relations, 2009).

Thus, states use all aspects of power according to their objectives or goals in a single strategy, both in terms of soft and hard. For example, China's BRI project demonstrates hard power through economic investment on the one hand and soft power

through cultural diplomacy on the other. At the same time, India's 'Neighbourhood First Policy' is one of the examples of smart power. Through this policy, the defensive military strategy that India conducts with neighbouring countries demonstrates hard power. Alongside, through this policy with the neighbouring countries, when India develops trade cooperation and security cooperation, it indicates its soft power projection.

The fourth part of the classification of power is structural power. This is a completely different form of the structural power concept than any other interpretation of power discussed thus far. How do states, institutions, and actors function within a framework? It forms its overall structure. Structural power aims to establish rules, norms, and frameworks in the international system. Renowned economist Susan Strange defines "*structural power as the power to shape frameworks within which states relate to each other to determine how things shall be done and to shape the structures of global political economy*" (Strange, 1988).

Strange primarily focuses on the concept of state-to-state power, criticizing liberalism and realist ideas. She argues that in the globalized world true power lies not only in military or economic ability but in the ability to shape global systems and institutions such as markets, finance, and knowledge networks (Ibid.).

She classified the structural power into four levels based on priority, including Security Structure, Production Structure, Financial Structure, and Knowledge Structure (Balaam & Dillman, 2019).

The third chapter of this thesis presents a detailed explanation of each of the aforementioned structures of Strange's structural power model. Nonetheless, the theory of power's 'structural power' seeks to use the tenets of system-centred international institutions to give the entire environment a certain shape. As a result, the developed world often benefits from this theory, which, according to Robert Cox, it always sustains global capitalist dominance (Cox, 1987).

However, according to the research question, the primary thread of the great power struggle is hard power projection. Essentially, it is necessary to examine the background of the underlying theoretical approach to developing hard power in order to understand how hard power continues to be relevant in international politics. Therefore, how are hard power-bilateral and multilateral relations shaping global

politics? What makes recent Asian centrality more challenging is very relevant to the research question. Realism, liberalism, and constructivism, which are the basic theoretical foundations of international relations, are presented in the context of a specific analysis of the international structure.

Realism is a theoretical paradigm that is still relevant today in the analysis of international politics and the changing global order. Needless to say, realism has always been concerned with the state. However, this state-centeredness paradigm takes into account both the setting of supervision and the exercise of authority. Thus, this theory acknowledges that the use of power, which is seen as a catalyst in maintaining the state apparatus, gives international politics a particular shape. Thucydides's "Peloponnesian War" developed the formal foundation for realism, which gained popularity in world political discourse after World War I. Later, Machiavelli introduced the concept of power politics in his book "The Prince" through the 'Lion and Fox' concept, which is very relevant to the contemporary realist theory. In his book "Leviathan," Thomas Hobbes, one of the foremost interpreters of pre-modern social realities in the post-medieval era, introduced the concept of the supreme hegemonic king and state. In fact, the idea of power politics given by these three theorists is said to have greatly inspired the construction of realist theory.

However, realism is generally considered to refer to when a state expands its authority for the sake of national security, as well as competing for power and establishing a balance of power to prevent other states' influence. Morgenthau, one of the founders of realism, defines 'realism as politics like society in general is governed by objective laws that have their roots in human nature' (Morgenthau, 1948).

In his 1939 book "The Twenty Years' Crisis," international relations scholar E. H. Carr examines how the League of Nations and Woodrow Wilson's utopian concept of constructing a mechanism for peace after World War I failed to establish that system in the world's order. Essentially, his critical analysis of this idealist theory revived the relevance of realist theory in the 20th century. He also criticized the moral politics of international relations and explained international politics in the context of realist theory. He primarily discussed international power dynamics through the concept of balance of power. Furthermore, he considered that reducing power domination in international politics was both delusional and harmful.

To prioritize national interests, he examined the three forms of power in power negotiations: military, economic, and influence over opinion. He agreed that domestic conflicts, as well as the role of law and morality, detrimentally impact the state's objectives. Carr, in explaining realistic theory, portrayed the state as an objective entity while ignoring the state's multiple dynamic discourses. As he believed that the state was the only entity capable of controlling power politics under international anarchy. However, he considered that morality undermined the power of the state. At the same time, he is absolutely disregarding human behaviour while emphasizing power in discussions of international politics. On the other hand, the balance of power concept has been widely criticized by other scholars, among them Hedley Bull and Martin Wight, due to its disregard for morality, human behaviour, and emphasis on the power dynamics (Carr, 1939).

However, Morgenthau, a distinguished professor of international relations, expanded on Carr's state-centred realist approach. Morgenthau's 1948 book "Politics Among Nations" presented the distinctive rationale of realist theory to analyse international relations in detail. He was initially inspired by E.H. Carr's approach, which portrayed realist theory as a stride forward. Whereas he explains the state's structure through hostile individual behaviour. Moreover, he rationally analysed that an anarchic situation exists in the international system due to the fear of state control over these inevitably weak states. As a result, he recommended each state prioritize national survival, self-help, and statism. Given that he believed that the only way to achieve balance in the international system was to strengthen authority to safeguard national interests. Identical to E.H. Carr, he examined power politics using empirical methods rather than normative assumptions.

However, he eliminates the ideal world and emphasizes six basic principles for developing a realistic theory:

- I. Realism maintains that politics is governed by objective laws that stem from human nature.
- II. Realism finds its main guide in the concept of interest defined in terms of power.
- III. Realism does not claim an absolute and permanent meaning for its concept of power.

- IV. The realist is not indifferent to morality. However, he believes that universal moral principles cannot be realized but at best approximated.
- V. Realism refuses to identify the moral aspirations of a particular nation with the moral laws that govern the universe.
- VI. Realism constitutes a distinctive intellectual approach. Also, it advocates the autonomy of politics vis-a-vis other fears of human action (Algozaibi, 1965).

However, while Morgenthau solidified realism in multiple contexts through these principles, it cannot be denied that the assumption that the international system is anarchic in the context of human nature is not always justified. In fact, human nature is not always violent; sometimes it is cooperative, which he has completely ignored. Above all, he denies that human nature cannot be objectified as a concrete concept by the empirical method. Since there is no independent regulatory authority in the international system, each nation-state will strengthen itself to serve its national interests until it becomes the regulator of the world system. However, despite numerous criticisms, the concepts discussed by Morgenthau in international relations theory remain relevant today. Prior to him, the interpretation of realist theory by scholars was ambiguous. He was the first to explicitly articulate the realist theory of international relations, which still characterizes him as a key pioneer of traditional realism.

While realism relies on the empirical and scientific assumptions of behaviourist theory in the discipline of international relations, realist scholars prefer states' behaviour over morality. As a result, both E.H. Carr's and Morgenthau's analyses of anarchical structure by human nature have been criticized in various ways. Kenneth Waltz, an international relations expert, examined international structure using the logic of anarchy in his book "Man, the State, and War," focusing on morality, human behaviours, and the advent of post-behaviouralist philosophy in the 1960s. According to Waltz's argument, numerous units persist and are always active in the structure of the whole system. In that sense, if there is a change in these units, it also brings a change in the structure. After all, the structure is more or less determined by actions (Jackson & Sørensen, 2013). Therefore, Waltz's structural conception of the international political system became known as neorealism in international relations theory. Neo-realism emphasizes defensive tactics through self-help to ensure state

security. Furthermore, it evaluates the international system by constructing a balance of power between states through power distribution. According to Waltz's neo realist theory, a basic feature of international relations is the decentralised structure of anarchy between States (Waltz, 1979).

Instead of evaluating the international system through the lens of human nature, individualism, and power politics, 'Neo-Realism' focuses on state behaviour, security, power distribution, and the anarchic nature of the system. After all, Waltz, while discussing power politics in the structure of the international system, states that countries increase their power solely for self-defense, a concept known as "Defensive Realism". Defensive realism is used to maximize security and survival and maintain the balance of power. On the other hand, Morgenthau's successor, Mearsheimer, in his book (2001) "Tragedy of Great Power Politics," emphasizes the growth of state power, but never to strengthen security, but to control another state. This growing competition for state power is known as "Offensive Realism." He argues that states seek hegemony, that they are ultimately more aggressive than Waltz portrays them additional he said, great powers are always searching for opportunities to gain power over there rivals, with hegemony has their final goal (Jackson & Sørensen, 2013).

The second and oldest theory of international relations is liberalism. However, liberalism is often considered by scholars as an alternative to realism. However, while realism perceives international relations as a struggle for power, liberalism focuses on the shared values of cooperation, interdependence, institutions, and states. Needless to say, liberalism generally has an optimistic view on human nature. At the same time, liberals place a high value on human reason and believe that feasible principles can be applied to international relations.

Jackson argues that liberals recognise that individuals are self-interested and comparative up to a point. But they also believe that individual share many interests and can thus engage in collaborative and cooperative social action, domestically as well as internationally (Ibid.).

Therefore, it can be said that while liberalism places great importance on human reason, it has ignored the obstacles that arise in the way of human nature.

According to Zacher and Matthew, "all liberals agree that in the long-term cooperation based on mutual interests will prevail. That is because modernisation

constantly increases the scope and the need for cooperation” (Zacher & Matthew, 1995).

As a result, it is easy to figure out that liberal ideology has always been integral to the emergence of modern democratic states, as the modernization process expanded the scope of international interactions. However, since World War II, this idea has been widely mutated in the context of international relations discourse, including institutional liberalism and interdependence liberalism, also known as neoliberalism (Jackson & Sørensen, 2013).

This institutional liberalist represents traditional liberal thought, which continues to prevail in certain respects. They believe that international institutions can help to facilitate cooperation, but they do not claim that they can ensure a qualitative shift in international relations. However, institutional liberals disagree with the realists’ claim that “international institutions are mere scraps of paper.” Furthermore, institutional liberals believe that international institutions are the ultimate authority in controlling the international system because they establish a set of principles, similar to the state but for the entire world, known as the regime. However, in this case, the roles that institutions play in the conduct of international politics are:

- I.** Providing opportunities for information flow and negotiation.
- II.** Enhancing existing expectations about the robustness of international agreements and
- III.** Strengthening the capacity of governments to monitor the compliance of others and implement their own commitments (Keohane, 1989).

The second theory behind neoliberalism is interdependence. Dependence in the general sense means mutual dependence of both the parties. That is, when states build transnational relations with other states, it is considered a higher level of interdependence. In the post-World War II period, the two most economically successful states were Germany and Japan. They basically moved away from the traditional military concept, and instead they opted for international trading, which fundamentally intensified the international division of labour and increased interdependence. Given that this liberal group believes that the division of labour and growing interdependence diminish violent disputes between states. In their 1970 book “Power of Interdependence,” Keohane and Nye developed the concept of complex

interdependence to characterize this context of state cooperation inside the international structure. They argued that postwar complex interdependence is qualitatively different from earlier and simpler kinds of interdependence (Keohane & Nye, 1977).

However, Keohane and Nye mentioned two scenarios to analyse complex interdependence. Such as—

- I. Nowadays, interactions between states are not confined to the leadership of the state; these relations are regulated at multiple levels by various departments of government.
- II. Beyond the state, there are multilateral relationships among individuals and groups; additionally, in situations of complex interdependence, military power is a less effective policy tool.

Thus, complex interdependence evidently implies a far more pleasant and cooperative relationship between states. In the words of Keohane and Nye, there are some consequences. Examples include

- I. Free from state control, the state and other organizations will move towards attaining different goals.
- II. The relevance of international organizations will escalate as so-called weak states rely on coalition formation for political activity and supervise the shaping of the international agenda.

However, due to the complex interdependence, transnational actors will become more essential, while force will become a relatively less important instrument, and security will become the primary focus and concern of states, rather than welfare.

After realism and liberal theory in the discussion of international relations, the theory that has gained wide popularity in contemporary times is constructivism. Constructivism emerged in the 1980s as a distinct strand of realist and liberal thought. Whereas realism focuses on power struggles in the analysis of international politics, liberalism focuses on institutional actions. Conversely, constructivism focuses on norms and identity. Constructivism holds that international politics is shaped not by

power politics, international structures, or institutional approaches but by beliefs, norms, and identities that are socially constructed.

Constructivism was introduced by Nicholas Onuf in 1989 but was further enriched by numerous influential articles by Alexander Wendt. In contrast to realism, constructivism has never been central to the concept of power in the past, but according to a recent survey, it has become a centrepiece of constructivism's analytical and research concerns in recent years (Adler, 2013).

However, in 1999, Wendt categorized his theory of international relations into two sections. It emphasizes brute material forces as the basis of power and considers power to be constituted primarily by ideas and cultural contexts.

Berenskoetter notes that Wendt does not discuss the meaning of power left alone provide a rival conceptualisation of it (Jackson & Sørensen, 2013).

He adds that Wendt's promise to present an alternative understanding of power constituted primarily by ideas and cultural contexts' rather than brute material force remains unfulfilled (Ibid.).

With the establishment of the US hegemony after the Cold War, both realism and liberalism failed to anticipate the world order of the time, which further legitimized constructionism. Constructivism emphasizes the non-material world and considers that material world changes are influenced by the social world (Ouchenane, 2017). Thus, the distribution of power and the military power of the state cannot automatically establish an international social structure. After all, according to constructivist theory, the material world never fully explains how people or states behave. However, this does not mean that constructivism ignores the material world. Given that interdisciplinary knowledge and the material world interact and influence each other. Constructivism, therefore, has emerged as an alternative to realism and liberalism, which analyse world politics through material and non-material factors.

In the previously mentioned theoretical analysis of power, institutional functions of power politics, and, particularly, norms and identity, have been used through international politics to construct the international system. Thus, all three of these theories have addressed power, one of the main concerns of international politics, from

different dimensions. However, in the context of this research chapter, before delving into the issues of the great power conflict in the Asia Pacific and its impacts on India and Indonesia relations, it is critical to explore Asia's recent significance in global politics and the resulting power transition. Given that, the power transition will help us to realize the contemporary great power conflict.

After 1990, the United States emerged as a world political powerhouse, but the Al-Qaeda terrorist group's 2001 attacks on the United States threw into question the US hegemony. However, this phenomenon is classified as a conflict between actors and non-actors. But the tremendous economic boom in Southeast and East Asia since the 1990s constitutes a viable alternative to the US economic trajectory. Along with the economic development of China and Japan, China's military modernization has turned China into a rising power. According to the scholars, China is not only a major power at the present time but also a potential superpower. China's BRI project of 2013 not only helped expand its dominance in the region but also challenged the hegemony of the United States.

This context of power shifting has been analysed by A.F.K. Organski in his book 'World Politics' using his 'Power Transition Theory.' He believes that 'power transition theory is a business among powerful states' (Lai, 2011). Furthermore, Organski proposes two critical factors to understand world politics, employing his theory. These are-

- I.** It refers to a significant rise in a major nation's national strength (regionally and demographically) deriving from the nation-state's actual rapid economic expansion.
- II.** This rising power has an impact on the international system, particularly on the dominant state's position.

However, conflicts between multiple power states and major-power conflicts have historically resulted from shifts in the balance of power and attempts to sustain or change the international order. Organski asserts that peace and sustainability have historically been promoted by the dominant nation in the international system and its powerful allies. However, when the greater second rank power in this power structure

become dissatisfied with the present mechanism as a result of its notable expansions in power, difficulties come up.

The distribution of power among all the sovereign states of the world is unequal. Occasionally a state is stronger than another state, whether in its development stage or in its size. Effectively, the dominant power is being challenged by economically powerful and militarily dominant states out of anger at this long-standing unequal distribution, which has already been analysed. However, Robert Gilpin says in his book “War and Change in World Politics” that the expanding nations’ efforts necessary bring them to confront the dominant nation and its allies about the rules governing the existing international system, the division of the spheres of influence, and even territorial boundaries (Gilpin, 1981).

However, if challengers do not resolve the differences with the dominant power peacefully, it takes the form of war. Gilpin calls it “Hegemonic War” (Ibid.).

On the other hand, Organski and Jacek Kugler argue that shifts in the distribution of power create the conditions for great power conflict, and war looms when a contender’s national power narrows its gap with that of the dominant nation (Lai, 2011).

Therefore, a state’s robust economic expansion over several decades, as well as its advancing military strength, define it as a rising power. However, if the dominating power’s system in the international framework dissatisfies the rising power, conflict would emerge in the subsequent sort of power transaction. Furthermore, if the rising power is satisfied with the world order controlled by the dominant power, there is a peaceful transition of power. The former example is Germany’s seizure of power from Britain, and the latter, the transfer of power from Britain to the US. Organski, however, considers Brazil, Russia, India, China, and the BRICS to be the main contenders for the hegemonic power of the United States in the context of economic development and military capabilities in recent world politics (Ibid.).

Brazil has become a major power due to its economic development, especially its growing influence in South America, as well as its dominance of a large geographical area. However, rather than Brazil’s conflict with the dominant power,

i.e., the U.S., trade partnerships are particularly reflected. As a result, Brazil is not dissatisfied with the U.S. but is economically dependent on it. Thus, Brazil is never a challenger state. Similarly, India is not a natural ally of the United States, although the two countries maintain a commercial partnership. At the same time, India seeks an alternative world order rather than challenging the system established by the United States.

Russia's influence waned when the USSR collapsed in 1990. Moreover, Russia is far stronger militarily than the U.S. economically. Therefore, Russia is also not currently considered a contender state of U.S. dominance.

However, the rise of China during the Cold War between the United States and the Soviet Union was of particular concern to the United States. In the two decades since the collapse of the USSR in the 1990s, China's rapid economic development, modernization of military weaponry, and increasing regional influence have rendered China the rising power, not the major power, in the 21st century. Furthermore, China is not involved in the establishment of the United States' world order but rather seeks to establish an alternative. At the same time, China is not reliant on the US in any respect. China does not share the fundamental principle of the system with the United States and instead acts against interest, reflecting China's dissatisfaction with the United States. Organski envisions China as a contender for US great power dominance in the twenty-first century (Ibid.).

In the words of Kissinger, while the United States was the most powerful nation in the world it could not prevent the titanic shift of power from Atlantic to the Asia-Pacific and the diffusion of power to the large group of second rank nations (Kissinger, 2012).

Therefore, in the 21st century, according to Organski's "Power Transition Theory," the two rivals in the global great power conflict are the US and China, respectively. Thus, it cannot be denied that the presence and conflict in the Southeast Asia region of these two powers have made the major and middle powers face financial, security, and trade challenges in many ways. The primary focus of this research chapter is to examine the obstacles facing major power India and middle power Indonesia's economic engagement in this challenging context, as well as the

type of setbacks the state is experiencing in the security, economic, and trade realms. How the regional conflict is affecting issues, and most importantly, what kind of policy approach both governments are employing to strengthen their partnership.

Great Power' Strategy Towards Southeast Asia

Since 1990s, Japan, Singapore, South Korea, and Hong Kong became known as the Asian Tigers by the IMF due to their rapid economic growth (Wankel, 2009). In contrast, economic progress in Southeast Asia proceeded with the implementation of economic liberalization in Malaysia, Indonesia, the Philippines, Thailand, and Vietnam under ASEAN leadership. In an era of economic prosperity, Japan, the United States, China, and the European Union all extended their investments in the region. In 2000, the United States emerged as one of the top ten largest investors in Southeast Asia. The US and the European Union topped the list from 2000 to 2020 (Mirza, 2001). However, China overtook Japan. However, in 2013, Xi Jinping launched the OBOR project, also known as BRI, to revive China's traditional Silk Road. Its purpose was to reintroduce trade relations with countries that had traded with China in the historical Chinese period. China's OBOR initiative comprises the 21st century Maritime Silk Road, which incorporates the Silk Road Economic Belt. However, in March 2015, China issued a white paper outlining the BRI's aims.

. . . promote the connectivity of [the] Asian, European and African continents and their adjacent seas, establish and strengthen partnerships among the countries along the Belt and Road, set up all-dimensional, multi-tiered and composite connectivity networks, and realize diversified, independent, balanced and sustainable development in these countries (Zhang, 2018).

In the opinion of G.N. and Richa Sekhani, the inauguration of the BRI project, whose efficiency was managed, will serve as a civilian catalyst, accelerating the relative decline of America's dominance over the Persian Gulf and ensuring a more balanced distribution of geopolitical influence in the region, which is strategically significant (Nataraj & Sekhani, 2015).

In recent times, the BRI project has been extended from the East Coast of Africa to Northeast Asia. In 2023, according to the data, 151 states have been added to BRI (Yeung, 2024). In addition, the mega projects undertaken by BRI in these states are:

- I. The New Eurasia Land Bridge Economic Corridor
- II. The China-Mongolia Russia Economic Corridor
- III. China-Central Asia-West Asia Economic Corridor
- IV. China-Indochina Peninsula Economic Corridor
- V. China-Pakistan Economic Corridor
- VI. Bangladesh-China-India-Myanmar Economic Corridor (EUOBOR, 2015).

Therefore, China's grand vision in the 21st century is to promote the BRI, which aims to play a greater role in the international community, both politically and economically (Nataraj & Sekhani, 2015).

However, China pursued a more comprehensive attempt to form a web of connectivity between rail, road, infrastructure, port modernization, and corridor construction through its BRI. In addition, China has set four goals to meet in its domestic and international areas, namely:

- I. Accelerating the modernization of national defense and armed forces.
- II. Protecting national sovereignty, security, and national development goals.
- III. Maintaining domestic harmony and stability.
- IV. Sustaining world peace and stability (Panyue, 2011).

Needless to say, when China adopted an 'active defense' military strategy in accordance with its defense white paper in 2010 to enhance its national strategic capability, the aforementioned goals obtained priority (Vajpeyi, 2013).

However, China launched a series of diplomatic and military strategies in the region to achieve its goals, including the 'String of Pearls' and 'Military Modernization'.

String of Pearls:

In response to the Pentagon report, China's military forces have taken several initiatives to strengthen their presence in the Indian Ocean, particularly to enhance their capabilities, one of which is a significant investment in India's neighbouring states. For example, Gwadar Port in Pakistan, a fuelling station in Sri Lanka, commercial access and a container facility in Bangladesh, and road connectivity

between Myanmar and China. China, on the other hand, adopted particular initiatives to ensure uninterrupted access to the Indian Ocean and Pacific coast from the Panama Canal to Thailand. Needless to say, China's ambitions were simplified by the BRI in 2013 (Ibid.).

Military Modernisation:

Military enhancement has become one of the main components of China's four modernization projects. China's growing economic progress and massive foreign reserve have greatly motivated China towards its military modernization, which has caused concern among the regional and international community, including its neighbouring states. Furthermore, China has never been threatened by its neighbours. However, in the South China Sea, there are territorial conflicts over the rights to the islands of Spratly and Paracel, Natuna Island in Indonesia, and Senkaku in Japan. China, on the other hand, justifies its action as a means of protecting its sovereignty and self-defense against non-state actors. However, Western military analysts believe it poses a growing threat to Western Pacific American maritime supremacy. Chinese security experts, on the other hand, refer to this process as China's predisposition to dismiss scare tactics (Ibid.).

In addition to the above strategic initiatives, China joined RCEP to enhance its economic engagement in the region. It focuses on economic growth and employment through access to economically competitive markets, investment, and improving regional manufacturing networks and supply chain capacities (Yue, 2016). Needless to say, China elevated bilateral trade with ASEAN member states to a unique level through the ASEAN-China FTA before participating in RCEP to strengthen its economic presence in the region. As reported by the State Council of the PRC, China has held the status of ASEAN's largest trading partner for 16 consecutive years since 2009 (Xinhua, 2025). At the same time, China has become the third largest source country of investment for ASEAN. Therefore, China has been able to enhance its influence in the region not only through its economics but also through strategic investment, infrastructure development, and community military capabilities, all of which are challenging the United States' supremacy.

On the other hand, the United States has signed military agreements with Indonesia, Thailand, Cambodia, and Singapore to restore its authority. However, the

United States has signed military agreements with Cambodia, Laos, Myanmar, Thailand, and Vietnam but has failed to become their top defense partner (Yaacob et al., 2025). Similarly, the US has failed to build economic linkages with the region. The United States initiated moves to promote regional stability and traditional and non-traditional security through close cooperation with the TPP in the region but withdrew its membership in 2017, effectively weakening the U.S. presence in the region (Yue, 2016). Indeed, the use of this tool of geoeconomics to advance geopolitically has led to an economic interdependence that was a positive element of globalization but has now become a strategic weakness. To this end, China uses economic instruments to promote different national interests (Kato, 2019).

China's substantial investment in the region, execution of infrastructure projects, and extensive bilateral trade have rendered all states of this region economically dependent on China. As a result, China's claims to several islands in the South China Sea have been contested by Cambodia, Malaysia, the Philippines, Japan, South Korea, and Indonesia, but none of the states have been in direct conflict due to China's military influence and economic dependence. While the US has failed to establish commercial relationships with ASEAN member states, the US is concerned about their security problems, particularly China's complete control over sea lanes communication and navigation. Moreover, the route contains 30% of the world's maritime oil and 21% of global trade (EIA, 2024).

Hillary Clinton underscores this point in her 'Foreign Policy' article, 'harnessing Asia's growth and dynamism is central to American economic and strategic interests' (Lowther, 2013).

To this effect, the United States has built Maritime Domain Awareness (MDA) in addition to providing security to several countries in the region—Thailand and the Philippines—as well as to its old friends Indonesia, Malaysia, and Vietnam (Mazza, 2018 & see figure 4.1). At the same time, US President Trump announced America's vision for a "Free and Open Indo-Pacific" at the APEC summit in Vietnam to build free and flowless trade and navigation in the region (Khan, 2021). The US has set five goals to advance its 'Free and Open Indo-Pacific' doctrine.

- I. Advance a free and open Indo-Pacific
- II. Build connections within and beyond the region

- III. Drive regional prosperity
- IV. Bolster Indo Pacific security
- V. Build regional resilience to transnational threats (National Archives and Records Administration, 2022).

US Military Presence in Southeast Asia and East Asia



Figure: 4.1

Source: (Mazza, 2018)

However, these aims focus on the independence and sovereignty of all states, peaceful resolution of disputes, free and fair trade, investment and connectivity, freedom of navigation, and observance of international law (Khan, 2021).

Clinton echoes this thing in declaring that strategically maintaining peace and security across the Asia-Pacific is increasingly crucial to global progress weather through defending freedom of navigation in the South China Sea, countering the qualification efforts of North Korea or insuring transportation in the military activities of the region’s key players (Lowther, 2013).

Needless to say, the United States launched the IPEF to safeguard the economic interests of the Indo-Pacific region, which is expected to help build resistance against the influence of China's BRI. In addition, the United States strengthens the Traditional Military Alliance and the initiative to upgrade QUAD. In response to the Indo-Pacific Strategy Report, the Biden administration for the first time proposed strengthening QUAD's role as the premier regional grouping. It has been speculated that the Biden administration seeks to advance QUAD as an important political strategic platform for the US to promote its Indo-Pacific Strategy (Ibid.).

Essentially, the region's two superpowers, China with its BRI, String of Pearls strategy, joining RCEP, and military modernization, and the United States with its Free and Open Indo-Pacific, IPEF, and QUAD upgrade, are engaged in a conflict to sustain and establish new hegemony. Due to the ongoing conflict between the dominant state and the challenger state, the other major powers and the middle powers have to face a huge challenge to keep their individual sovereignty intact. It is also undeniable that the conflict has a significant impact on the commercial, economic, and security spheres. Thus, India and Indonesia are no exception.

Major Powers and Middle Powers: Challenges and Possibilities in Asia-Pacific Region

Following Organski's 'Power Transition Theory,' conflict begins with dissatisfaction with power shifting between the dominant and challenger or contender states. The conflict, however, has had an immense effect on the region's major and middle powers. This research chapter has had a considerable impact on the development of bilateral economic relations between India and Indonesia, which cannot be denied. Therefore, the two countries of this region, India and Indonesia, are in some way dependent on the two superpowers—the United States and China, respectively. As a result, both countries could not come out of the conflict. In almost every sphere of economics, trade, and security, the two countries have faced enormous challenges in strengthening bilateral relations. However, India's Look East Policy, implemented in 1991, anchored it to Southeast Asia. Over time, India and Southeast Asia's relationship has evolved into one of mutual cooperation and dependence. However, in every sector of trade, economy, investment, and security, India has attempted to implement its policies while maintaining its national interests, but due to

its military capabilities and economic limitations, it has struggled to make a significant influence. For example, India's investment in Southeast Asia, particularly in Indonesia, is significantly lower than that of China. The same remains true for bilateral trade. On the other hand, India is also behind the US in terms of military agreements and maritime security. Thus, it can be said that almost every state in the region is dependent on the United States in terms of security as much as it is dependent on China in economic terms (Kato, 2019).

At the same time, India signed FTAs to expand its trade with ASEAN. However, when the initiative to form RCEP was taken under the leadership of ASEAN, the then UPA government of India became interested in joining it. The RCEP is expected to open up more accessible trade routes—including CEPAs with Japan and South Korea, CECAs with Singapore and Malaysia, and FTAs with Thailand—as well as services, investment, and agreements. However, when the BJP government came to power in 2014, it adopted a forward-looking and constructive approach but expressed fears that participation in RCEP would harm the domestic manufacturing sector and slow down the RCEP negotiation process (Sanchita Basu Das & Kawai, 2016). Even as stated by Dhar, the trade deficit with India's FTA partners has actually increased. This indicates that signing FTAs as an export promotion strategy has not worked for India (Palit, 2016).

However, there is an apparent disparity between the government and domestic industry in trade negotiations in India. Naturally, the majority of India's free trade agreements were driven more by strategic goals than by a comparatively early-stage, carefully considered economic assessment. The local manufacturing sector has not been as enthusiastic as the government when it comes to negotiating and signing free trade agreements (FTAs) with different nations and organizations (Ibid.). Consequently, RECP has been referred to by Indian analysts as the “Noodle Bowl Effect.”

On the other side, China used the BRI to construct strategic connectivity infrastructure in the region. China is attempting to weaken India's dominance in the Indian Ocean via the CPEC and BICM corridors. As a result, India became isolated from its neighbour's; nevertheless, China extended its influence in the Indian Ocean with its BICM corridor and CPEC, allowing it to sort out the Malacca dilemma. Indian

critics are concerned that China may utilize its economic strength to exacerbate and intensify India's existing security issues (Pant & Passi, 2017).

Nabeel Mancheri argues that 'the trade relations of China neutralise all the soft power capabilities that India or Japan possesses in the region' (Oak, 2017).

In addition, the US FOIP and the Maritime Security and Defense Agreement with ASEAN member states present greater challenges for India to become a net security provider in the region.

Although South Korea, Australia, and Indonesia collectively have drawn particular attention as middle powers in the twenty-first century, the concept of middle power diplomacy is not new in the Asia-Pacific region (Darmosumarto, 2013). However, Indonesia is positioned as a regional middle power, yet it leads ASEAN on a variety of issues. At the same time, Indonesia aims to integrate major powers like the United States, China, India, and Japan in order to promote regional development. Needless to mention, Vibhanshu Shekhar believes that 'Indonesia aspires to increase its global stature by developing a democratic identity and a democratic environment for international organizations' (Oak, 2017). However, Indonesian President Joko Widodo's inward outlook appears to be inconsistent with Indonesia's objectives. Joko's predecessors, when Indonesia was regarded as a regional power with global interest and concern. Joko Widodo regarded Indonesia as a regional power with global interests and selective global engagement. Therefore, Joko has basically adopted pro-people diplomacy in his foreign policy approach, which is directly associated with the interests of the people (Rosyidin, 2017). As previously discussed, China has become ASEAN's largest trading partner and has held this position for 16 years. Indonesia is one of the leading countries in bilateral trade in this region. China is a major source of investment in the region. China's investment in Indonesia is expected to reach \$7.3 billion in 2023. In addition to the BRI project, China has signed 14 projects with Indonesia, including:

- I. Jakarta-Bandung High Speed Railway,
- II. Samarinda-Balikpapan Toll Road,
- III. Batang Toru Hydropower Plant,
- IV. Kayan River Cascade Hydropower Project,
- V. Likupang & Bitung Economic Zones,

VI. Ketapang Industrial Park etc. (Hadi Pramono et al., 2022).

Therefore, Indonesia continues to ignore geopolitical conflicts due to its dependence on China in economic terms. Needless to say, Indonesia’s economic dependence on China has introduced complex strategic considerations into Indonesia’s regional outlook. In 2009, China laid claim to Indonesia’s Natuna Island through the Nine Dash Line (see figure 4.2). As a result, tensions between the two sides escalated (Malla & Haq, 2025). In addition to the Taiwan issue, China’s long-term intentions in the region, a potential conflict over EEZ rights in the South China Sea, have put Indonesia in the midst of a major challenge to its strategic autonomy, both economically and strategically.

South China Sea and Nine Dash line

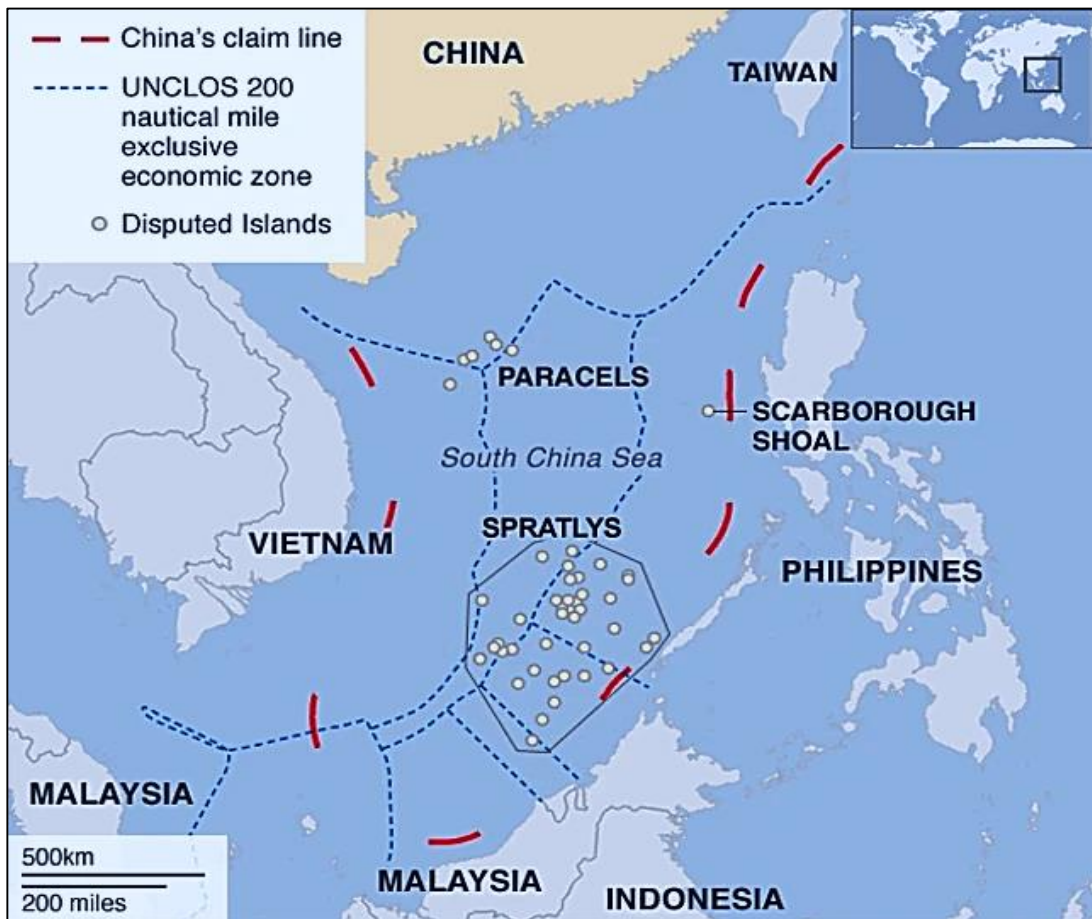


Figure: 4.2

Source: UNCLOS, CIA

On the other side, policies adopted after Donald Trump took office in the United States in 2016, such as withdrawing from the TTP and prohibiting visitors from

Muslim-majority countries, uncovered Indonesia to both economic and geopolitical threats. Furthermore, the United States has long maintained blue-water naval strength and domination over Southeast Asian and Japanese maritime states (Peou, 2014).

While the rivalry between the two great/big powers brings economic and geopolitical security concerns for both India and Indonesia, it also offers possible opportunities. One commentator comment that ‘India is the only country left in the world that is large enough to absorb and their food gainfully employ China’s immense excess capacity’ (Pant & Passi, 2017).

Needless to say, the multifaceted interests in the geopolitical and geo-economic spheres and the region’s growing dependence on China have led the countries to explore options for regional security and economic partnership. Meanwhile, this is a unique opportunity for India. Consequently, Malcom Cook considers that ASEAN states are getting the greatest scope and diversity of options to align themselves with the major powers so that they do not face any real threat (Cook, 2014).

Therefore, it will be increasingly difficult for Indonesia to maintain a hedging strategy vis-à-vis China and the US (Fitriani, 2017). As a result, he has to choose a third alternative to maintain regional stability.

Engagement of Regional Organisation: Benignant or Mischievous

Southeast Asia has, without a doubt, emerged as the most suitable region for great/big power competition in contemporary times. In the words of Bilahan Kausikan, Southeast Asia has always been an arena for major power competition (Kausikan et al., 2019). But while the region’s economic prosperity, strategic location, abundant natural resources, and substantial consumer base render it attractive to great and major powers, the main purpose of the powers was to build political, economic, and security infrastructure relations with ASEAN, the regional organization that leads the region. To this end, India became a dialogue partner of ASEAN in 1991 and China in 1996. In fact, in 2008, then-US President Barack Obama appointed her as the permanent ambassador to ASEAN. However, ASEAN member states have always been explicit about their goals—ASEAN seeks to accelerate economic growth, social advancement, and cultural development, as well as promote regional peace and stability—and remain a certain distance from the great powers (Keukeleire & Hooijmaaijers, 2013). Because, while acknowledging the strategy of conflict and collaboration, ASEAN did not want

to be the meat in the sandwich between superpowers (Vermonte et al., 2019). ASEAN states essentially pursue a simultaneous engagement and hedging approach in order to build and enhance relations with additional regional powers such as the United States, Japan, China, and India.

However, Denney Roy has father characterize the Asian strategy of hedging as low intensity balancing that both seeks us support and works with China (Yuan, 2006).

While ASEAN plays a very significant role in safeguarding regional interests, the prospects of ASEAN maintaining a regional balance of power to manage relations with major powers appear to be diminishing. In fact, ASEAN is increasingly failing to portray the lack of a unified vision in the Indo-Pacific region. As a result, countries in the region are creating different positions. This has led to further confusion in the coordination of regional interactions (Ram, 2023).

However, for India, admission to ASEAN has given India geopolitical and economic access to the whole of Southeast Asia. At the same time, it has also strengthened India's efforts to become a net security provider.

Simultaneously, the East Asian Summit, a multilateral forum for dialogue on broad economic and political strategy, discusses the common interest in East Asia and his concern with promoting economic prosperity, peace, and stability in the region (Keukeleire & Hooijmaaijers, 2013).

Anushree Chakraborty said that India must be engaged in the forum as that will help India further its role as a security provided in the region (Oak, 2017).

On the other hand, China's growing aggressiveness, particularly through the BRI, has alienated India from its neighbours, weakened its influence in the Indian Ocean, and diminished India's economic partnership with Southeast Asia. However, India joined BIMSTEC to strengthen its footprint in the Bay of Bengal as a counter-strategy to China's Belt and Road Initiative. Indeed, BIMSTEC has paved the way for regional transport connectivity, people-to-people interaction, and subregional collaboration in the framework of regional value chains and the Indo-Pacific. Oindrila Datta Gupta defines that BIMSTEC act as a catalyst for economic integration in the midst of rising political military assertiveness of China there by acting as a mechanism to balance China in Asia (Datta Gupta, 2023).

Therefore, despite the diminishing of India's influence in the Southeast Asian region due to the conflict of great powers and pushing back economic integration, India's participation in ASEAN, EAS, and BIMSTEC has helped India maintain its presence in the region. In fact, while India is regarded as a major power in the region, its economic capability and integration are negligible. When it comes to maritime security, India's involvement with Southeast Asia is significantly less than that of the US. India, however, has an excellent possibility of emerging as an alternative in the conflict between the two great powers. Through the Act East Policy, Project Mausam, SAGAR Initiative, Malabar Exercise, Neighbourhood First Policy, Asia-Africa Corridor, and Spice Route, among other initiatives, India has significantly increased its influence in the region.

Donald Berlin, argues that; the 'rise of India' is itself a key factor in the increasing significance of the Indian Ocean. The Indo-Pacific construct has enabled India to re-oriented its geostatic articulation through its Act East Policy. That aims to transform its politico-economic and security position in emerging maritime configuration (Datta Gupta, 2023).

However, it is undeniable that improved economic relations will have a positive impact on regional security issues. Liberals believed that free trade would create a more peaceful world order since trade brings mutual gains to all the players irrespective of their size and the nature of their economics (Mukherjee, 2016).

Mahathir Mohammed stated that "*fruitful international relations are possible only when national circumstances are equally healthy*" (Policy Studies Organization, 2019).

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Chapter: V

Smart Power in Practice: India–Indonesia Relations and the Strategic Role of AIFTA in the 21st Century

The international system no longer fits neatly into the bipolar divisions of the Cold War or the fleeting unipolar moment that followed. Instead, it is defined by dense networks of economic ties, overlapping institutions, shared vulnerabilities, and rising competition—a condition scholars describe as complex interdependence, in which military force matters less among economically connected states and influence often flows from persuasion, partnership, and strategically deployed economic tools (Keohane & Nye, 1977).

In this environment, the traditional dichotomy between hard power—the ability to coerce through military or economic means—and soft power—the ability to attract through culture, values, and diplomacy—is insufficient to explain how states operate. Joseph Nye addressed this gap with the concept of smart power, emphasizing the strategic blending of hard and soft instruments in context-specific ways rather than treating them as opposites—which has been discussed in the previous chapter.

Smart power is not a midpoint between coercion and attraction but the capacity to integrate military, economic, cultural, and diplomatic assets into a coherent, mutually reinforcing strategy (Nye, 2004; Nye, 2009).

This lens is particularly useful for understanding the evolving relationship between India and Indonesia. Both are large democracies, rising economies, and maritime powers strategically located in the Indo-Pacific. Their ties are rooted in centuries of cultural and commercial exchange—from early maritime trade and shared epics like the Ramayana to parallel experiences of anti-colonial struggle and leadership in the Non-Aligned Movement (Ao, 2018). Yet, for much of the post-colonial period, the relationship often lagged behind its potential, described in scholarly commentary as a “partnership of neglect” (Ibid.).

That dynamic has shifted in recent years. India's Act East Policy and the elevation of bilateral ties to a 'Comprehensive Strategic Partnership' in 2018 reflect a deliberate effort to engage Indonesia as a key maritime neighbour and ASEAN actor linking the Indian and Pacific Oceans (MEA, 2018; Ao, 2018). For Indonesia, the engagement aligns with its "free and active" (*bebas-aktif*) foreign policy, which prioritizes strategic autonomy, regional stability, and management of maritime chokepoints, including the Strait of Malacca (Ibid.).

Economic and developmental priorities further reinforce this alignment. Indonesia is pursuing infrastructure modernization, digital transformation, energy transition, and industrial upgrading, particularly in down streaming and value-added production (Ao, 2018). India's cooperation in space, pharmaceuticals, IT, skills development, and renewable energy complements these priorities while its support for ASEAN centrality strengthens Indonesia's strategic flexibility (Ibid.).

Smart power is evident in India's approach: cultural diplomacy through Bollywood, yoga, and educational exchanges is paired with capacity-building initiatives such as scholarships and training programs, while defense ties, connectivity projects, maritime security cooperation, and collaboration in emerging technologies advance harder strategic interests (Ao, 2018; EFSAS, 2020). India's foreign economic policy, particularly the ASEAN-India Free Trade Agreement (AIFTA), provides an institutional framework that translates diplomatic goodwill into concrete trade, investment, and supply-chain linkages (EFSAS, 2020).

Recent data underscores the growing depth of India-Indonesia ties. Bilateral trade reached US\$ 29.4 billion in FY2023-24, with India exporting mineral fuels, vehicles, and pharmaceuticals, while importing palm oil, coal, and electronics (IndBiz, 2024; DGCI&S, 2024). Investment flows are also steadily increasing; official data indicates that cumulative Indian investment in Indonesia reached approximately \$568 million between 2019 and 2023, driven by projects in automotive, textiles, and infrastructure (Embassy of India Jakarta, 2024). Defense cooperation is also advancing: negotiations for a proposed BrahMos missile sale, valued at an estimated \$450 million, have reached advanced stages, potentially making Indonesia the second foreign buyer after the Philippines (Business Today, 2025). Operational engagements, such as the *Garuda Shakti* (army special forces) and *Samudra Shakti* (naval) exercises,

enhance interoperability and reinforce maritime security (Indian Navy, 2023). Together, these economic and defense linkages illustrate how India and Indonesia are operationalizing a smart power strategy, where soft and hard instruments complement each other to advance shared strategic objectives.

This chapter contends that the India–Indonesia relationship is being reshaped by a *de facto* smart power approach, in which soft cultural influence and hard strategic interests continuously reinforce one another. The analysis proceeds in three parts: first, outlining the theoretical foundations of smart power and foreign economic policy; second, mapping the key soft- and hard-power instruments at play; and third, examining how these tools interact within the AIFTA framework. Emerging areas of cooperation—such as digital economies, maritime initiatives, and green energy—will also be considered, alongside persistent challenges and potential policy pathways to strengthen this evolving partnership (Keohane & Nye, 1977; Nye, 2004; Ao, 2018; EFSAS, 2020).

However, understanding the India–Indonesia economic and strategic partnership requires a framework that integrates power, strategy, and economic statecraft. Two concepts anchor this analysis: foreign economic policy (FEP) and smart power. Together, they illuminate why trade agreements, development cooperation, and security initiatives are not isolated policy instruments but mutually reinforcing tools in a broader strategic design.

I. Foreign Economic Policy as Strategic Statecraft

Foreign economic policy encompasses the strategies, instruments, and practices through which states manage economic interactions with the outside world. Cohen argues that FEP sits at the intersection of prosperity, security, and influence—highlighting that economic policies are inherently political and strategic (Cohen, 2015). Beyond tariff schedules or investment rules, FEP includes aid programmes, preferential trade agreements, technology transfers, and financial diplomacy, all of which can signal alignment, influence behaviour, or consolidate alliances (Ibid.). For emerging powers like India, FEP serves both domestic and foreign objectives. Export promotion, infrastructure investment abroad, capacity-building, and technology partnerships are not merely economic acts; they are embedded within a geopolitical calculus that considers partner countries' influence, regional stability, and long-term

access to resources and markets (Ibid.). The selection of partners, sectors, and conditionalities is a deliberate exercise in strategic foresight. In the India–Indonesia context, FEP tools like the ASEAN-India Free Trade Agreement (AIFTA), joint industrial projects, and technology cooperation agreements simultaneously create economic interdependence, support development priorities, and cement bilateral trust (DTI, 2024).

II. From Hard and Soft Power to Smart Power

Power in international relations has historically been conceptualized in dichotomous terms, which was reviewed comprehensively in the previous chapter. Hard power—military capability and coercive economic tools—has long served as the default method for states seeking compliance (Morgenthau, 1948). Soft power, a concept introduced by Joseph Nye, emphasizes attraction through culture, governance models, political values, and diplomacy (Nye, 2004; Nawaz, 2025). While both forms are important, each has intrinsic limitations. Hard power may achieve immediate compliance but risks backlash and reputational costs; soft power generates goodwill but often lacks enforceability and can fail to secure strategic interests that require tangible outcomes (Nye, 2004; Vuving, 2009).

Nye’s smart power concept offers a synthesis: it is the strategic and contextual integration of hard and soft instruments to achieve mutually reinforcing outcomes (Nye, 2009; Raimzhanova, 2017). In practice, smart power entails layering cultural diplomacy, educational exchanges, and development aid with binding economic agreements, infrastructure investment, and security cooperation (Raimzhanova, 2017).

The goal is synergy: soft power creates an environment of trust and receptivity, while hard power converts goodwill into enforceable commitments and predictable strategic outcomes (Nye, 2009). This integration is particularly relevant for India–Indonesia relations, where trust, historical familiarity, and shared democratic values complement concrete economic and security engagements (Ao, 2018).

III. Synthesis: FEP Through a Smart Power Lens

Viewing foreign economic policy through a smart power lens allows for a more nuanced understanding of state behaviour. Trade agreements are not merely instruments of economic liberalization; they function as mechanisms for strategic

alignment and influence (Nye, 2009; Lai et al., 2024). Likewise, security cooperation is not purely about military capability—it safeguards the economic and cultural flows underpinning soft power (PIB, 2018; Nye, 2004).

In India–Indonesia relations, the ASEAN-India Free Trade Agreement (AIFTA) exemplifies this synthesis. Beyond tariff reductions, it has facilitated sectoral cooperation, investment flows, and joint industrial initiatives that generate tangible economic benefits (DTI, 2024; Lai et al., 2024). At the same time, cultural diplomacy—Bollywood, yoga, scholarships, and academic exchanges—strengthens political trust and public goodwill, enhancing the sustainability of these economic ties (Ao, 2018). Similarly, recurring joint military exercises, naval patrols, and defense collaboration protect vital sea lanes, ensure energy security, and reinforce the norms of regional stability, while simultaneously demonstrating tangible commitment to Indonesia’s strategic priorities (PIB, 2023).

Smart power in this context is thus operationalized through a combination of instruments that are mutually reinforcing: economic initiatives increase the political capital and legitimacy of soft power efforts, while security and infrastructure investments ensure these benefits are durable (Nye, 2009; Cohen, 2015). India’s technological and knowledge assets—particularly in IT, pharmaceuticals, renewable energy, and space technology—offer Indonesia measurable developmental gains, deepening interdependence while creating a credible framework for long-term strategic partnership (Ao, 2018).

Put simply, India and Indonesia do not engage with each other through isolated policy tools. Economic initiatives, cultural outreach, and security cooperation are blended into a single, layered strategy that builds reciprocity, reduces strategic uncertainty, and institutionalizes cooperation (Nye, 2009; Raimzhanova, 2017).

This smart power–informed approach underpins the accelerated growth of bilateral engagement in the 21st century, setting the stage for the empirical analysis that follows.

The Anatomy of a Smart Power Strategy: India–Indonesia Relations

The India–Indonesia relationship is an illustrative case of how soft power assets can be deliberately combined with hard power mechanisms to generate a resilient,

multidimensional partnership. Unlike partnerships that rely on a single instrument of influence, this relationship demonstrates how cultural affinity, shared political values, and strategic alignment can be mutually reinforcing. The following section explores the foundational pillars of this smart power strategy, highlighting historical-cultural legacies, post-colonial solidarity, contemporary public diplomacy, strategic convergence, and institutional frameworks.

India's historical and cultural imprint on Indonesia provides a unique foundation for bilateral engagement. This reservoir of goodwill enables trust and cooperation to develop more quickly than in relationships built purely through diplomacy or trade. It rests on three primary pillars: historical-cultural linkages, post-colonial solidarity, and contemporary people-to-people and public diplomacy.

- **Historical and Cultural Linkages:** The Indianization of Southeast Asia, beginning over two millennia ago, represents one of the most profound examples of civilizational exchange in world history. As George Coedès argues in his seminal work *The Indianized States of Southeast Asia*, this was a process of trade, cultural transmission, religious dissemination, and inter-marriage rather than conquest-driven expansion (Coedès, 1968). The legacies of these interactions remain visible today in language, religion, philosophy, performing arts, and architecture (Ibid.).
- **Religion and Philosophy:** Hinduism and Buddhism were foundational to early Indonesian kingdoms such as Srivijaya and Majapahit (The Editors of Encyclopaedia Britannica, 1998). Even today, the national motto of Indonesia, *Bhinneka Tunggal Ika* (“Unity in Diversity”), derives from an Old Javanese poem composed in the 14th century during the Majapahit era—specifically from Mpu Tantular's *Kakawin Sutasoma*—reflecting enduring Sanskrit philosophical influence. The *Garuda Pancasila*, Indonesia's national emblem, also draws from Hindu mythology, signifying the sacred Garuda bird associated with Lord Vishnu.
- **Epics and Performing Arts:** Indian epics like the *Ramayana* and *Mahabharata* are deeply embedded in Indonesia's cultural imagination (Singh, 2017). The *Wayang Kulit* (shadow-puppet theatre) predominantly adapts narratives from these epics, localized to reflect Indonesian values and sensibilities (Ibid.). The open-air *Ramayana* performances at Prambanan

Temple in Central Java are emblematic of this cultural continuity. Performed regularly against the backdrop of 9th century Hindu architecture since 1961, these shows bring Indian epics into everyday Indonesian life, creating an enduring, tangible connection (Widayanti et al., 2025). They are not only tourist attractions but also platforms for reinforcing shared cultural heritage, which Indian diplomacy can leverage for soft power (Singh, 2017). The performances involve more than 200 professional dancers and gamelan musicians and are based on narratives from the Ramayana that have been adapted to Javanese cultural contexts (Widayanti et al., 2025).

- **Linguistic Imprints:** Bahasa Indonesia incorporates many Sanskrit-derived terms, such as *bhasa* (language), *karya* (work), and *menteri* (minister), highlighting centuries of Indian influence. This linguistic familiarity, though subtle, reinforces a sense of shared cultural identity, providing a foundation for trust in contemporary interactions.

I. Post-Colonial Solidarity and Political Alignment

Both India and Indonesia emerged from colonial rule in the mid-20th century with parallel instincts about global order. Leaders Jawaharlal Nehru and Sukarno were instrumental in advocating for strategic autonomy, non-alignment, and regional solidarity. Together, they were key architects of the 1955 Bandung Conference and founding figures of the Non-Aligned Movement (NAM) in 1961, emphasizing the need for an independent path amid Cold War pressures (Timossi, 2014; The Collector, 2025). The Ten Principles of Bandung—including respect for sovereignty, non-interference in internal affairs, and peaceful settlement of disputes—became the ideological foundation for both countries' foreign policies (Timossi, 2014).

- **Case Example: 1974 Continental Shelf Settlement:** The quiet resolution of maritime boundary disputes in 1974 demonstrated early mutual trust and willingness to treat each other as partners, not adversaries (U.S. Department of State, 1975). India and Indonesia signed the Agreement on August 8, 1974, regarding the delimitation of the continental shelf in the Great Channel between Great Nicobar Island and Sumatra, with ratifications exchanged and the Agreement coming into force on December 17, 1974 (Ibid.). This case established a precedent of problem-solving through dialogue rather than

confrontation, laying the groundwork for the operational trust that later enabled strategic and economic cooperation (U.S. Department of State, 2019; Ao, 2018).

- **Leadership Visits:** President Suharto visited New Delhi in December 1980, and Prime Minister Indira Gandhi reciprocated with a visit to Jakarta on September 23, 1981 (Ao, 2018; Sengupta, 2025). These visits reinforced diplomatic rhythm, showcasing a commitment to sustaining political engagement alongside cultural affinity.

II. Contemporary Public Diplomacy and People-to-People Ties

Building on this inherited goodwill, India has actively expanded contemporary soft power channels. Initiatives include Bollywood films, television programming, festivals like Diwali, educational exchanges, ITEC scholarships, and technical cooperation programs (MEA, 2022). These programs create familiarity and trust among Indonesian citizens and officials, lowering political and cultural barriers for strategic collaboration (MEA, 2022; PRS, 2025).

Cultural familiarity accelerates acceptance of joint initiatives in defense, trade, and technology. For example, Indonesian appreciation for Indian cultural exports smooths negotiations on complex bilateral agreements, creating an environment conducive to mutually beneficial cooperation (Nye, 2004).

Hard Power and Strategic Convergence

While cultural affinity reduces friction and builds trust, hard power mechanisms translate goodwill into tangible security and economic benefits. Hard power in the India–Indonesia relationship primarily focuses on maritime security, defense cooperation, and technology partnerships (PIB, 2018).

I. Maritime Security and Operational Cooperation

Indonesia's strategic geography positions it as the guardian of key Indo-Pacific maritime chokepoints. India has a clear interest in ensuring open, secure sea lanes connecting the Indian Ocean to Southeast Asia. Collaborative naval exercises, patrols, and intelligence-sharing exemplify the operationalization of hard power (Ibid.).

The inaugural Samudra Shakti naval exercise marked a major milestone in operational collaboration. By coordinating maritime drills, joint patrolling, and information sharing, both countries strengthened regional maritime security and safeguarded critical sea lanes (PIB, 2023) Samudra Shakti exemplifies how strategic exercises operationalize soft power foundations into tangible defense cooperation, reinforcing trust established over centuries (Ibid.).

II. Defense Industry and Capability Partnerships

Beyond exercises, India and Indonesia are exploring defense technology cooperation, capacity-building, and joint infrastructure development (Indian Defence News, 2025). These collaborations ensure long-term mutual stakes, while signaling reliability to regional partners and providing a concrete dimension to soft power affinity (PIB, 2018).

III. Institutional and Economic Mechanisms: Translating Affinity into Mutual Stakes

Soft and hard elements are reinforced and multiplied by institutional economic frameworks, providing structure, predictability, and mutual stakes (Nye, 2009; Cohen, 2015).

- **ASEAN–India Free Trade Agreement (AIFTA):** The AIFTA, which came into effect on January 1, 2010 (with the India-Indonesia component entering into force on October 1, 2010), reduces tariffs, fosters trade, and promotes investment between India and ASEAN members, including Indonesia (WTO, 2017). It serves as a key instrument of Foreign Economic Policy, embedding economic interdependence into the relationship (Cohen, 2015). Its effectiveness is amplified by cultural and political goodwill; trade is not seen as a cold calculation but as a natural extension of deep ties (PIB, 2018; Nye, 2009).
- **Development Cooperation and Technology Linkages:** India leverages strengths in IT, pharmaceuticals, renewable energy, and space technology to provide tangible developmental benefits to Indonesia. These programs are strategically aligned with Indonesia’s industrial upgrading and energy transition priorities, translating soft power into measurable outcomes and reinforcing the strategic dimension of cooperation (Chronicle India, 2021).

IV. Synthesis: How the Pieces Fit Together

India and Indonesia blend cultural affinity, shared political vision, hard strategic instruments, and institutional economic mechanisms into a coherent smart power strategy. Soft power creates trust and familiarity, political solidarity provides legitimacy, economic frameworks generate durable stakes, and defense cooperation protects both tangible and intangible assets (see table 5.1). This layering is the operational logic of smart power: each element reinforces the others, producing a partnership that is resilient, flexible, and future-ready (Nye, 2009; Cohen, 2015).

India-Indonesia Partnership Across Different Sectors

Element	Example	Soft/Hard Power	Impact
Cultural Diplomacy	Prambanan Ramayana Performances	Soft	Builds people-to-people trust, facilitates acceptance of joint initiatives
Political Alignment	1974 Continental Shelf Settlement	Hard/Soft	Demonstrates problem-solving capacity, builds operational trust
Defense Cooperation	Samudra Shakti 2018	Hard	Secures sea lanes, operationalizes strategic alignment
Economic Integration	AIFTA	Hard/Soft	Embeds economic interdependence, reinforces cultural and political goodwill

Table: 5.1

V. Policy Implications

Future policy should focus on deepening the integration of soft and hard power assets. Expanding people-to-people programs that link directly to technology, industrial, and maritime initiatives will reinforce strategic objectives. Institutionalizing maritime information-sharing, aligning development cooperation with industrial

upgrading, and leveraging historical-cultural affinity for contemporary strategic messaging can further strengthen the partnership (Nye, 2009).

The AIFTA as the Operational Framework: Impact and New Dimensions

The ASEAN–India Free Trade Agreement (AIFTA), which came into effect for Indonesia on October 1, 2010, is the primary institutional mechanism through which the smart power dynamic between New Delhi and Jakarta is operationalized. Beyond tariff reduction, the AIFTA provides a rules-based, predictable environment, enabling diplomatic, cultural, and strategic goodwill to translate into concrete economic outcomes. Its framework has also catalysed cooperation in new, forward-looking domains such as services, investment, and digital trade (ASEAN Secretariat, 2013; WTO, 2017).

I. Reshaping Supply Chains and Enhancing Interdependence

The AIFTA has reshaped the bilateral economic landscape by promoting progressive tariff liberalization, aiming to eliminate tariffs on over 90 percent of traded goods within specified timeframes (ASEAN Secretariat, 2013; Ministry of Industry and Trade, 2009). This has encouraged structural integration, moving the relationship from modest, transactional trade to one characterized by deep interdependence (India Shipping News, 2024).

a) Transformation of Bilateral Trade

The effect of the AIFTA on trade flows has been striking. India-Indonesia bilateral trade data reveals a paradox: despite 127% nominal growth (FY2009–10 to FY2023–24), structural trade deficits have widened 160%, from \$6.7B to \$17.4B, indicating that AIFTA has primarily benefited Indonesian commodity exporters rather than Indian manufacturers. India's 74% import-dependency ratio—among Asia's highest for bilateral partnerships—exposes New Delhi to supply-chain vulnerability concentrated in two commodities: crude palm oil (33%) and coal (26%), together constituting 59% of total imports. This hyper-concentration creates monopsony pricing pressures and commodity-volatility exposure that contradict India's Act East Policy objective of manufacturing-led regional integration.

India's recent efforts to diversify energy suppliers away from Indonesia (Australia coal, Malaysia palm oil) paradoxically underscore **Indonesia's structural importance**—diversification strategies themselves acknowledge Indonesia's irreplaceability in India's energy security matrix. Thus, despite policy-level tensions over NTBs and trade deficits, the bilateral relationship remains **economically consequential and geopolitically durable**, anchoring India's Act East Policy and Indo-Pacific engagement strategy.

b) Sectoral Diversification and Emerging Supply Chains

The AIFTA has enabled India and Indonesia to move beyond traditional trade in commodities and raw materials to high-value manufacturing, services, and technology sectors, such as:

- **Manufacturing and Electronics:** Indian exports of machinery, vehicles, and pharmaceuticals have emerged as a major component of bilateral trade, complementing Indonesia's industrial base. India exported mineral fuels, vehicles, pharmaceuticals, and textiles worth \$5.99 billion in FY2023–24 (India Shipping News, 2024). Meanwhile, Indonesian palm oil, coal, and electronics components integrate into India's production networks (PTI, 2025). Indonesia's exports to India, which exceeded \$22.5 billion in 2023, are dominated by coal, palm oil, stainless steel, and steel ores, with Indonesia's palm oil exports alone expected to exceed 5 million tonnes by 2025 (Ibid.).
- **Digital and Services Trade:** AIFTA provisions on trade in services and investment have encouraged growth in IT-enabled services, fintech partnerships, and tourism exchanges (ITA, 2024) Indian IT companies have increasingly partnered with Indonesian firms for cloud services and fintech solutions, aligning with both countries' digital transformation agendas. Indonesia's digital economy is projected to exceed \$130 billion by 2025, driven largely by e-commerce and fintech, with digital payments projected to grow at 15 percent through 2025 (Ibid). The fintech ecosystem, which includes digital wallets, peer-to-peer lending, and Insurtech platforms, continues to mature following the passage of Indonesia's Financial Sector Development and Strengthening Law (Ibid.).

- **SME and Startup Collaboration:** Reduced tariff barriers and investment facilitation have created opportunities for startups and SMEs to engage in cross-border ventures, especially in agri-tech, e-commerce, and renewable energy (Asia Tomorrow, 2025; Mulia, 2019). Indonesian agri-tech startups such as TaniHub have expanded to connect over 45,000 farmers with Indonesian and regional markets, while securing \$65.5 million in Series B funding from investors including MDI Ventures and Telkom Indonesia (Asia Tomorrow, 2025; Mulia, 2019). These initiatives align with India's interest in agricultural technology and supply chain modernization, creating opportunities for bilateral technology transfer and market access (Asia Tomorrow, 2025).

c) Deepening Strategic and Economic Interdependence

The AIFTA does more than stimulate trade; it institutionalizes interdependence, creating incentives for policy coordination and strategic alignment (Cohen, 2015; Nye, 2009). By tying economic interests together, both sides are encouraged to maintain political and maritime stability, ensuring a secure environment for trade and investment. The AIFTA's rules-based structure allows predictable dispute resolution, giving businesses confidence to expand operations without fearing sudden policy reversals (ASEAN Secretariat, 2013). This regulatory stability reinforces India's smart power strategy: soft power goodwill (historical-cultural ties, people-to-people trust) is translated into hard power outcomes (binding trade agreements, investment flows, and supply chain integration) (Nye, 2009; Cohen, 2015).

II. Catalysing Forward-Looking Cooperation

AIFTA has not only deepened traditional trade but also created platforms for innovation and strategic partnership (WTO, 2017; Ministry of Industry and Trade, 2009).

- **Investment Facilitation:** Bilateral investment agreements complement AIFTA, enabling joint ventures in infrastructure, renewable energy, and smart cities (CEEW, 2020; Climate Policy Initiative, 2020). Indonesia's renewable energy sector offers substantial opportunities, with the country targeting 23 percent renewable energy in its energy mix by 2025, supported by joint venture

schemes involving private sector participation and locally owned enterprises (Climate Policy Initiative, 2020).

- **Regional Connectivity Projects:** The framework supports initiatives such as port development in Sabang and logistics corridors connecting Indonesia to India's eastern ports, integrating trade and maritime security objectives (India Shipping News, 2023).

High-level meetings held in November 2023 between Indonesian Coordinating Minister Luhut Binsar Pandjaitan and Indian Commerce Minister Piyush Goyal resulted in plans for Sabang Port development, with estimated investment requirements of Rs 6,500–7,500 crore (approximately US\$ 780–900 million) (India Shipping News, 2023). The Sabang port, located 710 kilometres from India's Andaman Islands and just 500 kilometres from the Malacca Strait, offers strategic advantages for both trade facilitation and maritime security cooperation (Ibid.).

- **Sectoral Forums and Trade Dialogue:** Regular trade policy dialogues under the AIFTA framework have evolved into discussions on digital trade, green technology, and circular economy practices, highlighting how economic cooperation now anticipates future global challenges. Indonesia has urged swift review of the AIFTA to ensure optimal implementation and expanded business opportunities for member states.

III. Smart Power Operationalization Through AIFTA

In essence, the AIFTA operationalizes India's smart power approach by combining economic instruments with strategic foresight, ensuring that cultural affinity and historical goodwill generate tangible, forward-looking benefits (Nye, 2009; Cohen, 2015). By fostering interdependent supply chains, investment cooperation, and regulatory predictability, the AIFTA anchors India–Indonesia ties in both the economic and strategic spheres. The agreement transforms soft power (cultural resonance, shared democratic values, people-to-people familiarity) into durable hard power outcomes (binding commitments, supply chain integration, strategic economic stakes) (Nye, 2009; Ao, 2018). This synthesis is the defining characteristic of the India–Indonesia smart power strategy, creating a partnership that is economically resilient, strategically aligned, and institutionally robust.

ASEAN-India Free Trade Agreement: A Case Study

The trade pattern that has emerged under the ASEAN–India Free Trade Agreement (AIFTA) demonstrates a clear model of economic complementarity between India and Indonesia, reflecting both structural interdependence and strategic alignment. Rather than competing within similar sectors, the bilateral relationship is characterized by a division of labour in which Indonesia predominantly supplies raw materials and energy commodities, while India exports value-added manufactured and processed goods.

This pattern underscores the operationalization of a smart power strategy, wherein economic interdependence reinforces broader diplomatic and strategic objectives (IBEF, 2025; Cohen, 2015).

I. Indonesia’s Exports to India: Energy and Raw Materials

Indonesia has established itself as a critical supplier of energy and primary commodities to India’s rapidly expanding economy. According to the latest data from the Indian Ministry of Commerce and Industry, Indonesia’s exports to India reached approximately \$22.78 billion in FY 2025, encompassing a wide range of product lines including mineral fuels, oils, and vegetable oils (IBEF, 2025; The Tribune, 2025). The bilateral trade reached a record \$28.16 billion in FY25, with both countries setting a target of \$50 billion in bilateral trade (IBEF, 2025). However, the primary components of Indonesia’s export basket include:

- **Palm Oil:** Indonesia remains the largest source of palm oil for India, which, as the world’s largest importer of vegetable oils, relies on this commodity for both food consumption and industrial processing (PTI, 2025). In 2025, Indonesian exports to India were projected to exceed five million tonnes, reflecting the persistent centrality of this supply in bilateral trade (Ibid.). Following India’s decision to reduce the basic customs duty on crude palm oil from 20 percent to 10 percent in May 2025, Indonesia’s palm oil exports to India rebounded to an expected 5+ million tonnes in 2025, up from 4.8 million tonnes in 2024 (Ibid.). Indonesia is also supplying 100,000 germinated palm seeds to India to support India’s National Mission on Edible Oils (NMEO-OP), which aims to expand palm cultivation from the current 350,000 hectares to 1 million hectares by 2025-26 (Ibid.). The Indonesia Palm Oil Council (IPOC) and the Indian

Vegetable Oil Producers' Association (IVPA) signed a Memorandum of Understanding in 2025 to enhance collaboration and address consumer concerns about palm oil's health impacts (Ibid.). The trade in palm oil highlights a structurally embedded supply-demand relationship, which, while contributing to a persistent trade imbalance, is indispensable to India's domestic consumption and industrial requirements (IBEF, 2025).

- **Coal:** Indonesia is a principal supplier of thermal coal to India, directly supporting energy security objectives (Varadhan & Li, 2025). Coal imports underpin India's electricity generation and industrial operations, making Indonesia a strategically significant trade partner in the energy sector (Ibid.). However, India and China—the world's top two thermal coal importers from Indonesia—have begun shifting toward higher-calorific value (CV) coal from alternative suppliers such as Mongolia, South Africa, Tanzania, Kazakhstan, Colombia, and Mozambique, as lower-CV Indonesian coal has become less competitive when higher-grade coal is available at comparable prices. Despite this shift, Indonesia remains a significant coal supplier to India, with opportunities for recovery if global coal prices adjust (Ibid.).
- **Natural Rubber, Pulp, and Paper:** Indonesia also exports industrial raw materials such as natural rubber (SIR20, RSS1, and technically specified rubber grades), pulp, and paper, which are inputs into India's manufacturing and construction sectors, thereby further linking the two economies along the value chain (Volza, 2025). In the trailing twelve-month period through September 2024, India imported over 8,239 shipments of rubber from Indonesia, supplied by 98 Indonesian exporters to 69 Indian buyers (Ibid.).

This export composition not only meets India's structural needs but also reinforces Indonesia's economic dependence on a stable Indian market, generating a mutual interest in sustaining cooperative bilateral relations (IBEF, 2025; Nye, 2009).

II. India's Exports to Indonesia: Value-Added and Manufactured Goods

India's export profile to Indonesia is complementary to Indonesia's raw-material dominance, focusing on processed and higher-value commodities. Indian exports to

Indonesia have fluctuated significantly in recent years. In FY2021 (2020-21), Indian exports to Indonesia were approximately \$5.03 billion, increasing dramatically to \$8.47 billion in FY2022 (2021-22), representing a 68.57% growth (DGCI&S, 2025). This upward trajectory continued in FY2023 (2022-23), when exports reached \$10.03 billion, an 18.32% increase from the previous year (Ibid.). India's primary exports to Indonesia included petroleum products, motor vehicles, ships and boats, groundnuts, auto components, and buffalo meat (Ibid.). Petroleum products showed remarkable growth, with their share of India's total exports to Indonesia increasing from 5.5% in FY2021 to 38.67% in FY2023 (Ibid.). However, following FY2023, India's exports to Indonesia declined significantly to \$5.99 billion in FY2024 and further to \$5.38 billion in FY2025, representing a substantial decline from the FY2023 peak (Ibid.). Key export components include:

- **Refined Petroleum Products (RPP):** India imports crude oil from multiple sources, refines it domestically, and exports value-added products such as gasoline, diesel, and jet fuel to Indonesia (The Tribune, 2025; ASEAN Briefing, 2024).

This exemplifies integration into regional value chains, demonstrating how AIFTA has facilitated not only trade in goods but also the strategic movement of processed energy products (IBEF, 2025).

- **Engineering Goods and Machinery:** Engineering goods, which include machinery, nuclear reactors, and boilers, represented a significant but declining category of India's exports to Indonesia. In FY2023 (2022-23), machinery, nuclear reactors, and boilers valued at \$512.48 million constituted a notable export segment (ASEAN Briefing, 2024).
- **Motor Vehicles and Transport Equipment:** Indian manufacturers, including Tata Motors and Bajaj Auto, export commercial vehicles and motorcycles to Indonesia. Tata Motors established PT Tata Motors Indonesia in 2012 and launched operations in 2013, focusing on both passenger and commercial vehicles tailored to Indonesian market conditions. These exports support Indonesia's growing infrastructure and consumer markets, particularly in urban and semi-urban regions (Ibid.).
- **Pharmaceuticals and Medical Goods:** India serves as a major supplier of generic medicines, vaccines, and medical devices (George, 2025). India

accounts for approximately 20 percent of global generic drug exports and is recognized as “the pharmacy of the world” (Ibid.). During the COVID-19 pandemic, Indian pharmaceutical exports, particularly vaccines produced by the Serum Institute of India and Bharat Biotech, played a critical role in supporting Indonesia’s healthcare response, reinforcing both economic ties and India’s soft power projection (George, 2025; IBEF, 2025).

- **Agricultural Products:** India exports sugar, rice, oilseeds (valued at \$298.53 million), and meat products to Indonesia, contributing to food security and diversifying Indonesia’s agricultural import base (IBEF, 2025; ASEAN Briefing, 2024).

III. Strategic and Economic Implications

The complementarity of the bilateral trade relationship creates embedded economic interests in both countries. Indian refiners, vehicle manufacturers, and pharmaceutical producers are incentivized to maintain open and stable relations with Indonesia, while Indonesian producers of palm oil, coal, and other primary commodities similarly benefit from continued access to the Indian market (Nye, 2009; Cohen, 2015). Such interdependence reduces the susceptibility of the bilateral relationship to short-term political fluctuations, fostering strategic resilience.

Moreover, the diversification within both countries’ export baskets enhances systemic stability. India is not overly reliant on a single commodity, while Indonesia’s export portfolio extends across multiple resource sectors—palm oil, coal, rubber, paper, and other raw materials (IBEF, 2025; The Tribune, 2025). This distribution mitigates the risks associated with commodity price volatility and global market shocks, reinforcing the smart power rationale wherein economic engagement underpins broader strategic cooperation (Nye, 2009; Cohen, 2015).

IV. Synthesis: Smart Power Through Economic Complementarity

The India–Indonesia trade relationship exemplifies the operational logic of smart power in economic statecraft. Through AIFTA, Indonesia supplies critical raw materials and energy, while India delivers value-added goods and industrial inputs (Nye, 2009; Cohen, 2015). This structural complementarity cultivates long-term economic interdependence, aligns commercial and strategic interests, and provides a

resilient foundation for deeper cooperation in technology, infrastructure, and regional security. Far from being a transactional or short-term arrangement, the trade architecture reflects a deliberate strategy to transform historical goodwill into sustained, mutually reinforcing economic and geopolitical engagement (Nye, 2009).

The Emergence of New Economic Dimensions

The ASEAN–India Free Trade Agreement (AIFTA) has served not merely as a tariff-liberalization instrument but as a strategic enabler, fostering trust, institutionalized dialogue, and long-term economic predictability. This trust and confidence, built over more than a decade of structured trade engagement, have created a platform for cooperation in forward-looking economic domains. These emerging areas are illustrative of the way in which robust trade frameworks can catalyze innovation-driven, knowledge-based, and sustainability-oriented partnerships, extending the logic of smart power beyond traditional commerce.

I. The Digital Economy

India and Indonesia, home to over 1.8 billion people collectively, share the characteristics of large, young, and digitally aspirational populations. Recognizing the transformative potential of digital technologies, both countries have initiated structured cooperation to harness the opportunities of the digital revolution.

- **Institutionalized Dialogue:** In July 2023, the launch of the India–Indonesia Economic and Financial Dialogue (EFD Dialogue) established a dedicated institutional forum for cooperation across macroeconomic challenges, bilateral investment relations, and critically, the digital economy and fintech (PIB, 2023). Announced during the G20 Finance Ministers and Central Bank Governors meeting, the EFD Dialogue facilitates regular policy exchanges, joint working groups, and knowledge transfer mechanisms, providing predictability in an otherwise rapidly evolving technological space (Ibid.).
- **Fintech and Payment Systems:** India’s Unified Payments Interface (UPI), a globally recognized model for real-time digital transactions, has attracted significant interest from Indonesian policymakers and private-sector actors. The adoption of UPI or UPI-inspired systems in Indonesia—such as the Bank Indonesia Fast Payment System (BI-FAST) and QRIS (Quick Response Code

Indonesian Standard)—would accelerate financial inclusion, stimulate microenterprise growth, and integrate the digital economies of both countries in mutually reinforcing ways (IMF, 2025; Anand et al., 2024). An India-Indonesia memorandum of understanding on UPI technology transfer has been formalized, with research demonstrating the effectiveness of bilateral collaboration in facilitating UPI adoption and exploring 5G spectrum implementation to enhance digital payment infrastructure (Anand et al., 2024). These payment systems follow similar approaches to those in Singapore (PayNow), Malaysia (DuitNow), and Thailand (PromptPay), representing a regional convergence toward unified, interoperable digital payment frameworks (IMF, 2025).

- **Start-ups and Innovation Ecosystem:** Indian venture capital firms and start-up incubators are increasingly investing in Indonesian start-ups, particularly in sectors such as edtech, agritech, and health tech. East Ventures, Intudo Ventures, and other Indian-backed venture capital firms have supported Indonesian agritech startups including Tani Group (which raised \$10 million in Series A funding for agricultural supply chain management) and other emerging technology firms (Shizune, 2024; Mulia, 2019). This not only creates bilateral economic interdependencies but also fosters knowledge transfer, entrepreneurship, and technological spillovers, signalling a shift from commodity-driven trade to a knowledge- and innovation-led partnership. Through these initiatives, digital collaboration transforms the economic relationship into one that emphasizes agility, resilience, and the strategic co-creation of future growth sectors, aligning closely with the principles of smart power.

II. Maritime Connectivity and the Blue Economy

India and Indonesia's shared maritime geography underpins both strategic and economic imperatives. The expansion of cooperation in maritime domains demonstrates how security and economic interests are increasingly intertwined.

- **Sabang Port and Maritime Logistics:** The Sabang deep-sea port project exemplifies a multi-layered smart power initiative, integrating hard power (enhanced strategic naval access), economic infrastructure development (trade

and logistics), and soft power (regional development and connectivity narratives) (DST News, 2019). Located 710 kilometres from India's Andaman Islands and just 500 kilometres from the Malacca Strait, Sabang is positioned as a key maritime chokepoint with significant geostrategic importance. Beyond defense considerations, Sabang is envisioned as a hub for commercial shipping, transshipment, and tourism, potentially catalysing a new maritime corridor linking Southeast Asia with the Indian subcontinent. The port development has attracted high-level political engagement, with multiple bilateral meetings held to finalize project frameworks and investment mechanisms (India Shipping News, 2023).

- **Sustainable Blue Economy:** Both nations have committed to advancing the blue economy, which includes sustainable fisheries, marine biotechnology, ocean-based renewable energy, and coastal resilience projects. Indonesia's fisheries sector is valued at approximately \$27 billion and provides 7 million jobs, with potential to grow significantly through improved management practices that could increase annual production value by over \$3 billion (World Bank, 2016). Joint research and investment initiatives—such as collaborative aquaculture programs, marine conservation projects, and coastal resource management—reflect a strategic coupling of economic and environmental objectives (Ibid.). By leveraging these shared maritime resources responsibly, India and Indonesia strengthen regional ecological security while expanding economic opportunities.

The maritime and blue economy collaboration illustrates how traditional hard power instruments (security cooperation, port infrastructure) are reinforced and legitimized by soft power objectives (regional development, environmental stewardship), reinforcing the layered logic of smart power.

III. Renewable Energy and Green Technology

Global climate imperatives and domestic net-zero commitments have opened a new frontier for India–Indonesia economic cooperation. Both countries recognize climate change as a non-traditional security challenge with significant economic implications, creating opportunities for technologically advanced and mutually beneficial collaboration.

- **Solar and Wind Energy:** India's expertise in large-scale solar and wind energy project development is increasingly being leveraged in Indonesia's renewable energy sector. Joint ventures between Indian and Indonesian companies, combined with partnerships involving third-party developers such as Sembcorp, are exploring opportunities to harness Indonesia's vast solar potential across Sumatra and Java. Sembcorp, through its joint venture with PT PLN Nusantara Renewables (a subsidiary of Indonesia's state-owned electricity company), is developing a 50MW solar project with 14MWh of battery energy storage in East Kalimantan to support Indonesia's new national capital, Nusantara (Yuen, 2024). Public-private partnerships and capacity-building initiatives are being explored to accelerate the deployment of renewable energy infrastructure (Ibid.).
- **Biofuel and Green Technology Transfer:** Indonesia's biodiesel blending mandates—currently at B30 (30 percent palm oil-based fuel blend) with planned expansion to B35 by 2025—create demand for technology transfer and innovation in biofuel production (Advanced Biofuels USA, 2022). India's experience in bioethanol production and renewable fuels provides a foundation for cooperation in refining production processes, supply chain integration, and policy development. This collaboration aligns with Indonesia's broader goal of reducing import dependence on crude oil while leveraging its substantial palm oil resources for sustainable energy production (Ibid.).
- **Carbon Markets and Climate Finance:** Both nations are exploring collaboration in carbon credit trading, emissions monitoring, and accessing multilateral climate finance. Indonesia, targeting to sell \$1 billion in carbon credits at COP30 (2025), has reformed its carbon trading system under Presidential Regulation No. 110 of 2025 and formed partnerships with Verra (a leading carbon credit certifier) and the Integrity Council for the Voluntary Carbon Market (ICVCM) (L, 2025). Indonesia's carbon credit potential is estimated to reach 13.4 billion tonnes of CO₂ equivalent by 2050, potentially generating \$2.8–8.6 billion annually depending on carbon prices (Ibid.). Initiatives in these areas transform climate action into an economic instrument, supporting energy transition goals while reinforcing trade and investment linkages between India and Indonesia.

IV. Strategic Implications

The emergence of these new economic dimensions—digital, maritime, and green—demonstrates that the AIFTA’s role extends far beyond tariff reduction. By establishing trust, reducing transaction costs, and providing a structured platform for sustained engagement, the agreement has catalyzed forward-looking collaboration across sectors that are increasingly central to global competitiveness. These developments illustrate a self-reinforcing cycle characteristic of smart power: economic confidence enables experimentation in complex domains, which in turn strengthens strategic resilience and mutual interdependence.

In essence, the AIFTA has not merely expanded trade volumes but has institutionalized a dynamic framework in which historical goodwill, strategic alignment, and modern economic imperatives converge, enabling India and Indonesia to co-create a multi-dimensional partnership for the 21st century.

Challenges and Limitations

While the India–Indonesia partnership has advanced significantly under a smart power framework, it remains subject to structural, economic, and political constraints that could impede its future trajectory. A nuanced understanding of these challenges is essential for policymakers seeking to sustain and deepen the bilateral relationship.

I. Persistent Economic and Trade Disparities

Despite the complementary nature of the economic relationship, structural imbalances generate potential points of tension.

- **Chronic Trade Imbalance:** India has consistently run a trade deficit with Indonesia, which expanded from approximately \$6.7 billion in 2009–10 to over \$22 billion in 2022–23 (Financial Express, 2023). This imbalance is largely attributable to India’s high-volume imports of palm oil and coal—commodities critical to domestic energy security and food industries. In FY2022–23, India’s imports of palm oil alone totalled approximately \$11 billion, with coal imports reaching US\$ 14.2 billion, together accounting for over \$25 billion of India’s ASEAN trade deficit of \$43.6 billion (Ibid.). While reflecting genuine demand—India imports 61 percent of its edible oil requirements and relies heavily on thermal coal for electricity generation despite domestic coal

reserves—the persistent deficit creates domestic pressures in India, fuelling protectionist debates and periodic calls for import restrictions (Ibid.). India’s government has pursued a strategy of reducing palm oil imports through tariff reductions (cutting the basic customs duty on crude palm oil from 20 percent to 10 percent in May 2025) and domestic cultivation initiatives under the National Mission on Edible Oils (NMEO-OP), but demand outpaces supply, limiting the effectiveness of these efforts (Mahdi, 2023). If not managed through dialogue and negotiation, such protectionist sentiment could strain the bilateral economic framework.

- **Non-Tariff Barriers (NTBs):** Following progressive tariff liberalization under AIFTA, NTBs have emerged as a key impediment (Verma, 2022; Klotz & Appleton, 2025). Indian companies often face difficulties navigating Indonesia’s unique national standards (SNI), complex product registration procedures, and regulatory uncertainty. Indonesia maintains an extensive database of non-tariff measures spanning certification requirements, import approvals, pre-shipment inspections, and port-of-entry requirements, all of which increase transaction costs for exporters (World Bank, 2023). Conversely, Indonesian exporters cite challenges related to India’s sanitary and phytosanitary measures (SPS) and technical barriers to trade (TBT), particularly in agricultural and food sectors (Klotz & Appleton, 2025). These NTBs increase transaction costs, reduce trade efficiency, and can partially offset the benefits of tariff reductions, highlighting the need for continuous regulatory dialogue and harmonization (Verma, 2022; Klotz & Appleton, 2025).

II. Bureaucratic Hurdles and Implementation Gaps

High-level political will does not always translate into effective execution, creating implementation gaps that can undermine strategic trust.

- **Bureaucratic Inertia:** Large-scale projects, such as the Sabang Port initiative, have encountered delays due to regulatory complexity, local stakeholder management, and evolving commercial negotiations. The project, announced with considerable fanfare in 2018, experienced a multi-year gestation period before receiving concrete commitment in 2023, with construction timelines

remaining uncertain. Such delays risk generating “commitment fatigue,” where prolonged gestation periods of announced projects erode confidence in bilateral follow-through.

- **Information Asymmetry and SME Participation:** AIFTA’s benefits are often concentrated among larger corporations, as small and medium-sized enterprises (SMEs) in both countries lack awareness of specific provisions or the institutional capacity to navigate documentation and compliance requirements (Singh & Tomer, 2024). Only 33 of more than 60 free trade agreements examined in a comprehensive study explicitly incorporate SME-related provisions, with India’s agreements particularly lacking dedicated SME chapters or binding commitments to support SME participation (Ibid.). This limits the agreement’s inclusivity and reduces the potential for widespread economic integration. Strengthening support mechanisms for SMEs—including trade facilitation centres, capacity-building programs, and simplified documentation processes—is critical to ensuring that the partnership’s benefits are broadly shared.

III. The Overarching Influence of China

The geopolitical shadow of the People’s Republic of China (PRC) presents both an external constraint and a source of strategic complexity.

- **Economic Competition and Dependence:** China is the largest trading partner for both India and Indonesia, with investment portfolios in Indonesia encompassing infrastructure, digital technology, and manufacturing that dwarf India’s presence. China accounted for approximately 16 percent of Indonesia’s total exports in 2023 and received approximately \$7.3 billion in Chinese FDI, positioning Indonesia as the principal recipient of Chinese investment in Southeast Asia (Malla & Haq, 2025). Jakarta’s need to balance strategic and economic interests with Beijing may temper its engagement with India, particularly in sectors where Chinese economic influence is pervasive. Indonesia’s “de-hyphenation” policy—engaging with China economically while opposing its maritime claims—reflects this delicate balancing act (Ibid.).
- **Strategic Divergence:** While India and Indonesia share concerns regarding Chinese assertiveness in regional waters, their approaches diverge in important

ways. Indonesia, a “non-claimant state” in the South China Sea disputes, prioritizes multilateral diplomacy through ASEAN and avoids direct confrontations with Beijing (Jha, 2023; Rusmuliadi, 2023). The Indonesian Navy has confronted Chinese fishing militia in the Natuna Sea—an area where China asserts claims that overlap with Indonesia’s Exclusive Economic Zone—yet Jakarta refrains from internationalizing these incidents (Jha, 2023). In contrast, India has engaged more assertively in balancing initiatives through mechanisms like the QUAD and has explicitly articulated opposition to unilateral changes to the status quo in the Indo-Pacific. This tactical divergence introduces an element of cautious alignment, requiring careful calibration in joint security initiatives to prevent unintended friction or the perception of Indonesia being drawn into a confrontational posture it wishes to avoid (Malla & Haq, 2025).

IV. Domestic Political and Social Factors

Internal dynamics within each democracy also shape foreign policy outcomes.

- **Intermittent Attention and Agenda Saturation:** Even under the Comprehensive Strategic Partnership (CSP), the India–Indonesia relationship competes for attention with other pressing domestic priorities and regional engagements. Periods between high-level summits often see a slowdown in actionable initiatives, highlighting the need for sustained institutional mechanisms to maintain momentum. The establishment of the Economic and Financial Dialogue (2023) and enhanced maritime cooperation structures represent steps toward institutionalization, but require consistent resourcing and political backing.
- **Societal Perceptions and Soft Power Limitations:** While historical and cultural links remain a core soft power asset, their resonance is nuanced and generationally uneven. Among younger Indonesians, contemporary perceptions of India are increasingly shaped by its technological, entrepreneurial, and media landscape (reflected in the popularity of Indian apps, startups, and digital content) rather than solely by its ancient cultural heritage. Continuous innovation in cultural diplomacy—including digital engagement, expanded student exchanges, collaborative innovation programs

in technology and startups, and contemporary cultural content—is necessary to maintain relevance and prevent the soft power component from becoming symbolic rather than operational.

V. Analytical Implications

These challenges underscore that smart power is not a static achievement but a dynamic process requiring constant recalibration. Economic asymmetries, regulatory bottlenecks, geopolitical constraints, and domestic political dynamics all constitute structural risks that could undermine trust if left unaddressed. For India and Indonesia, the strategic task lies in converting these challenges into opportunities: refining institutional mechanisms for trade facilitation and NTB harmonization, strengthening inclusive economic frameworks that benefit SMEs, coordinating responses to external strategic pressures while respecting each other's strategic autonomy, and continuously modernizing soft power engagement. Addressing these vulnerabilities is essential not only for sustaining the CSP but for ensuring that the India–Indonesia partnership remains resilient in an increasingly contested Indo-Pacific environment.

This chapter has demonstrated that the revitalization and deepening of India–Indonesia relations in the 21st century cannot be fully explained by examining hard or soft power in isolation. Rather, the enduring success of this bilateral partnership is best understood through the deliberate, often tacit, application of a smart power strategy—an approach that strategically combines the enduring appeal of soft power with the practical leverage of hard power mechanisms. Historical, cultural, and civilizational affinities—rooted in centuries of shared philosophical, religious, and artistic heritage—have been deliberately aligned with pragmatic initiatives in strategic diplomacy, security cooperation, and institutionalized economic engagement, most notably through the ASEAN–India Free Trade Agreement (AIFTA).

In conclusion, the India–Indonesia partnership exemplifies the practical application of smart power in the contemporary Indo-Pacific. It demonstrates that sustainable international partnerships are those rooted in historical and cultural affinity, reinforced by tangible security and economic cooperation, and continuously adapted to emerging opportunities. By consciously leveraging this synergy through proactive policy measures, both nations can not only solidify their bilateral future but

also offer a model of effective South–South cooperation that contributes to a stable, inclusive, and balanced Indo-Pacific region.

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Chapter: VI

CONCLUSION

In the era of globalization, almost all the states of the world are connected with each other; in recent times, no state functions independently. Needless to say, the tremendous development of information technology and its overall use have built a complex and interdependent web between states. The isolationist group inevitably includes the states that have not joined this web. However, many scholars have called the web of connections established between states a threat to state sovereignty. Despite the fact that it is considered a physical obstacle in terms of the integrity of the state's geographical boundaries, the interchange of information between states has recently been effortlessly crossing the barrier of sovereignty. As a result, the entire world has transformed. For example, from communication to travel and trade to combat, everything has gained momentum. Therefore, globalization has dramatically altered the entire world system by modifying current conceptions while also introducing an open institutional framework. Historically, national interests governed interstate relations. However, its scope was limited. States used to take the initiative in developing bilateral commercial ties by emphasizing state ideals. Commercial interactions in the twenty-first century have created a new dynamic discourse between states, although language, information, culture, sculpture, and architecture were previously diffused through commercial exchanges. As a result, states began to shape the structure of the world system. The process continues to this day. In the contemporary global system, state power or capability plays a critical role in shaping this particular structure; that is, in the past, the entire system was controlled by this constricted group as trade exchanges occurred between a small group of restricted nations. However, while commercial exchanges take place all over the world, they are currently regulated by a small number of authorities who are fundamentally players and facilitators of the overall power politics. As a result, trade interactions constitute the primary pillar and are crucial to governing the entire global system—without which, understanding modern world affairs and geopolitics is nearly impossible or inadequate.

According to the centre-periphery model, the central states always have authority over the peripheral states. The centre states' power has given global politics a distinct structure. Semi-periphery states, on the other hand, serve as a financial and commercial liaison between the centre and peripheral states. Naturally, the semi-periphery states, on the one hand, try to build strong relations with the centre states, while on the other hand, the periphery states present themselves as donor states. At the same time, they try to get the support of the periphery states. However, the relationship between semi-periphery versus semi-periphery nations is one of growing cooperation with a focus on national interests, rather than 'regulator and controlled.' Their primary goal is to achieve a balance of power among the centre states.

In fact, the prevailing relationship between India and Indonesia belongs to this category. In the contemporary world order, India and Indonesia are referred to as major and middle powers, respectively. The two nations are regarded as economic giants in South Asia, alongside India and Southeast Asia's Indonesia, owing to their rapid GDP growth.

In recent times, the bilateral relations between India and Indonesia have established a milestone in the economic, cultural, and security ties between South Asia and Southeast Asia. However, the historical roots of this relationship are not in recent economic developments but in long-standing cultural and commercial exchanges dating back more than 2,000 years. For example, in Muslim-dominated Indonesia, the imprint of Hindu civilization still remains in the dance and drama of cultural folklore.

Bilateral trade between the Indian Chola Empire and the Srivijaya Empire of Indonesia began with maritime expeditions conducted by Raja Rajendra Chola in the 7th century CE but eventually evolved into economic contacts. Following Srivijaya, India-Indonesia connections continued uninterrupted until the Majapahit Empire. However, following the emergence of the Muslim Empire in Indonesia, China became involved in Indian-Indonesian economic exchanges. With the arrival of Europeans throughout Asia in the 1600s, European forces brought South Asia and Southeast Asia under their control in a short time by combining military power and establishing independent colonies. During this colonial period, bilateral trade relations between India and Indonesia disappeared. Following independence, bilateral relations between the two states resumed with the signing of a formal Treaty of Friendship. In the then-

existing world order, unstable events such as bipolarity, as well as internal political turbulence in both states, forged a distance between India and Indonesia. However, the emergence of the New World Order in 1991 led to a revival of bilateral trade relations between India and Indonesia, with India becoming a dialogue partner of ASEAN. And over time, the depth of this relationship has increased day by day, which is reflected in trade exchanges, investment, cultural exchanges, security, and strategic partnership. In 2018, India and Indonesia signed the Comprehensive Strategic Partnership (CSP), which represented a watershed moment in the two nations' semi-peripheral relationship. Simultaneously, the leadership of Indonesia and India at the G20 summits in 2022 and 2023, respectively, established the significance and acceptance of both nations in the existing global order, elevating their partnership to an exclusive position.

Therefore, the research illustrates the depth and evolution of the bilateral trade relationship between India and Indonesia and its impact on the new world order. However, the aspects explored by the ontology of research are as follows:

India's primary goal in developing bilateral commercial connections with Indonesia was to diversify its trade exchange through economic integration. Reliance on a single state, state union, or region for commercial exchange becomes extremely difficult for any particular state. The fact is that economic dependency is a major impediment to a country's development. However, these commercial transactions are influenced by the state's geographical position. The favourable topography of a state greatly affects its strategic, military, and security sectors, as well as accelerating trade exchanges. On the other hand, the hostile geographical structure of a state appears as an obstacle in all military, commercial, security, and strategic aspects of that state. In this regard, it is found that the position of India and Indonesia has played a very favourable role for strategic security and, above all, for trade. However, both India and Indonesia have greater sea access, which has made it easier for both countries to trade. At the same time, the extensive Exclusive Economic Zones (EEZ) of India and Indonesia have prepared both countries for the possibility of becoming maritime powers.

On the other hand, greater accessibility to the sea entails the development of new port facilities that meet international standards in order to make trade more dynamic and effective. However, this study shows that India and Indonesia do not have an

international-grade port facility and infrastructure mechanisms. As a result, trade between the two countries has been lagging. Trade between Indonesia and India is sometimes slowed considerably when cargo is shipped via a port in another nation rather than directly between the two countries. However, recent successful initiatives to improve commerce between Indonesia and India, such as the Tol Laut and Sagarmala projects, as well as the goodwill trade between both governments, will accelerate geoeconomics and geostrategies in the days ahead.

However, India wishes to enter into agreements with Indonesia in order to boost economic connections and secure its growing energy demands by confirming India's stake in multiple Indonesian gas blocks. It also seeks to assure the supply of high-quality coal. Moreover, India is one of the major coal importers in Indonesia. India's emergence as an economic hub has been driven by the growth of the manufacturing sector. However, it is evident that a ceaseless energy supply is required to sustain this expansion. That is why India aspires to reach a deal with Indonesia. Moreover, Indonesia possesses gas and coal deposits but must import oil. In terms of oil, both countries rely on imports. Therefore, keeping this objective in consideration, it can be assumed that both states will be able to achieve energy security at a unique level by building an energy forum together with other states of Southeast Asia. Since energy is currently being used not only as an essential commodity but also as a strategic commodity, this energy forum will further strengthen the geostrategic aspirations of the states.

India joined ASEAN solely for financial objectives in 1991, as part of its New Foreign Policy Outlook, which is known as the LEP. However, India's ties with ASEAN grew stronger over time. Mutual trust, economic exchanges, and political dialogue have grown to the point where they are now considered strategic partnerships. At the same time, India has launched a number of effective initiatives to foster bilateral relations with all ASEAN members, including Indonesia. Employing Indonesia as a case study in this research, it is observed that trade relations between India and Indonesia have gained momentum, not quickly but gradually, due to the two countries' national interests, mutual trust, policies adopted by the governments of both countries toward each other, and agreements and MoUs. However, the Look East Policy (LEP) from 1991 to 2014 did not give equal importance to other goals as India moved towards strengthening economic ties. As a result, other areas could not play an effective role in

the development of India-Indonesia relations. However, when the LEP was transformed into the Act East Policy (AEP) in 2014, India's objectives towards Southeast Asia included not only economic engagement but also culture, connectivity, capacity building, and commerce. As a result, the scope of relations between India and Indonesia increased to a large extent. Analysing the evolution of this relationship between the two states in terms of Rostow's 'Stages of Growth' model, it can be seen that the current state of Indian-Indonesian relations is moving towards the "Drive to Maturity" stage. Furthermore, an analysis of the two countries' trade relations revealed that the volume of trade between India and Indonesia is steadily expanding. Additionally, India's trade deficit is also constitutively increasing year after year, which poses a significant challenge to India. As a result, a trade deficit makes one state dependent on another. According to the experts' interview, it is very important to reduce this deficit quickly to build stronger and more effective trade relations between India and Indonesia, because the trade imbalance is making India not an exporter state but an importer state. Simultaneously, it is suggested that these commercial transactions preserve one state's ties with another for a long time. In fact, investment serves as a cement to develop bilateral ties. However, it has been observed that the mutual investment of both India and Indonesia is very low, which is regarded as an obstacle in the development of bilateral relations. In addition, Indonesia's protectionist policy approach has limited the expansion of bilateral trade.

However, just as successful policies, MoUs, and agreements inked by the two states play an important role in the expansion of bilateral commerce, robust connectivity offers further impetus to the extension of commercial relations. Analysing the connectivity infrastructure in terms of trade between the two nations reveals that both India's and Indonesia's connectivity is relatively weak. However, the current connectivity infrastructure is not suitable in view of the expansion of trade between the two countries. Needless to say, international connectivity (air and cargo) between India and Indonesia is inadequate, and the internal connectivity of both countries is not satisfactory enough. According to the information received from the interviewees, internal connectivity is important for the development of the state, as well as plays a special role in making international trade more accessible. It is observed that in recent times, the Indian government has implemented several connectivity projects and policies that will significantly affect future business dealings. At the same time, India's

connectivity infrastructure has been greatly improved by the use of information technology. However, in addition to this hardware connectivity (rail, road, port, air), India has begun to emphasize software connectivity (cultural exchange, people-to-people contact). In terms of India-Indonesia trade, India's people-to-people contact and involvement with the diaspora community are extremely low. According to the experts' interview, India should prioritize software connectivity because it can open up new commercial opportunities. Thus, both countries must collaborate on this.

While trade and investment have been one of the catalysts for further strengthening India-Indonesia bilateral relations, the analysis of this research reveals that the limited investment and trade between the two countries have emerged as one of the challenges in the long-term relationship. However, across the region, notably in Indonesia, the two superpowers, China and the United States, have been investing extensively to increase their influence and impose their control, with economic exchanges constantly expanding. On the other side, China has signed a number of infrastructure projects in Southeast Asia, including Indonesia, as part of its BRI project. Although it appears to be a straightforward economic project, it is actually a diplomatic tactic by which China expands its influence in the Indian Ocean. Furthermore, Malacca is being used for a specific purpose to alleviate the crisis. However, in response to China's expanding hegemonic aggression, another regional rival and the supreme power of the sea, the United States, is boosting its presence in the region via military and security involvement rather than economic engagement. As a result, the other major and middle powers in the great power conflict face significant internal challenges. It is found that the volume of investment India makes in Indonesia is negligible compared to China. At the same time, India's capability is very low compared to the military capability and strength of the United States—so both contexts have negatively affected India, especially India's geostrategic goal and geoeconomic engagement. However, due to the ongoing conflict between these two states, all the states of the region have been trying to build a balance between the US and China by hedging strategy. Conversely, they are also looking for a third reliable partner. It is particularly noteworthy that India's current military and economic capabilities are enough to become an alternative partner.

In the midst of this great power conflict, India has enhanced its involvement and partnership with regional organizations to expand its presence and engagement in that

region. However, it is identified that India has benefited greatly from its interaction with ASEAN and the EAS, two significant regional institutions in the region. In addition, India's participation in BIMSTEC has given a boost to geoeconomics and geostrategy to retain its influence in the Indian Ocean. It has also collaborated with India's neighbouring countries in the Southeast Asia region to build regional value chains. Above all, healthier economic relations have a positive impact on regional security. Essentially for this purpose, the integration with organizations like ASEAN, EAS, and BIMSTEC has strengthened the path of India as a net security provider. Therefore, it is assumed that the expansion of BIMSTEC, especially the expansion of its membership, will further open the way for India's integration into the economic and geostrategic landscape of Southeast Asia.

The US-China dispute has had a particularly strong impact on bilateral relations between India and Indonesia. However, in this sense, India has always attempted to use its military and economic resources to improve relations as smart power through adequate economic foreign policy. Furthermore, smart power promotes economic development. The India–Indonesia relationship exemplifies a sophisticated and mutually reinforcing smart power dynamic. Soft power assets such as shared cultural narratives, including the Ramayana and Mahabharata, the cultural performances at Prambanan, and capacity-building initiatives like the ITEC program, provide a foundation of trust, familiarity, and legitimacy. These elements lower transaction costs and reduce strategic friction, creating a receptive environment for hard power measures. Hard power initiatives—including joint naval exercises in the Andaman Sea, collaborative maritime domain awareness programs, and strategic infrastructure projects like the Sabang port—reinforce this foundation by delivering tangible security and economic benefits. The interplay between soft and hard power is not additive but synergistic: each reinforces the other, producing a resilient, multi-dimensional partnership capable of weathering geopolitical uncertainty.

The FTA serves as a catalyst for the expansion of bilateral trade relations. The FTA reduced tariffs on commodities exchanged between the two countries, allowing market prices to stay affordable. It is found that the ASEAN–India Free Trade Agreement serves as the operational backbone that translates strategic goodwill into concrete economic interdependence. By systematically liberalizing tariffs and institutionalizing trade protocols, the AIFTA has reshaped bilateral supply chains,

enabling Indonesia to consolidate its role as a key supplier of commodities such as palm oil, coal, and natural rubber, while providing India with a market for value-added goods, refined petroleum products, pharmaceuticals, and high-tech exports. This complementary economic structure has created powerful vested interests across both societies—from Indian refiners and technology firms to Indonesian planters and industrial suppliers—embedding the partnership in mutually reinforcing economic logic. The dramatic growth of bilateral trade, approaching US\$ 39 billion by 2022–23, is therefore not merely a measure of economic activity but a strategic indicator of the partnership’s durability and resilience.

Additionally, the smart power framework has generated a self-reinforcing cycle, catalysing cooperation in emerging, forward-looking domains. The trust and robust economic linkages established under AIFTA have enabled both nations to expand collaboration into areas of contemporary relevance, including the digital economy, maritime connectivity, and green technology. Initiatives such as the India–Indonesia Digital Dialogue, the adoption of the UPI model, joint investments in renewable energy, and sustainable blue economy projects exemplify how historical goodwill and institutionalized trade frameworks can serve as springboards for innovation-driven, future-oriented collaboration. These new dimensions ensure that the partnership remains adaptive, relevant, and capable of addressing complex 21st century challenges, from technological transformation to climate security.

Policy Recommendations:

As indicated by the research findings, the complex dynamics of the two states behind the trade interactions have been revealed, as well as the depth, durability, and positive aspects of the bilateral ties between the two nations, while deficiencies have been highlighted in several sectors. Given these factors, the following recommendations are proposed to sustain and enhance this partnership:

- 1. Diversify the Trade Basket:** While Indonesia remains a key supplier of commodities and India a provider of value-added goods, both nations should actively expand trade into emerging sectors such as IT services, healthcare, education, tourism, and creative industries. Dedicated bilateral portals and trade facilitation cells can support Small and Medium Enterprises (SMEs) to

participate more fully, ensuring that benefits extend beyond large corporates and fostering inclusive economic interdependence.

- 2. Resolve Non-Tariff Barriers (NTBs) through Structured Dialogue:** A permanent, fast-track bilateral mechanism should be established to identify, monitor, and resolve NTBs in a time-bound manner. Addressing technical standards, sanitary and phytosanitary requirements, and regulatory complexities proactively will enhance predictability and investor confidence.
- 3. Integrated Policy Planning:** Ministries of Foreign Affairs, Commerce, and Defence should institutionalize joint planning sessions to ensure that diplomatic, economic, and security initiatives are strategically aligned. This approach will transform the currently ad hoc, de facto smart power framework into a formally articulated, mutually reinforcing strategy, maximizing both the reach and sustainability of bilateral initiatives.
- 4. Fund the Green and Digital Transition:** Establish a dedicated India–Indonesia Green Partnership Fund to co-finance renewable energy, climate resilience projects, and carbon market initiatives. Concurrently, fast-track the integration of India’s Unified Payments Interface (UPI) with Indonesia’s digital payment systems, fostering cross-border e-commerce, financial inclusion, and people-to-people connectivity.
- 5. Operationalize Maritime and Blue Economy Projects:** Prioritize the full operationalization of the Sabang deep-sea port as a commercial, logistics, and maritime connectivity hub. Expand joint research and investment in the sustainable blue economy—including marine biotechnology, aquaculture, and ocean-based renewable energy—linking hard infrastructure development with long-term economic and environmental sustainability.
- 6. Emphasize Positive-Sum Cooperation:** Rather than framing the partnership as a counterbalance to China, India and Indonesia should consistently highlight its inclusive, public-good nature. Areas such as digital governance, climate resilience, maritime security, and trade facilitation should be presented as mutually beneficial initiatives, insulating the partnership from external pressure while maintaining strategic autonomy.
- 7. Big Push in Investment Strategy:** India’s ambition to enhance trade with Indonesia must be strengthened in practice, not just via policymaking, but also through greater investment. Higher investment yields greater advantages. As a

result, India will need to raise its investment in the ongoing project and complete it on time to reap the benefits. If the project work lasts for a long time, the relationship progress will be slow. To increase bilateral trade, India must invest more in infrastructure.

- 8. Strengthen Intra and Interconnectivity:** India-Indonesia Bilateral trade relies heavily on connectivity infrastructure. However, both states' connectivity infrastructure is unsuitable for substantial trade; interconnectivity between the two countries is currently very weak, while intra-connectivity structure is similar; particularly, Indonesia's island connectivity infrastructure is so fragile that price disparities are very visible. Also, the use of manual systems in ports makes commercial transactions slower. The state should pay more attention to inter- and intra-connectivity development. Moreover, there should be a specific budget for the formulation of effective policies and their implementation, and it should be completed within time. However, the development of strong interconnectivity makes it easier to attract international investment, including the advancement of domestic trade. However, it is important for both states to pay more attention to interconnectivity, especially direct communication by air and cargo.
- 9. Building a Stable Energy Supply Chain:** As an energy-importing country, India requires a ceaseless energy supply to keep its present manufacturing sector operational. That is why India has prioritized providing a reliable energy supply. Thus, oil exploration and extraction on Indonesia's Natuna Island, as well as gas blocks and coal imports to other islands, will be essential as a source state. However, there is a need to streamline the Government of India's policies regarding the acquisition of energy blocks. Appropriate policy frameworks are required to increase private sector engagement. India's oil reservoirs need to be extended further so that more oil may be stored simultaneously. Furthermore, the import of oil and gas via pipeline projects must be taken more seriously and rapidly. India must pay special attention to nuclear, wind, and green energy and develop appropriate policies for them. Diversifying India's energy needs with clean energy can help the country become self-sufficient in the energy industry.
- 10. Emphasizing the Neighbourhood-First Policy and Beyond by Further Developing BIMSTEC:** With appropriate execution of the Neighbourhood

First policy, India must look beyond its immediate surroundings. Since China's BRI project and India are becoming isolated from neighbouring countries due to their geopolitical stances and internal turmoil, India must prioritize the Neighbourhood First policy while also developing relations with Southeast Asia, East Asia, and West Asia regions beyond the neighbouring countries. Furthermore, in order to retain its presence in the Indian Ocean, BIMSTEC's scope should be expanded, and foreign policy should be designed to deepen economic, commercial, military, and strategic ties with these governments. This will boost the Indian economy.

- 11. Visa Free And E-Visa Travel Programme:** India needs to focus on the tourism industry to boost trade with the region. Through mutual agreements with these countries, visa-free or e-visa programs can be launched, which will increase India's soft power exposure. Along with this, the opening of branches of institutions like IIT, IIM, and NIT in these states, providing scholarships, inter-university exchange programs, and collaboration, will deepen their familiarity with the culture of India.
- 12. Focusing on the Marine Sector:** Given India and Indonesia's greater sea access, it is critical for both countries to focus on the marine sector, particularly fisheries, shipbuilding, shipping, offshore energy, and aquaculture, all of which have enormous potential, as well as policy formulation and implementation.
- 13. The Smart Power Strategy:** India's rankings in foreign institutions' annual reports and indexes need to be improved, as they have a significant impact on recruiting FDI. Also, India's smart business strategy determines its power in global affairs.

Area of Further Research:

The implementation of the research has addressed a number of issues in detail, in line with its objectives. However, as these areas have been explored, several themes warrant more in-depth discussion and will broaden the scope of this research.

Primarily maritime security rhetoric in the game of power politics for a continuous energy supply chain with seamless connectivity and an unhindered political environment for a robust economic foreign policy towards a congenial global order is the demand of the time.

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APPENDICES

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1-34 Examining India's Energy Security Policies and Its Economic Engagement with Indonesia in Light of Their Economic and Geostrategic Importance 35-72 Evolution of Business Relations and Connectivity Between India and Indonesia (1991-2023) 73-134 Big Power Conflicts: Challenges and Consequences in India-Indonesia Relations 135-170 Smart Power in Practice: India-Indonesia Relations and the Strategic Role of AIFTA in the 21st Century 171-205 Conclusion 206-216 Bibliography 217-243 Chapter: I INTRODUCTION In the early 20th century, the discipline of international relations began to be studied as a formal subject in Western curriculum, but the practical use and application of international relations can be found in Kautilya's "Arthashastra" and Machiavelli's "The Prince". Although the study of international relations was not part of the traditional curriculum at the time, it eventually became a crucial component of the state system, and trade emerged as the primary tool for establishing and fostering the international relations. Therefore, mutual relations between two or more states are mainly established through commercial exchanges. Kautilya explained international relations in terms of the position of the state according to 'Mandala Theory' in his book "Arthashastra" (Gautam, 2013). According to Hartman "International Relations as a field of study is focused upon the process by which states adjust their national interest to those of other states" (Hartmann, 1983). Another scholar Stanley Hoffman stated that "International relations is concerned with the factors and activities, that affect the external policies and the powers of the basic units into that the world is divided" (Landheer, 2012). On the other hand, Palmer and Perkins mentioned that "International relations is the interaction between sovereign states and other international actors such as international organisations, multinational cooperations, and non-governmental organisations" (Palmer & Perkins, 1997). According to Quincy Wright, "It is not only the nations which international relations seek to relate. Varied types of groups-nations, states, governments, people, regions, alliances, confederations, international organizations, even industrial organizations, cultural organizations, and religious organizations-must be dealt with in the study of international relations if the treatment is to be realistic" (Wright, 1980). In the pre-modern era, trade was considered the main and only condition for building international relations, but in the modern era, financial and military assistance, cultural exchange, transfer of information technology, developed market systems and most importantly security, national interests and world politics have become one of the means of establishing international relations. In addition to the aforementioned elements, bilateral relations are regarded as one of the primary foundations for establishing

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Agreements and MoUs between India and Indonesia

**TREATY OF FRIENDSHIP¹ BETWEEN INDIA
AND THE REPUBLIC OF INDONESIA**
Djakarta, 3 March 1951

The President of India and the President of the Republic of Indonesia being desirous of consolidating the bonds of peace and friendship, which have ever existed between the two States and of developing peaceful and friendly relations between them, have resolved to conclude this Treaty and have, for that purpose, appointed as their Plenipotentiaries the following persons, viz.,

The President of India :

HIS EXCELLENCY SHRI PARAMASIVA SUBBARAYAN, Ambassador Extraordinary and Plenipotentiary;

The President of the Republic of Indonesia':

HIS EXCELLENCY MOHAMMAD ROEM, Minister for Foreign Affairs;

who, having communicated to each other their respective full powers and found them good and in due form, have agreed and signed the following articles :

Article I

There shall be a perpetual peace and unalterable friendship between India and the Republic of Indonesia.

Article II

Each of the contracting parties shall be able to appoint diplomatic representatives, Consuls General, Consuls, Vice-consuls and Consular Agents, who shall reside in towns, ports and other places in each other's territory where the corresponding representatives of other countries reside or in such other places as may be agreed to.

Consuls General, Consuls, Vice-Consuls and Consular Agents shall be provided with exequaturs or other valid authorization of their

¹ Came into force on 1 May 1953, by the exchange of the instruments of ratification at New Delhi, in accordance with article VII.

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appointment. Such exequatur or authorization is liable to be withdrawn by the country which issued it if considered necessary. The reasons for the withdrawal shall be indicated wherever possible.

The persons mentioned above shall enjoy on a reciprocal basis all the rights, privileges, exemptions and immunities that are accorded to persons of corresponding status of other States.

Article III

The two Governments agree that their representatives shall meet from time to time and as often as occasion requires to exchange views on matters of common interest and to consider ways and means for mutual cooperation in such matters.

Article IV

The nationals of either of the contracting parties shall have in the territory of the other party, subject to the laws and rules in force in that territory, the right of establishing themselves and of residence, of going from and coming to and of moving freely within that territory.

Article V

The contracting parties will, as soon as possible, enter into negotiations for the conclusion of a comprehensive Treaty or Treaties of Commerce and Establishment.

Article VI

Any dispute arising out of the interpretation or application of this Treaty or one or more of its articles shall be settled in the first instance, by negotiations, and, if no settlement is reached within a period of six months from the commencement of negotiations, by arbitration in such manner as may hereafter be determined by a general or special agreement between the contracting parties.

Article VII

The present Treaty shall be ratified and shall come into effect on the date of the exchange of ratifications which shall take place as soon as possible in New Delhi.

Indonesia Friendship 3 Mar. 1951 377

IN WITNESS WHEREOF, the Plenipotentiaries have signed the present Treaty in the English and Indonesian languages, the English text being, in case of dispute, the authentic text, and have affixed thereto their seals.

DONE in duplicate in Djakarta the third day of March in the year one thousand nine hundred and fifty-one.

For the President of India :

For the President of the
Republic of Indonesia:

(Signed): PARAMASIVA SUBBARAYAN
Ambassador Extraordinary
and Plenipotentiary

(Signed): MOHAMMAD ROEM
Minister for Foreign Affairs

[SEAL]

[SEAL]

**TRADE AGREEMENT BETWEEN THE REPUBLIC
OF INDIA AND THE REPUBLIC OF INDONESIA**
New Delhi, 30 January 1953

The Government of the Republic of India and the Government of the Republic of Indonesia being desirous of extending direct trade relations between their respective countries have agreed as follows :

Article I

The contracting parties will take all appropriate measures to promote trade between the two countries in all possible ways, in particular with regard to the items mentioned in the Schedules 'A' and 'B' attached to this Agreement.

Nothing in this Agreement shall be deemed to preclude trade in goods or commodities not mentioned in the said Schedules.

Article II

The contracting parties agree further that the exchange of goods shall be subject to and within the scope of the general import-export regulations in force from time to time in each country.

Article III

The contracting parties agree that the grant of facilities and accordingly the issue of licences for the import and export of goods or commodities by each country to the other shall be no less favourable than those applied to any other country.

Article IV

In order to promote international trade both parties will take all appropriate measures to facilitate trade on a multilateral basis.

Article V

In order to facilitate the implementation of this Agreement the contracting parties agree to consult each other in respect of any

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matters arising from or in connection with the supply of goods or commodities between the two countries.

Article VI

Ships on Indonesian or Indian registry shall be accorded in the ports of the other party the usual facilities in respect of bunkering and other services and the customary treatment in respect of duties, charges and taxes, subject to foreign exchange regulations in force from time to time in each country. No ships of either party shall have the right to participate in the coastal trade of the other party.

Article VII

The provisions set forth above shall be retrospectively applied from January 1st, 1953 and shall come into force after exchange of notes to that effect between the two Governments. They shall remain in force till the 31st December 1953 and for such successive periods as shall be mutually agreed upon before their expiry.

DONE AND SIGNED in duplicate, in English, either copy being authentic, in New Delhi, on this, Thirtieth day of January, 1953.

(Sd.) H.V.R. IENGAR.
Chairman of the
Indian Delegation.

(Sd.) R.A. ASMAUN.
Chairman of the
Indonesian Delegation.

SCHEDULE 'A'
EXPORTS FROM INDIA

1. Jute goods.
2. Tobacco manufactured.
3. Tobacco unmanufactured.
4. Woollen piece-goods.
5. Cotton piece-goods.
6. Handloom goods.
7. Cotton yarn.
8. Vegetable oils :
(a) Linseed oil, (b) Castor oil.
9. Coal.
10. Cement.

Indonesia

Trade 30 Jan. 1953

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11. Building hardware including screws, bolts, nuts, locks etc.
12. Soaps.
13. Paints and varnishes.
14. Pharmaceutical products.
15. Chemicals and chemical preparations.
16. Tea chests.
17. Lac including shellac.
18. Sports goods.
19. Rubber tyres and tubes.
20. Porcelain-ware including insulators and pottery.
21. Paper paste-board and stationery.
22. Machinery including agricultural implements and tools.
23. Household-wares including sewing machines, hurricane lanterns, utensils and glassware.
24. Electric fans.
25. Electric motors.
26. Industrial machinery including diesel engines, sugarcane crushers and textile machinery such as carding machines.
27. Motor vehicle batteries.
28. Dry cells.
29. Machine stools.
30. Handicrafts and cottage industry products.

SCHEDULE 'B'
EXPORTS FROM INDONESIA

1. Copra.
 2. Coconut oil.
 3. Palm oil.
 4. Essential oils.
 5. Spices and betelnuts.
 6. Timber.
 7. Tin.
 8. Rubber.
 9. Hides and skins, raw.
 10. Quinine salts.
 11. Canes and rattans.
 12. Gums, resins and dammer.
 13. Barks for tanning, Cutch and Gambier.
 14. Sisal fibre.
 15. Tobacco wrappers.
 16. Palm kernels (fresh and dried fruits).
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PROTOCOL

Delegations of the Government of the Republic of India and of the Government of the Republic of Indonesia have met in New Delhi between January 23rd, 1953 and January 30th, 1953, with a view to discussing the development and the promotion of trade and commerce between India and Indonesia for the period from January 1st, 1953 to December 31st, 1953.

The Delegations have agreed to submit the following proposals for the approval of their respective Governments.

1. With reference to Article I in the Trade Agreement between India and Indonesia of the 30th January, 1953, the goods or commodities mentioned in the Schedules 'A' and 'B' annexed thereto shall have due consideration of the respective Governments in order to promote the exchange of goods or commodities between the two countries during the period from January 1st, 1953 to December 31st, 1953.
2. Import and export licences may however, also be granted for goods or commodities other than those mentioned in the Schedules.
3. Any application for import or export licences for the goods or commodities during the period of validity of the Trade Agreement will be given favourable consideration.

The proposals set forth above shall be deemed to have come into force retroactively from January 1st, 1953. They will definitely come into force after exchange of notes between the two Governments.

DONE AND SIGNED, in duplicate, in English, either copy being authentic, in New Delhi on this, the Thirtieth day of January, 1953.

(Sd.) H.V.R. IENGAR.
Chairman of the
Indian Delegation.

(Sd.) R.A. ASMAUN.
Chairman of the
Indonesian Delegation.

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LETTERS

MINISTRY OF COMMERCE AND INDUSTRY

New Delhi, the 30th January, 1953

EXCELLENCY,

I have the honour to request you to forward to the attention of your Government the following desire expressed by the Indian Delegation in the course of the trade discussions in the present Conference with a view to promoting the exchange of goods or commodities between India and Indonesia in the light of the stipulations set forth in Article I of the Trade Agreement between India and Indonesia dated the 30th January, 1953.

It is evident that shipping and airline communications between India and Indonesia will promote commercial relationship between the two countries. In this respect it is desirable that the contracting parties will endeavour to promote the utilisation of the services and facilities provided by the shipping and airlines of the contracting parties to the greatest extent possible.

I beg you, Excellency, to accept the renewed assurance of my high consideration.

(Sd.) H.V.R. IENGAR.
Chairman of the
Indian Delegation.

H.E. Dr. R.A. ASMAUN,
Chairman of the
Indonesian Delegation.

New Delhi, the 30th January, 1953

Sir,

I have the honour to acknowledge the receipt of your letter of today's date reading as follows :

(Not printed)

The Indonesian Delegation is willing to forward to the attention of the Indonesian Government the desire of the Indian Delegation as outlined above.

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I beg you, Sir, to accept the renewed assurance of my high consideration.

(Sd.) R.A. ASMAUN.

Chairman of the
Indonesian Delegation.

Shri H.V.R. IENGAR, I.C.S.,
Chairman of the
Indian Delegation.

TRADE AGREEMENT EXTENDED

EXCHANGE OF LETTERS, NEW DELHI, 24 NOVEMBER, 1954

EMBASSY OF THE
REPUBLIC OF INDONESIA
IN INDIA.

New Delhi, 24th November, 1954

Shri H.V.R. IENGAR, I.C.S.,
Secretary to the Government of India,
Ministry of Commerce and Industry,
New Delhi.

Sir,

With reference to Article VII of the Trade Agreement between Indonesia and India signed on the 30th January, 1953, and our recent discussions, I suggest on behalf of the Government of Indonesia that the Agreement shall be deemed to have continued in force from the 1st January, 1954, and shall remain in force till the 30th June, 1955.

Will you please confirm that the Government of India are agreeable to this arrangement ?

I remain, dear Sir,

Yours sincerely,

(Seal)

(Sd.) Dr. F.W.M. TIWON,
Charge d'Affaires a.i.

Indonesia

Trade 30 Jan. 1953

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D.O. No. 1081-Secy./54.

24th November, 1954

Dear Dr. TIWON,

I write to acknowledge receipt of your letter of today's date which reads as follows :

(Not printed)

I confirm that the Government of India are agreeable to the arrangement proposed.

Yours sincerely,
(Sd.) H.V.R. IENGAR.

Dr. F.W.M. TIWON,
Charge d'Affaires, a.i.
Embassy of the Republic
of Indonesia in India,
New Delhi.

FURTHER EXTENSION OF AGREEMENT

EXCHANGE OF LETTERS, NEW DELHI, 16 AUGUST 1955.

EMBASSY OF THE
REPUBLIC OF INDONESIA
IN INDIA.

New Delhi, 16th August, 1955

Dear Mr. IENGAR,

I have the honour to refer to Article VII of the Trade Agreement between Indonesia and India signed on the 30th January, 1953 and to our recent discussions and to suggest on behalf of the Government of Indonesia that the Agreement which was last extended up to 30th June, 1955 by an exchange of letters dated the 24th November, 1954 be further extended and made valid for the period 1st July, 1955 to 31st December, 1955.

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I should be grateful if you would please confirm that the Government of India are agreeable to this further extension.

Yours sincerely,
L.N. PALAR
Ambassador.

MR. H.V.R. IENGAR, I.C.S.,
Secretary to the Government of India,
Ministry of Commerce and Industry,
New Delhi.

GOVERNMENT OF INDIA
MINISTRY OF COMMERCE AND INDUSTRY

New Delhi, 16th August, 1955

Dear Dr. PALAR,

I write to acknowledge the receipt of your letter of today's date which reads as follows :

(Not printed)

I confirm that the Government of India are agreeable to the further extension proposed.

Yours sincerely,
(Sd.) H.V.R. IENGAR.

HIS EXCELLENCY DR. L.N. PALAR,
Ambassador for the Republic of Indonesia,
New Delhi.

EXTENSION UP TO JUNE 30, 1956
**EXCHANGE OF LETTERS NEW DELHI,
21 AND 25 FEBRUARY, 1956**

Copy of the letter No. 00844/K/EK/2-10, dated 21st February, 1956 from Embassy of the Republic of Indonesia in India to Mr. K.B. Lall,

Indonesia Trade 30 Jan. 1953 9

I.C.S., Joint Secretary to the Government of India, Ministry of Commerce and Industry, New Delhi.

I have the honour to refer to Article VII of the Trade Agreement between Indonesia and India signed on the 30th January, 1953 and to our recent discussions, and to suggest on behalf of the Government of Indonesia that the Agreement which was last extended up to 31st December, 1955 by our exchange of letters dated the 16th August, 1955 be further extended and made valid for the period 1st January, 1956 to 30th June, 1956.

I should be grateful if you would please confirm that the Government of India are agreeable to this further extension.

Copy of D.O. letter No. 30-TE(15)/55 dated 25th February, 1956 from Mr. K.B. Lall, I.C.S., Joint Secretary to the Government of India, Ministry of Commerce and Industry, New Delhi to Dr. F.W.M. Tiwon, Charge d'Affairs a.i., Embassy of the Republic of Indonesia in India, New Delhi.

I write to acknowledge the receipt of your letter No. 00844/K/EK/2-10, dated the 21st February, 1956 which reads as follows :

(Not printed)

I confirm that the Government of India are agreeable to the further extension proposed.

EXTENSION UP TO DECEMBER 31, 1956

**EXCHANGE OF LETTERS, DJAKARTA
17 JULY AND 2 AUGUST, 1956**

Letter No. FSC(3)/54 dated 17th July, 1956 from P.L. Bhandari, Charge d'Affairs, Embassy of India, Djakarta to His Excellency Dr. Subandrio, Secretary General, Ministry of Foreign Affairs, Djakarta.

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I have the honour to refer to Article VII of the Trade Agreement between India and Indonesia signed on the 30th January, 1953 and to our recent discussions, and to suggest on behalf of the Government of India that the Agreement, which was last extended up to 30th June 1956 by the exchange of letters on the 21st February 1956 in New Delhi between the Embassy of Indonesia and the Ministry of Commerce and Industry of the Government of India, be further extended and made valid for the period 1st July, 1956 to 31st December, 1956 after the deletion of item 10 (cement) from Schedule 'A' "Exports from India" attached to the Agreement signed on the 30th January, 1953.

I shall be grateful if you would please confirm that the Government of Indonesia are agreeable to this further extension.

Please accept, Excellency, the assurance of my highest consideration.

Letter No. Bsd/3265R/56, dated 2nd August, 1956 from Dr. Subandrio, Secretary General, Ministry of Foreign Affairs, Djakarta to Mr. P.L. Bhandari, Charge d'Affairs, Embassy of India, Djakarta.

I have the honour to acknowledge receipt of your letter of the 17th July 1956, reading as follows :

(Not printed)

I have the honour to confirm that the Government of Indonesia are agreeable to this further extension.

Please accept, Sir, the assurance of my highest consideration.

EXTENSION UP TO JUNE 30, 1957

**EXCHANGE OF LETTERS, DJAKARTA,
22 JANUARY AND 9 FEBRUARY, 1957**

Letter No. FSC(3)/54, dated the 22nd January, 1957 from Shri A.G. Meneses, Charge d'Affairs *ad interim*, Embassy of India, Indonesia to His Excellency Dr. Subandrio, Secretary General, Ministry of Foreign Affairs, Republic of Indonesia, Djakarta.

Indonesia

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I have the honour to refer to Article VII of the Trade Agreement between India and Indonesia signed on the 30th January 1953 and to our recent discussions, and to suggest on behalf of the Government of India that the Agreement, which was last extended up to the 31st December, 1956 by the exchange of letters on 17th July, 1956 and 2nd August, 1956 in Djakarta between the Embassy of India and the Ministry of Foreign Affairs of the Republic of Indonesia, be further extended and made valid for the period 1st January, 1957 to 30th June, 1957 after the deletion of item 10 (Quinine salts) from Schedule 'B' 'Imports from Indonesia' attached to the Agreement signed on the 30th January, 1953.

I shall be grateful if you would please confirm that the Government of Indonesia are agreeable to this further extension.

Please accept, Excellency, the assurance of my highest consideration.

Letter No. F. 880/IV, dated the 9th February, 1957 from Mr. Ismael M. Thajeb, Chief of Foreign Economic Relations, Republic of Indonesia, Djakarta to Shri A.G. Meneses, Charge d'Affaires *ad interim*, Embassy of India, Djakarta.

I have the honour to acknowledge the receipt of your letter dated 22nd January, 1957, reading as follows :

(Not printed)

I have the honour to confirm that the Government of Indonesia are agreeable to the further extension proposed as well as the deletion of item 10 (Quinine salts) from Schedule 'B' of the Agreement.

Please accept, Sir, the assurance of my highest consideration.

FURTHER EXTENSION (1957, ii)

EXCHANGE OF LETTERS, DJAKARTA 28 JUNE, 1957

Copy of letter dated the 28th June, 1957, from Shri G. Parthasarathi, Ambassador of India, Indonesia to His Excellency Mr.

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Tamzil St. Narajau, Secretary General, Ministry of Foreign Affairs, Republic of Indonesia, Djakarta.

I have the honour to refer to Article VII of the Trade Agreement between India and Indonesia signed on the 30th January, 1953, and to our recent discussions, and to suggest on behalf of the Government of India that the Agreement, which was last extended up to the 30th June, 1957, by the exchange of letters on the 22nd January 1957, and the 9th February 1957, between the Embassy of India and the Ministry of Foreign Affairs of the Republic of Indonesia be further extended and made valid for the period 1st July, 1957, to the 31st December, 1957.

I shall be grateful if you would please confirm that the Government of Indonesia are agreeable to this further extension.

Please accept, Excellency, the assurance of my highest consideration.

Copy of letter dated the 29th June, 1957, from the Ministry of Foreign Affairs of the Republic of Indonesia, Djakarta, to the Embassy of the Republic of India, Djakarta.

The Ministry of Foreign Affairs of the Republic of Indonesia presents its compliments to the Embassy of the Republic of India and has the honour to acknowledge receipt of a letter dated June 28th 1957, addressed to the Secretary General of the Ministry of Foreign Affairs reading as follows :

(Not reproduced)

The Ministry of Foreign Affairs has the honour to confirm that the Government of Indonesia are agreeable to the further extension proposed.

The Ministry of Foreign Affairs avails itself of this opportunity to renew to the Embassy of India the assurance of its highest consideration.

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EXTENSION OF TRADE AGREEMENT (1958)**EXCHANGE OF LETTERS, DJAKARTA 1 JULY 1958**

No. FSC(3)/54.

EMBASSY OF INDIA,
DJAKARTA.
1st July, 1958

EXCELLENCY,

I have the honour to refer to Article VII of the Trade Agreement between India and Indonesia signed on the 30th January, 1953 and to the recent discussions between your Ministry and this Embassy, and to suggest on behalf of the Government of India that the Agreement, together with the schedules attached thereto, which was last extended up to the 30th June, 1958 by the exchange of letters on the 6th January, 1958, may be further extended and made valid for the period 1st July, 1958 to 31st December, 1958.

I shall be most grateful if you will kindly confirm that the Government of Indonesia are agreeable to this further extension, as suggested.

Please accept, Excellency, the assurance of my highest consideration.

Yours sincerely,
(Sd.) C.J. TRACEY
Charge d' Affairs *ad interim*.

His Excellency Mr. SOEWITO KOSOEMOWIDAGDO,
Secretary General,
Ministry of Foreign Affairs,
Republic of Indonesia,
Djakarta.

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KEMENTERIAN LUAR NEGERI
REPUBLIC OF INDONESIA.

No. 36948/VI-a.

The Ministry of Foreign Affairs of the Republic of Indonesia presents its compliments to the Embassy of the Republic of India and has the honour to acknowledge receipt of a letter dated today, addressed to the Secretary General of the Ministry of Foreign Affairs reading as follows :

[Not reproduced]

The Ministry of Foreign Affairs has the honour to confirm that the Government of Indonesia are agreeable to the further extension proposed.

The Ministry of Foreign Affairs avails itself of this opportunity to renew to the Embassy of India the assurance of its highest consideration.

Djakarta, 1st July, 1958
KEMENTERIAN LUAR NEGERI,
REPUBLIC OF INDONESIA,
DJAKARTA.

The Embassy of the Republic of India,
Djakarta.

FURTHER EXTENSION (1959)

LETTERS EXCHANGED 13 JULY AND 15 JULY, 1959

No. 16-CS.1.

13th July, 1959/22nd Asadha, 1881

EXCELLENCY,

I have the honour to refer to Article VII of the Trade Agreement between India and Indonesia, which was originally signed on the 30th January, 1953 and to the discussion last week between your Ministry

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and this Embassy and to propose on behalf of the Government of India, that the Agreement (together with the schedules attached thereto) which was last extended up to the 30th June, 1959, by the exchange of letters on the 27th December, 1958, may be extended further and made valid for the period 1st July, 1959 to 31st December, 1959.

I shall be very thankful if you will kindly confirm that the Government of the Republic of Indonesia agree to this further extension, as proposed.

Please accept, Excellency, the assurance of my highest consideration,

Yours sincerely
(Sd.) J.N. KHOSLA.
Ambassador.

His Excellency Mr. SUWITO KUSUMOWIDAGDO,
Secretary General,
Ministry of Foreign Affairs,
Government of the Republic of Indonesia,
Djakarta.

KEMENTERIAN LUAR NEGERI
REPUBLIK INDONESIA

No. 38516/VI-a.

The Ministry of Foreign Affairs of the Republic of Indonesia presents its compliments to the Embassy of the Republic of India and has the honour to acknowledge receipt of the Embassy's letter dated today, addressed to the Secretary General of the Ministry of Foreign Affairs reading as follows :

[Not reproduced]

The Ministry of Foreign Affairs of the Republic of Indonesia has the honour to confirm that the Government of Indonesia are agreeable to the further extension as proposed.

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The Ministry of Foreign Affairs of the Republic of Indonesia avails itself of this opportunity to renew to the Embassy of India the assurance of its highest consideration.

Djakarta, 15th July, 1959.

KEMENTERIAN LUAR NEGERI

REPUBLIK INDONESIA,

DJAKARTA.

The Embassy of the Republic of India,
44, Kebon Sirih,
Djakarta.

FURTHER EXTENSION (1960)

**EXCHANGE OF LETTERS, DJAKARTA
18 AND 21 JANUARY, 1960**

EMBASSY OF INDIA

No. 16-CS-1.

Djakarta

18th January, 1960

EXCELLENCY,

I have the honour to invite a reference to Article VII of the existing Trade Agreement between the Governments of the Republic of Indonesia and India, which was signed originally on the 30th January, 1953 and to the talks between your Department (Foreign Economic Relations Division) and this Embassy and to suggest, on behalf of the Government of India, that the Agreement, as also the Schedules attached to it, which we extended last up to the 31st December, 1959, by the exchange of letters on the 15th July, 1959, may now be extended further and made valid for the period 1st January, 1960 to 30th June, 1960.

I shall be most grateful if your Excellency will kindly confirm that the Government of the Republic of Indonesia agree to the further extension, as proposed.

Indonesia Trade 30 Jan. 1953 17

Kindly accept, Excellency, the assurances of my highest consideration.

Yours sincerely,
(J.N. KHOSLA)
Ambassador.

His Excellency Mr. SUWITE KUSUMOWIDAGDO,
Secretary General,
Department of Foreign Affairs,
Government of the Republic of Indonesia,
Djakarta.

DEPARTMENT LUAR NEGERI

REPUBLIK INDONESIA

No. 3771/VI-a.

Djakarta, 21st January, 1960

The Department of Foreign Affairs of the Republic of Indonesia presents its compliments to the Embassy of the Republic of India and has the honour to acknowledge receipt of the Embassy's letter, dated today addressed to the Secretary General of the Department of Foreign Affairs reading as follows :

(Not reproduced)

The Department of Foreign Affairs of the Republic of Indonesia has the honour to confirm that the Government of Indonesia are agreeable to the further extension as proposed.

The Department of Foreign Affairs of the Republic of Indonesia avails itself of this opportunity to renew to the Embassy of India the assurance of its highest consideration.

The Embassy of the Republic of India,
44, Kebon Sirigh,
Djakarta.

**TRADE AGREEMENT BETWEEN THE
GOVERNMENT OF INDIA AND THE
GOVERNMENT OF THE REPUBLIC
OF INDONESIA**

Jakarta, 3 June 1978

The Government of the Republic of INDIA

AND

The Government of the Republic of INDONESIA,

BEING desirous of promoting trade and economic relations between the two countries on the basis of principle of equality and mutual benefit,

HAVE AGREED as follows :

Article I

The Government of the Republic of India and the Government of the Republic of Indonesia shall within the framework of their respective laws and regulations in force take all appropriate measures to facilitate, strengthen, maximise and diversify trade between the two countries.

Article II

1. Both Governments agree to accord to each other in matters of trade no less favourable treatment than that accorded to any other country, particularly as regards customs rules and formalities, customs duties and charges of any kind and regulations governing the importation and exportation of goods/commodities.
2. The provisions of paragraph (1) of this Article shall not preclude the consideration by the Indonesian Government of preferential arrangements in trade among ASEAN countries.

3. The provisions of paragraph (1) of this Article shall further not preclude the maintenance or further consideration by either Government of :

- (i) privileges which are or may be granted by either of the Contracting Parties to facilitate frontier trade.
- (ii) preferences, advantages, privileges or immunities accorded by either Contracting Party to any third country existing on the date of this Agreement or in replacement thereof;
- (iii) advantages or preference accorded by either Government under any scheme for expansion of trade and economic cooperation among developing countries on a global, regional or subregional basis to which it is or it may become a party.

Article III

Without prejudice to the provisions of Article II, each Government shall grant merchant vessels of the other Party while entering, putting off and lying at its ports most-favoured-nation treatment accorded by the respective laws, rules and regulations, to the vessels under the flag of any third country.

This Article does not apply to coastal or inter-insular trade of either Party.

Article IV

All payments under this Agreement shall be made in freely convertible currency acceptable to both countries in accordance with the laws and regulations in force from time to time in the two countries.

Article V

Both Governments agree to accord, subject to their respective laws and regulations, facilities for the holding of Trade Fairs and Exhibitions and visits of businessmen and trade delegations.

Article VI

In order to facilitate the implementation of this Agreement, both Governments agree to consult each other in respect of any question in connection with the trade between the two countries.

For this purpose consultative meetings attended by representatives of both Governments may be held, upon the request of one of the Contracting Parties at a convenient time agreed upon by the Parties.

Article VII

This Agreement shall come into force provisionally on the day of the signing of this Agreement. It will definitely enter into force on the date the Parties exchange notifications with each other that their constitutional requirements for the entering into force of the Agreement have been fulfilled and shall remain in force for a period of one year following the notifications; unless one of the Parties has notified the other in writing of its intention to terminate this Agreement, three months prior to the expiration of the aforesaid period of one year, it shall be considered as automatically extended for another year and thereafter, subject to the same procedure with respect to its termination for further successive periods of one year each.

IN WITNESS WHEREOF the undersigned, being duly authorised by their respective Governments have signed this Agreement.

DONE in duplicate at Jakarta on the 3rd of June, 1978 in the Hindi, Indonesian and English languages. In case of any divergence of interpretation, the English text shall prevail.

For the Government of the
Republic of India

For the Government of the
Republic of Indonesia

Sd/-
MOHAN DHARIA
Minister of Commerce,
Civil Supplies & Cooperation

Sd/-
Dr. RADIUS PRAWIRO
Minister of Trade and
Cooperatives

AGREEMENT
BETWEEN
THE GOVERNMENT OF THE REPUBLIC OF
INDIA
AND
THE GOVERNMENT OF THE REPUBLIC OF
INDONESIA
FOR
THE PROMOTION AND PROTECTION
OF INVESTMENTS

The Government of the Republic of India and the Government of the Republic of Indonesia (hereinafter referred to as "Contracting Parties");

Desiring to create conditions favourable for fostering greater investment by investors of one Contracting Party in the territory of the other Contracting Party;

Recognising that the encouragement and mutual protection of such investment will be conducive to the stimulation of individual business initiative and will increase prosperity in both Contracting Parties;

Have agreed as follows:

ARTICLE 1

Definitions

For the purpose of this Agreement:

(1) “investment” means every kind of asset established or acquired including changes in the form of such investment, in accordance with the national laws and regulations of the Contracting Party in whose territory the investment is made and in particular, though not exclusively, includes:

- (i) movable and immovable property as well as other rights such as mortgages, liens or pledges;
- (ii) shares in and stock and debentures of a company and any other similar forms of participation in a company;
- (iii) rights to money or to any performance under contract having a financial value;
- (iv) intellectual property rights, goodwill, technical processes and know-how in accordance with the relevant laws of the respective Contracting Party;
- (v) business concessions conferred by law or under contract, including concessions to search for and extract and exploit natural resources.

2. “investors” means any national or company of a Contracting Party;

(a) “national” means:

- (i) In respect of the Republic of India : persons deriving their status as Indian nationals from the law in force in India;
- (ii) In respect of the Republic of Indonesia : natural person having the nationality of Indonesia in accordance with its laws.

- (b) "Company" means:
 - (i) in respect of the Republic of India : corporations, firms and associations incorporated or constituted or established under the law in force in any part of India;
 - (ii) in respect of the Republic of Indonesia : legal person constituted or incorporated in accordance with its laws and regulations.
- (3) "returns" means the amounts yielded by an investment and in particular, though not exclusively, includes profit, interest, capital gains, dividends, royalties and fees;
- (4) "territory" shall mean:
 - (a) in respect of the Republic India : the territory of the Republic of India including its territorial waters and the airspace above it and other maritime zones including the Exclusive Economic Zone and continental shelf over which the Republic of India has sovereignty, sovereign rights or exclusive jurisdiction in accordance with its laws in force, the 1982 United Nations Convention on the Law of the Sea and International Law.
 - (b) in respect of the Republic of Indonesia : the territory of the Republic of Indonesia as defined in its laws.

ARTICLE 2

Scope of the Agreement

This Agreement shall apply to all investments made by investors of either Contracting Party in the territory of the other Contracting Party, accepted as such in accordance with its laws and regulations in force concerning foreign investments, whether made before or after the coming into force of this Agreement.

ARTICLE 3

Promotion and Protection of Investment

- (1) Each Contracting Party shall encourage and create favourable conditions for investors of the other Contracting Party to invest in its territory, and admit such investments in accordance with its laws and regulations.

(2) Investments and returns of investors of each Contracting Party shall at all times be accorded fair and equitable treatment in the territory of the other Contracting Party.

ARTICLE 4

Treatment of Investments

1. Investments made by investors of either Contracting Party in the territory of the other Contracting Party, shall receive treatment which is fair and equitable and not less favourable than that accorded to investments made by investors of any third State.

2. The provisions of this Agreement relating to the granting of treatment not less favourable than that accorded to the investors of any third State shall not be construed so as to oblige one Contracting Party to extend to the investors of the other the benefit of any treatment, preference or privilege resulting from:

(a) any existing or future customs union or free trade area or a common market or a monetary union or similar international agreement or other forms of regional cooperation to which either of the Contracting Party is or may become a party, or the adoption of an agreement designed to lead to the formation or extension of such a union or area within a reasonable length of time; or

(b) any international agreement or arrangement relating wholly or mainly to taxation or any domestic legislation relating wholly or mainly to taxation.

3. Each Contracting Party shall, subject to its laws and regulation, accord to investment of investors of the other Contracting Party treatment no less favourable than that which is accorded to investments of its investors.

ARTICLE 5

Expropriation

(1) Investments of investors of either Contracting Party shall not be nationalised, expropriated or subjected to measures having effect equivalent to nationalisation or expropriation (hereinafter referred to as " expropriation") in the territory of the other Contracting Party except for a public purpose in accordance with law on a non-discriminatory basis and against fair and equitable compensation. Such compensation shall amount to the fair market value of the investment expropriated immediately before the expropriation or before the impending expropriation became public knowledge, whichever is the earlier, shall include interest at prevailing rate as agreed

upon by both parties until the date of payment, shall be made without unreasonable delay, be effectively realizable and be freely transferable.

(2) The investor affected shall have a right, under the law of the Contracting Party making the expropriation, to review, by a judicial or other independent authority of that Party, of his or its case and of the valuation of his or its investment in accordance with the principles set out in this paragraph. The Contracting Party making the expropriation shall make every endeavour to ensure that such review is carried out promptly.

(3) Where a Contracting Party expropriates the assets of a company which is incorporated or constituted under the law in force in any part of its territory, and in which investors of the other Contracting Party own shares, it shall ensure that the provisions of paragraph (1) of this Article are applied to the extent necessary to ensure fair and equitable compensation in respect of their investment to such investors of the other Contracting Party who are owners of those shares.

ARTICLE 6 **Compensation for Losses**

Investors of one Contracting Party whose investments in the territory of the other Contracting Party suffer losses owing to war or other armed conflict, a state of national emergency or civil disturbances in the territory of the latter Contracting Party shall be accorded by the latter Contracting Party treatment, as regards restitution, indemnification, compensation or other settlement, no less favourable than that which the latter Contracting Party accords to its own investors or to investors of any third State. Resulting payments shall be freely transferable.

ARTICLE 7 **Repatriation of Investment and Returns**

(1) Each Contracting Party shall, permit all funds of an investor of the other Contracting Party related to the investment in its territory to be freely transferred, without unreasonable delay and on a non-discriminatory basis. Such funds may include:

- (a) Capital and additional capital amounts used to maintain and increase investments;
- (b) Returns including dividends and interest in proportion to their shareholding;

- (c) Repayment of any loan, including interest thereon, relating to the investment;
- (d) Payments of royalties and services fees relating to the investment;
- (e) Proceeds from sales of their shares;
- (f) Proceeds received by investors in case of sale or partial sale or liquidation;
- (g) The earnings of nationals of one Contracting Party who work in connection with investment in the territory of the other Contracting Party.

(2) Nothing in paragraph (1) of this Article shall affect the transfer of any compensation under Article 6 of this Agreement.

(3) Unless otherwise agreed to between the parties, currency transfer under paragraph (1) of this Article shall be permitted in any convertible currency. Such transfer shall be made at the prevailing market rate of exchange on the date of transfer.

ARTICLE 8

Subrogation

Where one Contracting Party or its designated agency has guaranteed any indemnity against non-commercial risks in respect of an investment by any of its investors in the territory of the other Contracting Party and has made payment to such investors in respect of their claims under this Agreement, the other Contracting Party agrees that the first Contracting Party or its designated agency is entitled by virtue of subrogation to exercise the rights and assert the claims of those investors. The subrogation rights or claims shall not exceed the original rights or claims of such investors.

ARTICLE 9

Settlement of Disputes Between an Investor and a Contracting Party

(1) Any dispute between a Contracting Party and an investor of the other Contracting Party, concerning an investment of the latter in the territory of the former, be settled amicably through consultations and negotiations.

(2) If such a dispute cannot be settled within a period of six months from the date of written notification of the dispute, the dispute shall, at the option of the investor concerned, be submitted either to the competent judicial, arbitral or administrative bodies of the Contracting Party which has admitted the investment for settlement in accordance with its laws and the provisions of this Agreement, or to international arbitration or conciliation. The option so exercised under this paragraph shall be final.

(3) In case the dispute is submitted to arbitration or conciliation, the investor shall be entitled to refer the dispute to:

(a) The International Centre for the Settlement of Investment Disputes (ICSID) for settlement by conciliation or arbitration under the Convention on the Settlement of Investment Disputes between States and Nationals of other States opened for signature at Washington on 18 March, 1965, in case both Contracting Parties have become the Parties to the Convention; or

(b) an ad hoc arbitral tribunal in accordance with the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL), 1976, subject to the following modification:

- (i) The appointing authority under Article 7 of the Rules shall be the Secretary General of the Permanent Court of Arbitration at the Hague. The third arbitrator shall not be a national of either Contracting Party.
- (ii) The parties shall appoint their respective arbitrators within two months.
- (iii) The arbitral award shall be made in accordance with the provisions of this Agreement.
- (iv) The arbitral tribunal shall state the basis of its decision and give reasons upon the request of either party.
- (v) The arbitral award shall be final and binding on both the parties.

ARTICLE 10

Disputes Between the Contracting Parties

(1) Disputes between the Contracting Parties concerning the interpretation or application of this Agreement shall, as far as possible, be settled amicably through negotiation.

(2) If a dispute between the Contracting Parties cannot thus be settled within six months from the time the dispute arose, it shall upon the request of either Contracting Party be submitted to an arbitral tribunal.

(3) Such an arbitral tribunal shall be constituted for each individual case in the following way. Within two months of the receipt of the request for arbitration, each

Contracting Party shall appoint one member of the tribunal. Those two members shall then select a national of a third State who on approval by the two Contracting Parties shall be appointed Chairman of the tribunal. The Chairman shall be appointed within two months from the date of appointment of the other two members.

(4) If within the periods specified in paragraph (3) of this Article, the necessary appointments have not been made, either Contracting Party may, in the absence of any other agreement, invite the President of the International Court of Justice to make any necessary appointments. If the President is a national of either Contracting Party or if he is otherwise prevented from discharging the said function, the member of the International Court of Justice next in seniority who is not a national of either Contracting Party shall be invited to make the necessary appointments.

(5) The arbitral tribunal shall reach its decision by a majority of votes. Such decision shall be binding on both Contracting Parties. Each Contracting Party shall bear the cost of its own member of the tribunal and of its representation in the arbitral proceedings; the cost of the Chairman and the remaining costs shall be borne in equal parts by the Contracting Parties. The tribunal may, however, in its decision direct that a higher proportion of costs shall be borne by one of the two Contracting Parties, and this award shall be binding on both Contracting Parties. The tribunal shall determine its own procedure.

ARTICLE 11 **Entry and Sojourn of Personnel**

A Contracting Party shall, subject to its laws and regulations relating to the entry and sojourn of non-citizens, permit natural persons of the other Contracting Party and personnel employed by companies of the other Contracting Party to enter and remain in its territory for the purpose of engaging in activities connected with investments.

ARTICLE 12 **Applicable Laws**

(1) Except as otherwise provided in this Agreement, all investment shall be governed by the laws in force in the territory of the Contracting Party in which such investments are made.

(2) Notwithstanding paragraph (1) of this Article nothing in this Agreement precludes the host Contracting Party from taking action for the protection of its essential security interests or in circumstances of extreme emergency in accordance with its laws normally and reasonably applied on a non-discriminatory basis.

ARTICLE 13
Application of other Rules

If the provisions of law of either Contracting Party or obligations under international law existing at present or established hereafter between the Contracting Parties in addition to the present Agreement contain rules, whether general or specific, entitling investments by investors of the other Contracting Party to a treatment more favourable than is provided for by the present Agreement, such rules shall to the extent that they are more favourable prevail over the present Agreement.

ARTICLE 14
Consultation and Amendment

1. Either Contracting Party may request for consultations on matters relating to this Agreement.
2. This Agreement may be amended by mutual consent of both Contracting Parties at any time after its entry into force. Any alteration or modification of this Agreement shall be done without prejudice to the rights and obligations arising from this Agreement prior to the date of such alteration or modification until such rights and obligations are fully implemented.

ARTICLE 15
Entry into Force, Duration and Termination

1. The present Agreement shall enter into force thirty (30) days after the later date on which the Governments of the Contracting Parties have notified each other that their constitutional requirements for the entry into force of this Agreement have been fulfilled. The later date shall refer to the date on which the last modification letter is sent.
2. This agreement shall remain in force for a period of ten years and thereafter it shall be deemed to have been automatically extended unless either Contracting Party gives to the other Contracting Party a written notice of its intention to terminate the Agreement. The Agreement shall stand terminated one year from the date on receipt of such written notice.
3. Notwithstanding termination of this Agreement pursuant to paragraph (1) of this Article, the Agreement shall continue to be effective for a further period of fifteen years from the date of its termination in respect of investments made or acquired before the date of termination of this Agreement.

In witness whereof the undersigned, duly authorised thereto by their respective Governments, have signed this Agreement.

Done at Montego Bay, Jamaica on this the 10th day of February, 1999 in two originals each in Hindi, Indonesian and English languages, all texts being equally authentic. In case of any divergence, the English text shall prevail.

sd/-
For the Government of
the Republic of India

sd/-
For the Government of
the Republic of Indonesia

**MEMORANDUM OF UNDERSTANDING
BETWEEN
THE GOVERNMENT OF THE REPUBLIC OF INDONESIA
AND
THE GOVERNMENT OF THE REPUBLIC OF INDIA
ON THE ESTABLISHMENT OF
A JOINT STUDY GROUP
TO EXAMINE THE FEASIBILITY OF
COMPREHENSIVE ECONOMIC COOPERATION AGREEMENT
(CECA)**

The Government of the Republic of Indonesia and the Government of the Republic of India hereinafter referred to as “Parties”;

Recognizing the role of Comprehensive Economic Cooperation Agreement in accelerating overall economic development of their respective countries;

Desiring to further expand and develop bilateral relations and cooperation in the fields of trade, industry, investment and other economic fields;

Pursuant to the Joint Declaration of the President of Indonesia and the Prime Minister of India of 23rd November 2005;

Bearing in mind the Record of Discussion of Bilateral Meeting between the Government of the Republic of Indonesia and the Government of the Republic of India, held in New Delhi on 8th August 2005;

Pursuant to the prevailing laws and regulations in their respective countries;

Have agreed as follows:

ARTICLE 1

The Parties shall establish a Joint Study Group (JSG) to examine the feasibility of a bilateral Comprehensive Economic Cooperation Agreement (CECA) that would include bilateral Free Trade Area (FTA) as a long-term objective.

ARTICLE 2

The objectives of CECA could be to:

1. Broaden and deepen cooperation in all economic fields;
2. Encourage trade and investment flows, bilaterally and regionally;
3. Contribute to trade and investment facilitation through minimizing tariff and non-tariff obstacles, reducing any administrative costs;
4. Improve business climate in two countries;
5. Promote transparency of regulation through cooperation among relevant institutions.

ARTICLE 3

COMPOSITION OF THE JOINT STUDY GROUP

The Joint Study Group will comprise delegations of both sides consisting of government officials, as well as representatives from the private sector and academia. The composition of the delegation shall be decided by each Party. The Joint Study Group shall be co-chaired by the Secretary General, Department of Trade, Government of Indonesia and Secretary, Department of Commerce, Government of India and or their representatives.

ARTICLE 4

TERMS OF REFERENCE OF THE JOINT STUDY GROUP

The Terms of Reference of the Joint Study Group would be to:

- (i) identify the strategic and economic benefits that Indonesia and India can derive from the establishment of CECA;
- (ii) develop a policy framework for enhancing trade in goods, services and investment including the feasibility of a Free Trade Agreement in Goods;

- (iii) review the existing institutional framework, infrastructure and mechanisms in bilateral trade and economic relations to enhance closer cooperation and recommend measures to facilitate and optimise such cooperation;
- (iv) expedite the expansion of trade in services, progressively liberalise trade in services on a preferential basis with substantial sectoral coverage;
- (v) evolve appropriate framework and modalities for investment cooperation with a view to creating a favourable climate for encouraging investment flows across border;
- (vi) enhance economic and technical cooperation in areas of mutual interest such as financial services, information and communication technology, bio-technology, bio-energy, pharmaceutical, healthcare, education and human resource development (HRD), infrastructure and tourism; and
- (vii) subject to the feasibility for a CECA being established by the Joint Study Group, to develop a Framework Agreement for consideration and announcement by their Leaders possibly by end of 2006.

ARTICLE 5

TIMEFRAME

The meetings of the Joint Study Group shall be held alternately in Indonesia and India. The Joint Study Group shall submit its report within 12 (twelve) months of its constitution.

ARTICLE 6

This Memorandum of Understanding may be amended as and when required by mutual consent of the Parties.

This Memorandum of Understanding shall enter into force on the date of its signing and remain in force indefinitely unless either Party notifies the other of its intention to terminate it by giving 6 (six) month's advance notice.

IN WITNESS THEREOF, the undersigned, have signed this Memorandum of Understanding.

DONE in duplicate in New Delhi on the twenty third day of November 2005.

For the Government of the
Republic of Indonesia

Signed

Mari Elka Pangestu
Minister of Trade

For the Government of the
Republic of India

Signed

Kamal Nath
Minister of Commerce
and Industry

Memorandum of Understanding
between
The Ministry of Petroleum and Natural Gas of the Republic of India
and
The Ministry of Energy and Mineral Resources of the Republic of Indonesia
on
Cooperation in the field of Oil and Gas

The Ministry of Petroleum and Natural Gas of the Republic of India and the Ministry of Energy and Mineral Resources of the Republic of Indonesia (hereinafter referred to as "the Parties");

ACKNOWLEDGING the desire on part of both countries to raise bilateral relationship to a higher level and establish a New Strategic Partnership between them;

NOTING the opportunities for enhanced economic and commercial cooperation between both countries, particularly in the oil and gas;

RECOGNIZING the importance and benefits from long-term cooperative relationship and joint economic projects for the mutual benefit of their people;

DESIRING to broaden and deepen further the friendly relations and mutually beneficial links between the two countries;

REFERRING to the Agreement between the Government of the Republic of India and the Government of the Republic of Indonesia concerning Technical and Scientific Cooperation, signed in Jakarta on 10 February 1982;

PURSUANT to the prevailing laws and regulations of their respective countries;

HAVE REACHED the following understandings:

Article 1
Objective

The objective of this Memorandum of Understanding is to establish a cooperative institutional framework to facilitate and to enhance bilateral cooperation in the oil and gas sector, on the basis of equality and mutual benefit.

Article 2
Areas of Cooperation

1. The Parties will cooperate with an objective to enhance and build enduring ties in the oil and gas sector including Coal Bed Methane, in conformity with their domestic laws, and regulations. The areas of cooperation between the Parties may include, but not limited to the following areas:
 - a) Cooperation in the areas of upstream and downstream activities and Infrastructure;
 - b) Encourage and promote investment and cooperation directly between the Parties or through their affiliated companies;
 - c) Promote dialogue and consultations among all concerned parties with regard to sharing of information;
 - d) Enhance capacity-building cooperation including forging closer cooperation between research and training centers and intensifying mutual visits among officials;
 - e) Technology transfer through conduct of applied research and development activities and installation of demonstration facilities; and
 - f) Other areas as may be agreed upon by the Parties.
2. Implementation of the above areas shall be discussed further by the Parties.

Article 3
Executing Agency

Executing Agencies for this cooperation will be:

1. For the Ministry of Petroleum and Natural Gas of the Republic of India: Secretary of the Ministry of Petroleum and Natural Gas.
2. For the Ministry of Energy and Mineral Resources of the Republic of Indonesia: Directorate General of Oil and Gas.

Article 4
Intellectual Property Rights

1. Each Party shall protect, within its territory, Intellectual Property Rights of the other Party in accordance with the domestic law in force in their respective country.

2. In case a specific arrangement, program or project may result in intellectual property, the Parties shall include separate arrangement in accordance with their respective regulations.

**Article 5
Joint Working Group**

1. For the purpose of discussions and implementation of various issues pertaining to this Memorandum of Understanding, the Parties may set up a Joint Working Group.
2. The Joint Working Group, consisting of the representatives of the Parties, may meet periodically on mutually determined dates by the Parties alternately in India and Indonesia. Each Party will cover its expenses relating to its participation in the meetings of the Joint Working Group.

**Article 6
Amendment**

This Memorandum of Understanding may be amended by mutual written consent of the Parties, specifying the date of entry into force of such amendment.

**Article 7
Settlement of Differences**

Any differences arising in relation to the interpretation of implementation of this Memorandum of Understanding shall be settled amicably by consultation or negotiation on the basis of mutual understanding and goodwill between the Parties.

**Article 8
Entry into Force, Duration, and Termination**

1. This Memorandum of Understanding shall enter into force on the day of its signing and shall remain in force for 5 (five) years unless either Party gives notice, in writing, to the other Party of its intention to terminate this Memorandum of Understanding, with 90 days prior notice.
2. The termination of this Memorandum of Understanding shall not affect the completion of cooperation activities initiated, while this Memorandum of Understanding is in effect, unless otherwise mutually determined in writing by the Parties.

IN WITNESS WHEREOF, the undersigned, have signed Memorandum of Understanding.

DONE at New Delhi on this twenty fifth day of January in the year two thousand and eleven in two originals each in Hindi, Indonesian and English languages, all text being equally authentic. In case of any divergence of interpretation, the English text shall prevail.



(S. Sundareshan)

Secretary, Ministry of Petroleum and
Natural Gas of the Republic of India



(Dr. R.M. Marty M. Natalegawa)
Minister of Foreign Affairs of the
Republic of Indonesia

(1)

**MEMORANDUM OF UNDERSTANDING
BETWEEN
THE MINISTRY OF COMMERCE AND INDUSTRY OF
THE REPUBLIC OF INDIA
AND
THE MINISTRY OF TRADE OF THE REPUBLIC OF INDONESIA
ON THE ESTABLISHMENT OF
BIENNIAL TRADE MINISTERS' FORUM**

The Ministry of Commerce and Industry of the Republic of India and the Ministry of Trade of the Republic of Indonesia hereinafter referred to as "the Parties";

RECOGNIZING the role of bilateral economic cooperation in accelerating overall economic development of their respective countries;

DESIRING to further expand and develop bilateral relations and cooperation in the fields of trade, industry, investment and other economic fields;

TAKING INTO ACCOUNT the Plan of Action for the Implementation of the New Strategic Partnership between the Republic of Indonesia and the Republic of India signed in Jakarta on June 3, 2007;

REFERRING to the Trade Agreement between the Government of the Republic of Indonesia and the Government of the Republic of India signed in Jakarta on July 3, 1978;

PURSUANT TO the prevailing laws and regulations of their respective countries;

Have agreed as follows:

(2)

ARTICLE 1**BIENNIAL TRADE MINISTERS' FORUM**

The Parties, subject to the terms of this Memorandum of Understanding and the laws, rules, regulations and national policies from time to time in force in each country shall establish a Biennial Trade Ministers' Forum ("BTMF") to discuss and facilitate further expansion of bilateral trade and economic cooperation between two countries.

ARTICLE 2**OBJECTIVES**

The objectives of Biennial Trade Ministers' Forum would be to:

1. Realize the bilateral trade volume of US\$ 25 billion by 2015 with emphasis on establishing a balanced two-way trade volume;
2. Contribute to identification and elimination of trade barriers through related Working Group;
3. Encourage consultations and coordination between governments and the private sector for enhancing bilateral investment flows through the setting up of a Trade and Investment Forum comprising business leaders and government representatives of both countries;
4. Promote trade in services across sectors.

ARTICLE 3**COMPOSITION OF THE WORKING GROUP**

1. The Biennial Trade Ministers' Forum will be co-chaired by the Minister of Commerce & Industry of the Republic of India and the Minister for Trade of the Republic of Indonesia and would comprise delegations of both sides consisting of government officials, as well as representatives from the private sector and other members as designated by the respective Parties. The Parties shall decide and communicate to each other the composition of the delegation.
2. The Parties may establish working group to deal with specific issues such as trade facilitation, trade resolution, trade and investment promotion and economic cooperation.

(3)

3. Decision made by the Parties shall be reflected in the Agreed Minutes of the meeting. The Parties will endeavour to take the necessary steps to implement such decisions.

ARTICLE 4

FUNCTIONS OF THE BIENNIAL TRADE MINISTERS' FORUM

The Biennial Trade Ministers' Forum will:

1. Review the existing mechanisms for enhancing bilateral trade and recommend specific measures to achieve the bilateral trade volume target of US\$ 25 billion by 2015;
2. Enhance trade facilitation by both sides which would, among others, take steps for the elimination of trade barriers, resolving day to day issues, reduction of non-tariff measures, diversification of trade and balancing of two-way trade;
3. Encourage the private sector to increase consultations through the Investment Forum for facilitating investment flows across border;
4. Expedite the expansion of trade in services by consolidating the existing sectors and exploring new sectors;
5. Hold meetings every two years alternately in India and in Indonesia. The first meeting to be held in Indonesia during 2011; and
6. Carry out any other function necessary for the effective implementation of this Memorandum of Understanding.

ARTICLE 5

AMENDMENT

This Memorandum of Understanding may be amended as required by mutual consent of the Parties.

ARTICLE 6

ENTRY INTO FORCE, DURATION AND TERMINATION

1. This Memorandum of Understanding shall enter into force on the date of its signing.

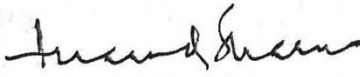
2. This Memorandum of Understanding shall be valid for a period of five (5) years and shall be automatically extended for a further period of five (5) years, unless either Party notifies the other Party in writing through diplomatic channels of its intention to terminate this Memorandum of Understanding at least six months in advance.

3. The termination of this Memorandum of Understanding shall not affect the implementation of any ongoing programme and/or activity undertaken within the framework of this Memorandum of Understanding.

IN WITNESS THEREOF, the undersigned, have signed this Memorandum of Understanding.

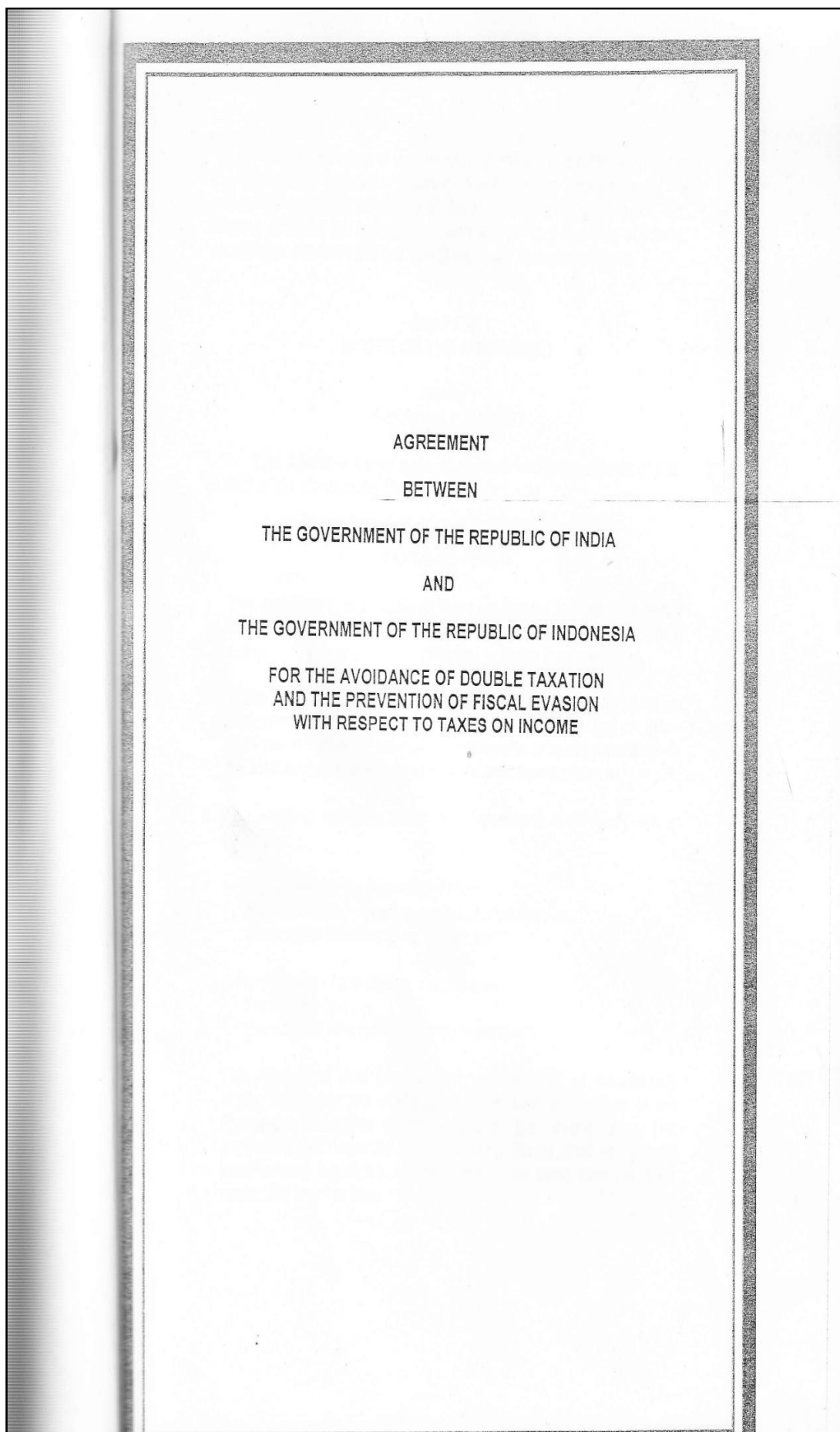
DONE in duplicate in New Delhi on the twenty fifth day of January in the year two thousand and eleven in English.

For the Ministry of Commerce and
Industry of the Republic of
India


(Anand Sharma)
Minister of Commerce and Industry

For the Ministry of Trade
of the Republic of
Indonesia


(Mari Elka Pangestu)
Minister for Trade



The Government of the Republic of India and the Government of the Republic of Indonesia, desiring to conclude an Agreement for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and with a view to promoting economic cooperation between the two countries, have agreed as follows:

**CHAPTER I
SCOPE OF THE AGREEMENT**

**Article 1
PERSONS COVERED**

This Agreement shall apply to persons who are residents of one or both of the Contracting States.

**Article 2
TAXES COVERED**

1. This Agreement shall apply to taxes on income imposed on behalf of a Contracting State or of its political subdivisions or local authorities, irrespective of the manner in which they are levied.
2. There shall be regarded as taxes on income all taxes imposed on total income, or on elements of income, including taxes on gains from the alienation of movable or immovable property and taxes on the total amounts of wages or salaries paid by enterprises.
3. The existing taxes to which the Agreement shall apply are in particular:
 - (a) in the case of the Republic of India:
the income tax, including any surcharge thereon;
(hereinafter referred to as "Indian tax");
 - (b) in the case of the Republic of Indonesia:
the income tax;
(hereinafter referred to as "Indonesian tax").
4. The Agreement shall also apply to any identical or substantially similar taxes that are imposed after the date of signature of the Agreement in addition to, or in place of, the existing taxes. The competent authorities of the Contracting States shall notify each other of any significant changes that have been made in their respective taxation laws.

**CHAPTER II
DEFINITIONS**

**Article 3
GENERAL DEFINITIONS**

1. For the purposes of this Agreement, unless the context otherwise requires:
 - (a) the term "India" means the territory of India and includes the territorial sea and airspace above it, as well as any other maritime zone in which India has sovereign rights, other rights and jurisdiction, according to the Indian law and in accordance with international law, including the United Nations Convention on the Law of the Sea 1982;
 - (b) the term "Republic of Indonesia" means the territory of the Republic of Indonesia as defined in its laws, and parts of the continental shelf, exclusive economic zone and adjacent seas over which the Republic of Indonesia has sovereignty, sovereign rights or jurisdiction in accordance with the United Nations Convention on the Law of the Sea 1982;
 - (c) the terms "a Contracting State" and "the other Contracting State" mean the Republic of India or the Republic of Indonesia as the context requires;
 - (d) the term "person" includes an individual, a company, a body of persons and any other entity which is treated as a taxable unit under the taxation laws in force in the respective Contracting States;
 - (e) the term "company" means any body corporate or any entity that is treated as a body corporate for tax purposes;
 - (f) the term "enterprise" applies to the carrying on of any business;
 - (g) the terms "enterprise of a Contracting State" and "enterprise of the other Contracting State" mean respectively an enterprise carried on by a resident of a Contracting State and an enterprise carried on by a resident of the other Contracting State;
 - (h) the term "international traffic" means any transport by a ship or aircraft operated by an enterprise of a Contracting State, except when the ship or aircraft is operated solely between places in the other Contracting State;
 - (i) the term "national" means:
 - (1) any individual possessing the nationality of a Contracting State; and
 - (2) any legal person, partnership or association deriving its status as such from the laws in force in a Contracting State;

- (j) the term "competent authority" means:
 - (1) in the case of the Republic of India, the Finance Minister or his authorised representative;
 - (2) in the case of the Republic of Indonesia, the Minister of Finance or his authorised representative;
- (k) the term "tax" means Indian or Indonesian tax, as the context requires, but shall not include any amount which is payable in respect of any default or omission in relation to the taxes to which this Agreement applies or which represents a penalty or fine imposed relating to those taxes;

2. As regards the application of the Agreement at any time by a Contracting State, any term not defined therein shall, unless the context otherwise requires, have the meaning that it has at that time under the law of that State for the purposes of the taxes to which the Agreement applies, any meaning under the applicable tax laws of that State prevailing over a meaning given to the term under other laws of that State.

**Article 4
RESIDENT**

- 1. For the purposes of this Agreement, the term "resident of a Contracting State" means any person who, under the laws of that State, is liable to tax therein by reason of his domicile, residence, place of management, place of incorporation, or any other criterion of a similar nature, and also includes that State and any political subdivision or local authority thereof. This term, however, does not include any person who is liable to tax in that State in respect only of income from sources in that State.
- 2. Where by reason of the provisions of paragraph 1 an individual is a resident of both Contracting States, then his status shall be determined as follows:
 - (a) he shall be deemed to be a resident only of the State in which he has a permanent home available to him; if he has a permanent home available to him in both States, he shall be deemed to be a resident only of the State with which his personal and economic relations are closer (centre of vital interests);
 - (b) if the State in which he has his centre of vital interests cannot be determined, or if he has not a permanent home available to him in either State, he shall be deemed to be a resident only of the State in which he has an habitual abode;

- (c) if he has an habitual abode in both States or in neither of them, he shall be deemed to be a resident only of the State of which he is a national;
- (d) if his residential status cannot be determined by reason of subparagraphs (a) to (c) in that sequence, the competent authorities of the Contracting States shall endeavour to settle the question by mutual agreement.

3. Where by reason of the provisions of paragraph 1 a person other than an individual is a resident of both Contracting States, then it shall be deemed to be a resident only of the State in which its place of effective management is situated. If the State in which its place of effective management is situated cannot be determined, then the competent authorities of the Contracting States shall endeavour to settle the question by mutual agreement.

**Article 5
PERMANENT ESTABLISHMENT**

1. For the purposes of this Agreement, the term "permanent establishment" means a fixed place of business through which the business of an enterprise is wholly or partly carried on.
2. The term "permanent establishment" includes especially:
 - (a) a place of management;
 - (b) a branch;
 - (c) an office;
 - (d) a factory;
 - (e) a workshop;
 - (f) a warehouse in relation to a person providing storage facilities for others;
 - (g) premises as sales outlet;
 - (h) farm or other place where agricultural, forestry, plantation or related activities are carried on; and
 - (i) a mine, an oil or gas well, a quarry or any other place of extraction of natural resources.
3. The term "permanent establishment" also encompasses:
 - (a) a building site or a construction or assembly or installation project or supervisory activities in connection therewith, but only if such site, project or activities last for a period of more than 183 days;
 - (b) a drilling rig or working ship used for exploration or exploitation of natural resources, but only if so used for a period more than 183 days;

(c) the furnishing of services, including consultancy services, by an enterprise through employees or other personnel engaged by the enterprise for such purpose, but only if activities of that nature continue (for the same or a connected project) within a Contracting State for a period or periods aggregating more than 91 days within any twelve month period.

4. Notwithstanding the preceding provisions of this Article, the term "permanent establishment" shall be deemed not to include:

(a) the use of facilities solely for the purpose of storage or display of goods or merchandise belonging to the enterprise;

(b) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of storage or display;

(c) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of processing by another enterprise;

(d) the maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise, or of collecting information, for the enterprise;

(e) the maintenance of fixed place of business solely for the purpose of carrying on, for the enterprise, any other activity of a preparatory or auxiliary character;

(f) the maintenance of a fixed place of business solely for any combination of activities mentioned in sub-paragraphs (a) to (e), provided that the overall activity of the fixed place of business resulting from this combination is of a preparatory or auxiliary character.

5. Notwithstanding the provisions of paragraphs 1 and 2, where a person other than an agent of an independent status to whom paragraph 7 applies - is acting in a Contracting State on behalf of an enterprise of the other Contracting State, that enterprise shall be deemed to have a permanent establishment in the first mentioned Contracting State in respect of any activities which that person undertakes for the enterprise, if such a person:

(a) has, and habitually exercises, in that State an authority to conclude contracts in the name of the enterprise, unless the activities of such person are limited to those mentioned in paragraph 4 which, if exercised through a fixed place of business, would not make this fixed place of business a permanent establishment under the provisions of that paragraph; or

(b) has no such authority, but habitually maintains in the first-mentioned State a stock of goods or merchandise from which he

regularly delivers goods or merchandise on behalf of the enterprise.

(c) habitually secures orders in the first-mentioned State, wholly or almost wholly for the enterprise itself.

6. Notwithstanding the preceding provisions of this Article, an insurance enterprise of a Contracting State shall, except in regard to re-insurance, be deemed to have a permanent establishment in the other Contracting State if it collects premiums in the territory of that other State or insures risks situated therein through a person other than an agent of an independent status to whom paragraph 7 applies.

7. An enterprise of a Contracting State shall not be deemed to have a permanent establishment in the other Contracting State merely because it carries on business in that other Contracting State through a broker, general commission-agent or any other agent of an independent status, provided that such persons are acting in the ordinary course of their business. However, when the activities of such an agent are devoted wholly or almost wholly on behalf of that enterprise, he will not be considered an agent of an independent status within the meaning of this paragraph.

8. The fact that a company which is a resident of a Contracting State controls or is controlled by a company which is a resident of the other Contracting State, or which carries on business in that other State (whether through a permanent establishment or otherwise), shall not of itself constitute either company a permanent establishment of the other.

**CHAPTER III
TAXATION OF INCOME**

**Article 6
INCOME FROM IMMOVABLE PROPERTY**

1. Income derived by a resident of a Contracting State from immovable property, including income from agriculture or forestry, situated in the other Contracting State may be taxed in that other Contracting State.

2. The term "immovable property" shall have the meaning which it has under the law of the Contracting State in which the property in question is situated. The term shall in any case include property accessory to immovable property, livestock and equipment used in agriculture and forestry, rights to which the provisions of general law respecting landed property apply, usufruct of immovable property

and rights to variable or fixed payments as consideration for the working of, or the right to work, mineral deposits, sources and other natural resources. Ships and aircraft shall not be regarded as immovable property.

3. The provisions of paragraph 1 shall also apply to income derived from the direct use, letting, or use in any other form of immovable property.
4. The provisions of paragraphs 1 and 3 shall also apply to the income from immovable property of an enterprise and to income from immovable property used for the performance of independent personal services.

**Article 7
BUSINESS PROFITS**

1. The profits of an enterprise of a Contracting State shall be taxable only in that State unless the enterprise carries on business in the other Contracting State through a permanent establishment situated therein. If the enterprise carries on business as aforesaid, the profits of the enterprise may be taxed in the other State but only so much of them as is attributable to that permanent establishment.
2. Subject to the provisions of paragraph 3, where an enterprise of a Contracting State carries on business in the other Contracting State through a permanent establishment situated therein, there shall in each Contracting State be attributed to that permanent establishment the profits which it might be expected to make if it were a distinct and separate enterprise engaged in the same or similar activities under the same or similar conditions and dealing wholly independently with the enterprise of which it is a permanent establishment.
3. In determining the profits of a permanent establishment, there shall be allowed as deductions expenses which are incurred for the purposes of the business of the permanent establishment, including executive and general administrative expenses so incurred, whether in the State in which the permanent establishment is situated or elsewhere, in accordance with the provisions of and subject to the limitations of the tax laws of that State. However, no such deduction shall be allowed in respect of amounts, if any, paid (otherwise than towards reimbursement of actual expenses) by the permanent establishment to the head office of the enterprise or any of its other offices, by way of royalties, fees or other similar payments in return for the use of patents or other rights, or by way of commission, for specific services performed or for management, or, except in the case of a banking enterprise, by way of interest on moneys lent to

the permanent establishment. Likewise, no account shall be taken, in the determination of the profits of a permanent establishment, for amounts charged, (otherwise than towards reimbursement of actual expenses), by the permanent establishment to the head office of the enterprise or any of its other offices, by way of royalties, fees or other similar payments in return for the use of patents or other rights, or by way of commission for specific services performed or for management, or, except in the case of banking enterprise, by way of interest on money lent to the head office of the enterprise or any of its other offices.

4. Insofar as it has been customary in a Contracting State to determine the profits to be attributed to a permanent establishment on the basis of an apportionment of the total profits of the enterprise to its various parts, nothing in paragraph 2 shall preclude that Contracting State from determining the profits to be taxed by such an apportionment as may be customary. The method of apportionment adopted shall, however, be such that the result shall be in accordance with the principles contained in this Article.
5. No profits shall be attributed to a permanent establishment by reason of the mere purchase by that permanent establishment of goods or merchandise for the enterprise.
6. For the purposes of the preceding paragraphs, the profits to be attributed to the permanent establishment shall be determined by the same method year by year unless there is good and sufficient reason to the contrary.
7. Where profits include items of income which are dealt with separately in other Articles of this Agreement, then the provisions of those Articles shall not be affected by the provisions of this Article.

**Article 8
SHIPPING AND AIR TRANSPORT**

1. Profits derived by an enterprise of a Contracting State from the operation of ships or aircraft in international traffic shall be taxable only in the Contracting State in which the place of effective management of the enterprise is situated.
2. If the place of effective management of a shipping enterprise is aboard a ship, then it shall be deemed to be situated in the Contracting State in which the home harbor of the ship is situated, or, if there is no such home harbor, in the Contracting State of which the operator of the ship is a resident.

3. The term "operation of ships or aircraft" means business of transportation by sea or by air of passengers, mail, livestock or goods carried on by the owners, lessees or charterers of ships or aircraft, including the sale of tickets for such transportation on behalf of other enterprises, the incidental lease of ships or aircraft and any other activity directly connected with such transportation.
4. Notwithstanding the provisions of paragraphs 1 and 2, profits from sources within a Contracting State derived by an enterprise of the other Contracting State from the operation of ships in international traffic may be taxed in the first-mentioned State, but the tax imposed in that Contracting State shall be reduced by an amount equal to 50 per cent thereof.
5. Profits derived by a transportation enterprise which is a resident of a Contracting State from the use, maintenance, or rental of containers (including trailers and other equipment for the transport of containers) used for the transport of goods or merchandise in international traffic shall be taxable only in that Contracting State unless the containers are used solely within the other contracting State.
6. For the purposes of this Article interest on investments directly connected with the operation of ships or aircraft in international traffic shall be regarded as profits derived from the operation of such ships or aircraft if they are integral to the carrying on of such business, and the provisions of Article 11 shall not apply in relation to such interest.
7. The provisions of paragraph 1 shall also apply to profits from the participation in a pool, a joint business or an international operating agency.

**Article 9
ASSOCIATED ENTERPRISES**

1. Where
 - (a) an enterprise of a Contracting State participates directly or indirectly in the management, control or capital of an enterprise of the other Contracting State, or
 - (b) the same persons participate directly or indirectly in the management, control or capital of an enterprise of a Contracting State and an enterprise of the other Contracting State,

and in either case conditions are made or imposed between the two enterprises in their commercial or financial relations which differ from those which would be made between independent enterprises, then any profits which would, but for those conditions, have accrued

to one of the enterprises, but, by reason of those conditions, have not so accrued, may be included in the profits of that enterprise and taxed accordingly.

2. Where a Contracting State includes in the profits of an enterprise of that State -and taxes accordingly - profits on which an enterprise of the other Contracting State has been charged to tax in that other State and the profits so included are profits which would have accrued to the enterprise of the first-mentioned State if the conditions made between the two enterprises had been those which would have been made between independent enterprises, then that other State shall make an appropriate adjustment to the amount of the tax charged therein on those profits. In determining such adjustment, due regard shall be had to the other provisions of the Agreement and the competent authorities of the Contracting States shall if necessary consult each other.
3. The provision of paragraph 2 shall not apply where judicial, administrative or other legal proceedings have resulted in a final ruling that by actions giving rise to an adjustment of profits under paragraph 1, one of the enterprises concerned is liable to penalty with respect to fraud, gross negligence or wilful default.

**Article 10
DIVIDENDS**

1. Dividends paid by a company which is a resident of a Contracting State to a resident of the other Contracting State may be taxed in that other State.
2. However, such dividends may also be taxed in the Contracting State of which the company paying the dividends is a resident and according to the laws of that State, but if the beneficial owner of the dividends is a resident of the other Contracting State, the tax so charged shall not exceed 10 % (ten per cent) of the gross amount of the dividends.

This paragraph shall not affect the taxation of the company in respect of the profits out of which the dividends are paid.

3. The term "dividends" as used in this Article means income from shares or other rights, not being debt-claims, participating in profits, as well as income from other corporate rights which is subjected to the same taxation treatment as income from shares by the laws of the State of which the company making the distribution is a resident.

4. The provisions of paragraphs 1 and 2 shall not apply if the beneficial owner of the dividends, being a resident of a Contracting State, carries on business in the other Contracting State of which the company paying the dividends is a resident, through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the holding in respect of which the dividends are paid is effectively connected with such permanent establishment or fixed base. In such case, the provisions of Article 7 or Article 14, as the case may be, shall apply.
5. Where a company which is a resident of a Contracting State derives profits or income from the other Contracting State, that other State may not impose any tax on the dividends paid by the company, except insofar as such dividends are paid to a resident of that other State or insofar as the holding in respect of which the dividends are paid is effectively connected with a permanent establishment or a fixed base situated in that other State, nor subject the company's undistributed profits to a tax on the company's undistributed profits, even if the dividends paid or the undistributed profits consist wholly or partly of profits or income arising in such other State.

Article 11
INTEREST

1. Interest arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State.
2. However, such interest may also be taxed in the Contracting State in which it arises and according to the laws of that State, but if the beneficial owner of the interest is a resident of the other Contracting State, the tax so charged shall not exceed 10 % (ten per cent) of the gross amount of the interest.
3. Notwithstanding the provisions of paragraph 2, interest arising in a Contracting State shall be exempt from tax in that State, provided that it is derived and beneficially owned by:
 - (a) the Government, a political sub-division or a local authority of the other Contracting State; or
 - (b) (i) in the case of India:
 - (1) Reserve Bank of India;
 - (2) Export-Import Bank of India; and
 - (3) National Housing Bank;
 - (ii) in the case of the Republic of Indonesia:
 - (1) Bank Indonesia (the Central Bank of Indonesia);
 - (2) Pusat Investasi Pemerintah (the Centre for Government Investment); and

(3) Lembaga Pembiayaan Ekspor Indonesia (the Indonesia Eximbank); or

(c) a statutory body or any institution wholly owned by the Government of the Contracting States, as may be agreed from time to time between the competent authorities of the Contracting States;

4. The term "interest" as used in this Article means income from debt-claims of every kind, whether or not secured by mortgage and whether or not carrying a right to participate in the debtor's profits, and in particular, income from government securities and income from bonds or debentures, including premiums and prizes attaching to such securities, bonds or debentures. Penalty charges for late payment shall not be regarded as interest for the purpose of this Article.
5. The provisions of paragraphs 1 and 2 shall not apply if the beneficial owner of the interest, being a resident of a Contracting State, carries on business in the other Contracting State, in which the interest arises, through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the debt-claim in respect of which the interest is paid is effectively connected with such permanent establishment or fixed base. In such case, the provisions of Article 7 or Article 14, as the case may be, shall apply.
6. Interest shall be deemed to arise in a Contracting State when the payer is a resident of that State. Where, however, the person paying the interest, whether he is a resident of a Contracting State or not, has in a Contracting State a permanent establishment or a fixed base in connection with which the indebtedness on which the interest is paid was incurred, and such interest is borne by such permanent establishment or fixed base, then such interest shall be deemed to arise in the State in which the permanent establishment or fixed base is situated.
7. Where, by reason of a special relationship between the payer and the beneficial owner or between both of them and some other person, the amount of the interest, having regard to the debt-claim for which it is paid, exceeds the amount which would have been agreed upon by the payer and the beneficial owner in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount of interest. In such case, the excess part of the payments shall remain taxable according to the laws of each Contracting State, due regard being had to the other provisions of this Agreement.

Article 12
ROYALTIES AND FEES FOR TECHNICAL SERVICES

1. Royalties or fees for technical services arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State.
2. However, such royalties or fees for technical services may also be taxed in the Contracting State in which they arise, and according to the laws of that State, but if the beneficial owner of the royalties or fees for technical services is a resident of the other Contracting State, the tax so charged shall not exceed 10% (ten per cent) of the gross amount of the royalties or fees for technical services.
3. (a) The term "royalties" as used in this Article means payments of any kind received as a consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematograph films, or films or tapes used for radio or television broadcasting, any patent, trade mark, design or model, plan, secret formula or process, or for the use of, or the right to use, industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience.

 (b) The term "fees for technical services" as used in this Article means payments of any kind, other than those mentioned in Articles 14 and 15 of this Agreement as consideration for managerial or technical or consultancy services, including the provision of services of technical or other personnel.
4. The provisions of paragraphs 1 and 2 shall not apply if the beneficial owner of the royalties or fees for technical services, being a resident of a Contracting State, carries on business in the other Contracting State in which the royalties or fees for technical services arise, through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the right or property in respect of which the royalties or fees for technical services are paid is effectively connected with such permanent establishment or fixed base. In such case, the provisions of Article 7 or Article 14, as the case may be, shall apply.
5. (a) Royalties and fees for technical services shall be deemed to arise in a Contracting State when the payer is that State itself, a political sub-division, a local authority, or a resident of that State. Where, however, the person paying the royalties or fees for technical services, whether he is a resident of a Contracting State or not, has in a Contracting State a permanent establishment or a fixed base in connection with which the liability to pay the royalties

or fees for technical services was incurred, and such royalties or fees for technical services are borne by such permanent establishment or fixed base, then such royalties or fees for technical services shall be deemed to arise in the Contracting State in which the permanent establishment or fixed base is situated.

(b) Where under sub-paragraph (a) royalties or fees for technical services do not arise in one of the Contracting States, and the royalties relate to the use of, or the right to use, the right or property, or the fees for technical services relate to services performed, in one of the Contracting States, the royalties or fees for technical services shall be deemed to arise in that Contracting State.

6. Where, by reason of a special relationship between the payer and the beneficial owner or between both of them and some other person, the amount of the royalties or fees for technical services, having regard to the use, right or information for which they are paid, exceeds the amount which would have been agreed upon by the payer and the beneficial owner in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount of royalties. In such case, the excess part of the payments shall remain taxable according to the laws of each Contracting State, due regard being had to the other provisions of this Agreement.

Article 13 CAPITAL GAINS

1. Gains derived by a resident of a Contracting State from the alienation of immovable property referred to in Article 6 and situated in the other Contracting State may be taxed in that other State.
2. Gains from the alienation of movable property forming part of the business property of a permanent establishment which an enterprise of a Contracting State has in the other Contracting State or of movable property pertaining to a fixed base available to a resident of a Contracting State in the other Contracting State for the purpose of performing independent personal services, including such gains from the alienation of such a permanent establishment (alone or with the whole enterprise) or of such fixed base, may be taxed in that other State.
3. Gains derived by an enterprise of a Contracting State from the alienation of ships or aircraft operated in international traffic or movable property pertaining to the operation of such ships or aircraft shall be taxable only in that Contracting State in which the place of effective management of the enterprise is situated.

4. Gains derived by a resident of a Contracting State from the alienation of shares deriving more than 50 per cent of their value directly or indirectly from immovable property situated in the other Contracting State may be taxed in that other State.
5. Gains from the alienation of shares other than those mentioned in paragraph 4 in a company which is a resident of a Contracting State may be taxed in that State.
6. Gains from the alienation of any property other than that referred to in paragraphs 1, 2, 3, 4 and 5 shall be taxable only in the Contracting State of which the alienator is a resident.

Article 14
INDEPENDENT PERSONAL SERVICES

1. Income derived by an individual who is a resident of a Contracting State from the performance of professional services or other independent activities of a similar character shall be taxable only in that State except in the following circumstances when such income may also be taxed in the other Contracting State:
 - (a) if he has a fixed base regularly available to him in the other Contracting State for the purpose of performing his activities; in that case, only so much of the income as is attributable to that fixed base may be taxed in that other State; or
 - (b) if his stay in the other Contracting State is for a period or periods amounting to or exceeding in the aggregate 91 days in any period of twelve months; in that case, only so much of the income as is derived from his activities performed in that other State may be taxed in that other State.
2. The term "professional services" includes especially independent scientific, literary, artistic, educational or teaching activities as well as the independent activities of physicians, lawyers, engineers, architects, surgeons, dentists and accountants.

Article 15
DEPENDENT PERSONAL SERVICES

1. Subject to the provisions of Articles 16, 18, 19 and 20, salaries, wages and other similar remuneration derived by a resident of a Contracting State in respect of an employment shall be taxable only in that State unless the employment is exercised in the other Contracting State. If the employment is so exercised, such remuneration as is derived therefrom may be taxed in that other State.

2. Notwithstanding the provisions of paragraph 1, remuneration derived by a resident of a Contracting State in respect of an employment exercised in the other Contracting State shall be taxable only in the first-mentioned State if:
 - (a) the recipient is present in the other State for a period or periods not exceeding in the aggregate 183 days in any twelve month period commencing or ending in the fiscal year concerned, and
 - (b) the remuneration is paid by, or on behalf of, an employer who is not a resident of the other State, and
 - (c) the remuneration is not borne by a permanent establishment or a fixed base which the employer has in the other State.
3. Notwithstanding the preceding provisions of this Article, remuneration derived in respect of an employment exercised aboard a ship or aircraft operated in international traffic, may be taxed in the Contracting State in which the place of effective management of the enterprise is situated.

**Article 16
DIRECTORS' FEES**

Directors' fees and other similar payments derived by a resident of a Contracting State in his capacity as a member of the board of directors or similar organ of a company which is a resident of the other Contracting State may be taxed in that other State.

**Article 17
ARTISTES AND SPORTSPERSONS**

1. Notwithstanding the provisions of Articles 14 and 15, income derived by a resident of a Contracting State as an entertainer, such as a theatre, motion picture, radio or television artiste, or a musician, or as a sportsperson, from his personal activities as such exercised in the other Contracting State, may be taxed in that other State.
2. Where income in respect of personal activities exercised by an entertainer or a sportsperson in his capacity as such accrues not to the entertainer or sportsperson himself but to another person, that income may, notwithstanding the provisions of Articles 7, 14 and 15, be taxed in the Contracting State in which the activities of the entertainer or sportsperson are exercised.
3. The provisions of paragraphs 1 and 2 shall not apply to income from activities performed in a Contracting State by entertainers or sportspersons if the activities are substantially supported by public funds of one or both of the Contracting States, a local authority or

public institution thereof. In such a case, the income shall be taxable only in the Contracting State of which the entertainer or sports person is a resident.

**Article 18
PENSIONS AND ANNUITY**

1. Subject to the provisions of paragraph 2 of Article 19, pensions and other similar remuneration paid in consideration of past employment and annuity paid to a resident of a Contracting State shall be taxable only in that State.
2. The term "annuity" means a stated sum payable periodically at stated times during life or during a specified or ascertainable period of time under an obligation to make the payments in return for adequate and full consideration in money or money's worth.

**Article 19
GOVERNMENT SERVICE**

1. (a) Salaries, wages and other similar remuneration, other than a pension, paid by a Contracting State, or a political subdivision, or a local authority thereof to an individual in respect of services rendered to that State or subdivision or authority or body shall be taxable only in that State;

(b) However, such salaries, wages and other similar remuneration shall be taxable only in the other Contracting State if the services are rendered in that State and the individual is a resident of that State who:

 - (i) is a national of that State, or
 - (ii) did not become a resident of that State solely for the purpose of rendering the services.
2. (a) Any pension paid by, or out of funds created by, a Contracting State or a political subdivision or a local authority thereof to an individual in respect of services rendered to that State or subdivision or authority shall be taxable only in that State.

(b) However, such pension shall be taxable only in the other Contracting State if the individual is a resident of, and a national of, that other State.
3. The provisions of Article 15, 16, 17, and 18 shall apply to salaries, wages and other similar remuneration, and to pensions in respect of services rendered in connection with a business carried on by a Contracting State or a political subdivision or a local authority body thereof.

Article 20
PROFESSORS, TEACHERS AND RESEARCH SCHOLARS

1. A professor, teacher or research scholars who is or was a resident of one of the Contracting States immediately before visiting the other Contracting State for the purpose of teaching or engaging in research, or both, at a university, college, school, museum or other approved institution in that other Contracting State shall be exempt from tax in that other State on any remuneration for such teaching or research for a period not exceeding two years from the date of his first arrival in that other State.
2. This Article shall not apply to income from research if such research is undertaken primarily for the private benefit of a specific person or persons.
3. For the purposes of this Article, an individual shall be deemed to be a resident of a Contracting State if he is resident in that Contracting State in the fiscal year of income in which he visits the other Contracting State or in the immediately preceding fiscal year of income.
4. For the purposes of paragraph 1, "approved institution" means an institution which has been approved in this regard by the competent authority of the concerned Contracting State.

Article 21
STUDENTS AND APPRENTICES

1. Payments which a student or apprentice who is or was immediately before visiting a Contracting State a resident of the other Contracting State and who is present in the first-mentioned State solely for the purpose of his education or training receives for the purpose of his maintenance, education or training shall not be taxed in that State, provided that such payments arise from sources outside that State.
2. The benefits of this Article shall extend only for such period of time as may be reasonable or customarily required to complete the education or training undertaken, but in no event shall any individual have the benefits of this Article:
 - (i) in the case of student: for more than five consecutive years from the date of his first arrival for the purposes of his education in the Contracting State;
 - (ii) in the case of apprentice: for more than two consecutive years from the date of his first arrival for the purposes of his training in the Contracting State.

**Article 22
OTHER INCOME**

1. Items of income of a resident of a Contracting State, wherever arising, not dealt with in the foregoing Articles of this Agreement shall be taxable only in that State.
2. The provisions of paragraph 1 shall not apply to income, other than income from immovable property as defined in paragraph 2 of Article 6, if the recipient of such income, being a resident of a Contracting State, carries on business in the other Contracting State through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the right or property in respect of which the income is paid is effectively connected with such permanent establishment or fixed base. In such case, the provisions of Article 7 or Article 14, as the case may be, shall apply.
3. Notwithstanding the provisions of paragraphs 1 and 2, items of income of a resident of a Contracting State not dealt with in the foregoing Articles of this Agreement and arising in the other Contracting State may also be taxed in that other State.

**CHAPTER IV
METHODS FOR ELIMINATION OF DOUBLE TAXATION**

**Article 23
METHODS FOR ELIMINATION OF DOUBLE TAXATION**

1. Where a resident of a Contracting State derives income which, in accordance with the provisions of this Agreement, may be taxed in the other Contracting State, the first-mentioned State shall allow as deduction from the tax on the income of that resident an amount equal to the income tax paid in that other State. Such deduction shall not, however, exceed the part of the income tax as computed before the deduction is given, which is attributable as the case may be, to the income which may be taxed in that other State.
2. Where in accordance with any provision of the Agreement, income derived by a resident of a Contracting State is exempt from tax in that State, that State may nevertheless, in calculating the amount of tax on the remaining income of such resident, take into account the exempted income.

**CHAPTER V
SPECIAL PROVISIONS**

**Article 24
LIMITATION OF BENEFITS**

1. The provisions of this Agreement shall in no case prevent a Contracting State from the application of the provisions of its domestic law and measures concerning tax avoidance or evasion, whether or not described as such.
2. A resident of a Contracting State shall not be entitled to the benefits of this Agreement if its affairs were arranged in such a manner as if it was the main purpose or one of the main purposes to take the benefits of this Agreement.
3. The case of legal entities not having bonafide business activities shall be covered by the provisions of this Article.

**Article 25
NON-DISCRIMINATION**

1. Nationals of a Contracting State shall not be subjected in the other Contracting State to any taxation or any requirement connected therewith, which is other or more burdensome than the taxation and connected requirements to which nationals of that other State in the same circumstances, in particular with respect to residence, are or may be subjected. This provision shall, notwithstanding the provisions of Article 1, also apply to persons who are not residents of one or both of the Contracting States.
2. The taxation on a permanent establishment which an enterprise of a Contracting State has in the other Contracting State shall not be less favorably levied in that other State than the taxation levied on enterprise of that other State carrying on the same activities. This provision shall not be construed as obliging a Contracting State to grant to resident of the other Contracting State any personal allowances, reliefs and reductions for taxation purposes on account of civil status or family responsibilities which it grants to its own residents.
3. Enterprises of a Contracting State, the capital of which is wholly or partly owned or controlled, directly or indirectly, by one or more residents of the other Contracting State, shall not be subjected in the first-mentioned State to any taxation or any requirement connected therewith which is other or more burdensome than the taxation and connected requirements to other similar enterprises of the first mentioned State are or may be subjected.

4. Except where the provisions of paragraph 1 of Article 9, paragraph 7 of Article 11, or paragraph 6 of Article 12 apply, interest, royalties and other disbursement paid by an enterprise of a Contracting State to a resident of the other Contracting State shall, for the purpose of determining the taxable profits of such enterprise, be deductible under the same conditions as if they had been paid to a resident of the first-mentioned State.
5. In this Article the term "taxation" means taxes which are the subject of this Agreement.

Article 26
MUTUAL AGREEMENT PROCEDURE

1. Where a person considers that the actions of one or both of the Contracting States result or will result for him in taxation not in accordance with the provisions of this Agreement, he may, irrespective of the remedies provided by the domestic law of those States, present his case to the competent authority of the *Contracting State of which he is a resident or, if his case comes* under paragraph 1 of Article 25, to that of the Contracting State of which he is a national. The case must be presented within three years from the first notification of the action resulting in taxation not in accordance with the provisions of the Agreement.
2. The competent authority shall endeavour, if the objection appears to it to be justified and if it is not itself able to arrive at a satisfactory solution, to resolve the case by mutual agreement with the competent authority of the other Contracting State, with a view to the avoidance of taxation which is not in accordance with the Agreement. Any agreement reached shall be implemented notwithstanding any time-limits in the domestic law of the Contracting States.
3. The competent authorities of the Contracting States shall endeavour to resolve by mutual agreement any difficulties or doubts arising as to the interpretation or application of the Agreement. They may also consult together for the elimination of double taxation in cases not provided for in the Agreement.
4. The competent authorities of the Contracting States may communicate with each other directly for the purpose of reaching an agreement in the sense of the preceding paragraphs. The competent authorities, through consultations, shall develop appropriate bilateral procedures, conditions, methods and techniques for the implementation of the mutual agreement procedure provided for in this Article.

Article 27
EXCHANGE OF INFORMATION

1. The competent authorities of the Contracting States shall exchange such information (including documents or certified copies of the documents) as is foreseeably relevant for carrying out the provisions of this Agreement or to the administration or enforcement of the domestic laws concerning taxes of every kind and description imposed on behalf of the Contracting States, or of their political subdivisions or local authorities, insofar as the taxation thereunder is not contrary to the Agreement. The exchange of information is not restricted by Article 1 and 2

2. Any information received under paragraph 1 by a Contracting State shall be treated as secret in the same manner as information obtained under the domestic laws of that State and shall be disclosed only to persons or authorities (including courts and administrative bodies) concerned with the assessment or collection of, the enforcement or prosecution in respect of, or the determination of appeals in relation to the taxes referred to in paragraph 1, or the oversight of the above. Such persons or authorities shall use the information only for such purposes. They may disclose the information in public court proceedings or in judicial decisions.

3. In no case shall the provisions of paragraphs 1 and 2 be construed so as to impose on a Contracting State the obligation:
 - (a) to carry out administrative measures at variance with the laws and the administrative practice of that or of the other Contracting State;
 - (b) to supply information (including documents or certified copies of the documents) which is not obtainable under the laws or in the normal course of the administration of that or of the other Contracting State;
 - (c) to supply information which would disclose any trade, business, industrial, commercial or professional secret or trade process, or information, the disclosure of which would be contrary to public policy (ordre public).

4. If the information is requested by a Contracting State in accordance with this Article, the other Contracting State shall use its information gathering measures to obtain the requested information, even though that other State may not need such information for its own tax purposes. The obligation contained in the preceding sentence is subject to the limitations of paragraph 3, but in no case shall such limitations be construed to permit a Contracting state to decline to supply information solely because it has no domestic interest in such information.

5. In no case shall the provisions of paragraph 3 be construed to permit a Contracting State to decline to supply information solely because the information is held by a bank, other financial institution, nominee or person acting in an agency or a fiduciary capacity or because it relates to ownership interests in a person.

Article 28
ASSISTANCE IN COLLECTION

1. The Contracting States shall lend assistance to each other in the collection of revenue claims. This assistance is not restricted by Articles 1 and 2. The competent authorities of the Contracting States may by mutual agreement settle the mode of application of this Article.
2. The term "revenue claim" as used in this Article means an amount owed in respect of taxes of every kind and description imposed on behalf of the Contracting States, or of their political subdivisions or local authorities, insofar as the taxation thereunder is not contrary to this Convention or any other instrument to which the Contracting States are parties, as well as interest, administrative penalties and costs of collection or conservancy related to such amount.
3. When a revenue claim of a Contracting State is enforceable under the laws of that State and is owed by a person who, at that time, cannot, under the laws of that State, prevent its collection, that revenue claim shall, at the request of the competent authority of that State, be accepted for purposes of collection by the competent authority of the other Contracting State. That revenue claim shall be collected by that other State in accordance with the provisions of its laws applicable to the enforcement and collection of its own taxes as if the revenue claim were a revenue claim of that other State.
4. When a revenue claim of a Contracting State is a claim in respect of which that State may, under its law, take measures of conservancy with a view to ensure its collection, that revenue claim shall, at the request of the competent authority of that State, be accepted for purposes of taking measures of conservancy by the competent authority of the other Contracting State. That other State shall take measures of conservancy in respect of that revenue claim in accordance with the provisions of its laws as if the revenue claim were a revenue claim of that other State even if, at the time when such measures are applied, the revenue claim is not enforceable in the first-mentioned State or is owed by a person who has a right to prevent its collection.

5. Notwithstanding the provisions of paragraphs 3 and 4, a revenue claim accepted by a Contracting State for purposes of paragraph 3 or 4 shall not, in that State, be subject to the time limits or accorded any priority applicable to a revenue claim under the laws of that State by reason of its nature as such. In addition, a revenue claim accepted by a Contracting State for the purposes of paragraph 3 or 4 shall not, in that State, have any priority applicable to that revenue claim under the laws of the other Contracting State.

6. Proceedings with respect to the existence, validity or the amount of a revenue claim of a Contracting State shall only be brought before the courts or administrative bodies of that State. Nothing in this Article shall be construed as creating or providing any right to such proceedings before any court or administrative body of the other Contracting State.

7. Where, at any time after a request has been made by a Contracting State under paragraph 3 or 4 and before the other Contracting State has collected and remitted the relevant revenue claim to the first-mentioned State, the relevant revenue claim ceases to be
 - (a) in the case of a request under paragraph 3, a revenue claim of the first-mentioned State that is enforceable under the laws of that State and is owed by a person who, at that time, cannot, under the laws of that State, prevent its collection, or
 - (b) in the case of a request under paragraph 4, a revenue claim of the first-mentioned State in respect of which that State may, under its laws, take measures of conservancy with a view to ensure its collection,

the competent authority of the first-mentioned State shall promptly notify the competent authority of the other State of that fact and, at the option of the other State, the first-mentioned State shall either suspend or withdraw its request.

8. In no case shall the provisions of this Article be construed so as to impose on a Contracting State the obligation:
 - (a) to carry out administrative measures at variance with the laws and administrative practice of that or of the other Contracting State;
 - (b) to carry out measures which would be contrary to public policy (ordre public);
 - (c) to provide assistance if the other Contracting State has not pursued all reasonable measures of collection or conservancy, as the case may be, available under its laws or administrative practice;

- (d) to provide assistance in those cases where the administrative burden for that State is clearly disproportionate to the benefit to be derived by the other Contracting State.

Article 29

MEMBERS OF DIPLOMATIC MISSIONS AND CONSULAR POSTS

Nothing in this Agreement shall affect the fiscal privileges of members of diplomatic missions or consular posts under the general rules of international law or under the provisions of special agreements.

CHAPTER VI

FINAL PROVISIONS

Article 30

ENTRY INTO FORCE

1. Each of the Contracting States shall notify the other Contracting State through diplomatic channels the completion of the procedures required by its law for the bringing into force of this Agreement.
2. This Agreement shall enter into force on the date of the later of the notifications referred to in paragraph 1 of this Article.
3. The provisions of this Agreement shall have effect as follows:
 - (a) In India, in respect of income derived in any fiscal year beginning on or after the first day of April next following the calendar year in which the Agreement enters into force.
 - (b) In Indonesia;
 - (i) in respect of taxes withheld at source: for amounts paid or credited on or after the first day of January next following the date on which this Agreement enters into force, and
 - (ii) in respect of other taxes: for any tax year commencing on or after the first day of January next following the date on which this Agreement enters into force.
4. The Agreement between the Government of the Republic of India and the Government of the Republic of Indonesia for the Avoidance of Double Taxation and Prevention of fiscal evasion with respect to taxes on income signed at Jakarta on the 7th August, 1987 shall cease to have effect when the provisions of this Agreement become effective in accordance with the provisions of paragraph 3 of this Article.

**Article 31
TERMINATION**


This Agreement shall remain in force indefinitely until terminated by one of the Contracting States. Either Contracting State may terminate the Agreement, through diplomatic channels, by giving notice of termination at least six months before the end of any calendar year beginning after the expiration of five years from the date of entry into force of the Agreement. In such event, the Agreement shall cease to have effect:

- (a) In India, in respect of income derived in any fiscal year on or after the first day of April next following the calendar year in which the notice is given.
- (b) In Indonesia;
 - (i) in respect of taxes withheld at source: for amount paid or credited on or after the first day of January in the calendar year immediately following that in which the notice of such termination is given, and
 - (ii) in respect of other taxes: for any tax year commencing on or after the first day of January in the calendar year immediately following that in which the notice of such termination is given.

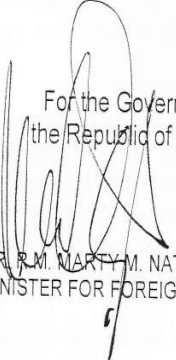
In WITNESS WHEREOF, the undersigned, duly authorised thereto, have signed this Agreement.

Done at New Delhi the twenty-seventh day of July 2012 in two identical originals each in the Hindi, Bahasa Indonesia and English languages, all texts being equally authentic. In case of divergence of interpretation, the English text shall prevail.

For the Government of
the Republic of India


(S. M. KRISHNA)
MINISTER FOR EXTERNAL AFFAIRS

For the Government of
the Republic of Indonesia


(DR. R. M. MARTY M. NATALEGAWA)
MINISTER FOR FOREIGN AFFAIRS

PROTOCOL

At the moment of signing the Agreement this day concluded between the Government of the Republic of India and the Government of the Republic of Indonesia for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, the undersigned have agreed upon the following provisions which shall be an integral part of the Agreement.

1. With reference to paragraph 1 of Article 7 (Business Profits), it is understood that profits derived from the sale of goods or merchandise of the same or similar kind as those sold, or from other business activities of the same or similar kind as those effected, through that permanent establishment, may be considered attributable to that permanent establishment if it is proved that:
 - (i) this transaction has been resorted to in order to avoid taxation in the Contracting State where the permanent establishment is situated, and
 - (ii) the permanent establishment in any way was involved in this transaction.
2. It is understood that the provisions of paragraphs 1 and 2 of Articles 11 (Interest) and 12 (Royalties and Fees for Technical Services) shall not apply and provisions of Article 7 (Business Profits) shall apply if the income is effectively connected with business activities referred to in paragraph 1 of this Protocol.
3. Notwithstanding anything contained in this Agreement, it is understood that nothing shall prevent a Contracting State from charging the profits of a permanent establishment of an enterprise of the other Contracting State at a rate of tax which is higher than that imposed on the profits of a similar company of the first-mentioned State and it shall neither be construed as discriminatory with respect to Article 25 (Non-discrimination) nor as being in conflict with the provisions of paragraph 3 of Article 7 (Business Profits).
4. For purposes of Article 7 where a company which is a resident of a Contracting State has a permanent establishment in the other Contracting State, the profits attributable to the permanent establishment may be subjected to an additional tax or branch profits tax in that other State in accordance with its law, but such tax so charged shall not exceed a rate of 15%(fifteen per cent).
5. It is understood that in the event of conflict in application between the provisions of this Agreement and the provisions of production sharing contracts relating to the exploitation and production of oil

and natural gas in a Contracting State entered into by the Government or any person authorized by it, the latter shall prevail.

6. In respect of paragraph 2 of Article 27 (Exchange of Information), it is understood that, information received by a Contracting State may be used for other Government enforcement purposes when such information may be used for such other Government enforcement purposes under the laws of both States and the competent authority of the supplying State authorises such use.

In WITNESS WHEREOF, the undersigned, duly authorised thereto, have signed this Protocol.

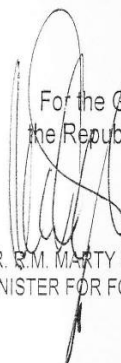
Done at New Delhi the twenty-seventh day of July 2012 in two identical originals each in the Hindi, Bahasa Indonesia and English languages, all texts being equally authentic. In case of divergence of interpretation, the English text shall prevail.

For the Government of
the Republic of India

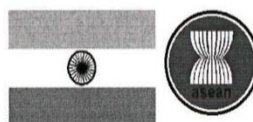


(S. M. KRISHNA)
MINISTER FOR EXTERNAL AFFAIRS

For the Government of
the Republic of Indonesia



(DR. R.M. MARTY M. NATALEGAWA)
MINISTER FOR FOREIGN AFFAIRS



PROTOCOL TO AMEND THE FRAMEWORK AGREEMENT ON COMPREHENSIVE ECONOMIC COOPERATION BETWEEN THE REPUBLIC OF INDIA AND THE ASSOCIATION OF SOUTHEAST ASIAN NATIONS

PREAMBLE

The Government of the Republic of India (India) and the Governments of Brunei Darussalam, the Kingdom of Cambodia (Cambodia), the Republic of Indonesia (Indonesia), the Lao People's Democratic Republic (Lao PDR), Malaysia, the Union of Myanmar (Myanmar), the Republic of the Philippines (the Philippines), the Republic of Singapore (Singapore), the Kingdom of Thailand (Thailand) and the Socialist Republic of Viet Nam (Viet Nam), Member States of the Association of Southeast Asian Nations (collectively, "ASEAN" or "ASEAN Member States", or individually, "ASEAN Member State"),

RECALLING the Framework Agreement on Comprehensive Economic Cooperation between the Republic of India and the Association of Southeast Asian Nations (the Framework Agreement) signed in Bali, Indonesia on 8 October 2003;

REAFFIRMING the commitment of India and ASEAN (collectively, the "Parties", or individually referring to India or to an ASEAN Member State as a "Party") to gradually reduce and eliminate tariffs in accordance with specified schedules;

CONSIDERING the necessity to revise the Framework Agreement to reflect the current position in relation to the

Early Harvest Programme (EHP) in the Framework Agreement and the various timeframes indicated therein;

DESIRING to reflect the various amendments pursuant to Article 14 of the Framework Agreement,

HAVE AGREED AS FOLLOWS:

ARTICLE 1
Applied Most Favoured Nation Tariff Rates

Paragraph 2(a) of Article 3 of the Framework Agreement shall be amended by replacing the date "1 July 2004" with the date "1 July 2007".

ARTICLE 2
Periods for Reduction or Elimination of Applied Most Favoured Nation Tariff Rates

1. The periods for the reduction or elimination of applied Most Favoured Nation (MFN) tariff rates for Normal Track products set out in paragraphs 5(a)(i) to (iii) of Article 3 of the Framework Agreement shall be amended as follows:

"Track 1

- (i) 1 January 2010 to 31 December 2013 for Brunei Darussalam, Indonesia, Malaysia, Singapore and Thailand, and India;
- (ii) 1 January 2010 to 31 December 2018 for the Philippines and India; and
- (iii) 1 January 2010 to 31 December 2013 for India and 1 January 2010 to 31 December 2018 for Cambodia, Lao PDR, Myanmar and Viet Nam.

Track 2

- (i) 1 January 2010 to 31 December 2016 for Brunei Darussalam, Indonesia, Malaysia, Singapore and Thailand, and India;
- (ii) 1 January 2010 to 31 December 2019 for the Philippines and India; and
- (iii) 1 January 2010 to 31 December 2016 for India and 1 January 2010 to 31 December 2021 for Cambodia, Lao PDR, Myanmar and Viet Nam."

2. The revised date of commencement of 1 January 2010 as referred to in paragraph 1 may, if necessary, be adjusted to a date to be mutually agreed upon by the Parties pursuant to the amended paragraph 1 of Article 8 of the Framework Agreement.

ARTICLE 3
Early Harvest Programme

The Parties agree not to pursue the EHP and accordingly, the Framework Agreement is amended as follows:

- (a) Paragraph 5 of Article 3 shall be amended by deleting the phrase "not covered by the Early Harvest Programme under Article 7 of this Agreement";
- (b) Paragraph 6 of Article 3 shall be amended by deleting the phrase "and Article 7 of this Agreement"; and
- (c) Article 7 shall be deleted and the product coverage referred to in paragraph 3(a) of that Article shall be treated as being covered by the words "all products" in paragraph 5 of Article 3.

ARTICLE 4
Timeframes

1. Paragraphs 1 and 2 of Article 8 of the Framework Agreement shall be deleted and substituted as follows:

“(1) For trade in goods, negotiations on the agreement for tariff reduction or elimination and other matters as set out in Article 3 of this Agreement shall commence in January 2004 and be concluded by 2009 or such other dates as may be mutually agreed upon by the Parties.

(2) The negotiations on Rules of Origin for trade in goods under Article 3 shall be concluded by 2009 or such other dates as may be mutually agreed upon by the Parties.”

2. The first sentence of paragraph 3 of Article 8 of the Framework Agreement shall be deleted and substituted as follows:

“For trade in services and investments, the negotiations on the respective agreements which commenced in October 2008 shall be concluded as a single undertaking by 2009 or such other date as may be mutually agreed upon by the Parties.”

ARTICLE 5
Dispute Settlement Mechanism

Paragraph 1 of Article 11 of the Framework Agreement shall be amended as follows:

“(1) The Parties shall, by 2009, or such other dates as may be mutually agreed upon by the Parties, conclude negotiations for the establishment of the dispute settlement procedures and mechanism for the purposes of this Agreement.”

ARTICLE 6
Depositary

For the ASEAN Member States, this Protocol shall be deposited with the Secretary-General of ASEAN, who shall promptly furnish a certified copy thereof to each ASEAN Member State.

ARTICLE 7
Entry into Force

1. Each Party shall notify all the other Parties in writing upon completion of its internal requirements¹ necessary for the entry into force of this Protocol. This Protocol shall enter into force on 1 January 2010 or the date by which such notifications have been made by the Governments of India and at least one (1) ASEAN Member State.

2. Where a Party is unable to complete its internal requirements for the entry into force of this Protocol by 1 January 2010, this Protocol shall enter into force for that Party on 1 June 2010 or upon the date by which that Party notifies the completion of its internal requirements.

IN WITNESS WHEREOF, the undersigned being duly authorised by their respective Governments, have signed this Protocol.

¹ For greater certainty, the term "internal requirements" may include obtaining governmental approvals or parliamentary approval in accordance with domestic law.

DONE at Bangkok, Thailand this thirteenth day of August 2009 in two (2) originals in the English language.

For the Government of the
Republic of India:



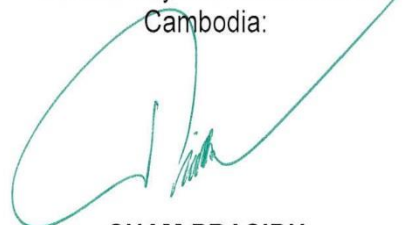
ANAND SHARMA
Minister of Commerce and
Industry

For the Government of
Brunei Darussalam:



LIM JOCK SENG
Second Minister for Foreign
Affairs and Trade

For the Royal Government of
Cambodia:



CHAM PRASIDH
Senior Minister and Minister
of Commerce

For the Government of the
Republic of Indonesia:



MARI ELKA PANGESTU
Minister of Trade

For the Government of the
Lao People's Democratic
Republic:



NAM VIYAKETH
Minister of Industry and
Commerce

For the Government of
Malaysia:



MUSTAPÀ MOHAMED
Minister of International
Trade and Industry

For the Government of the
Union of Myanmar:



U SOE THA
Minister for National Planning
and Economic Development

For the Government of the
Republic of the Philippines:



PETER B. FAVILA
Secretary of Trade and
Industry

For the Government of the
Republic of Singapore:



LIM HNG KIANG
Minister for Trade and
Industry

For the Government of the
Kingdom of Thailand:



PORNTIVA NAKASAI
Minister of Commerce

For the Government of the
Socialist Republic of Viet
Nam:



NGUYEN CAM TU
Vice Minister of Industry and
Trade



**AGREEMENT ON TRADE IN SERVICES UNDER
THE FRAMEWORK AGREEMENT ON
COMPREHENSIVE ECONOMIC COOPERATION
BETWEEN THE REPUBLIC OF INDIA AND THE
ASSOCIATION OF SOUTHEAST ASIAN NATIONS**

PREAMBLE

The Government of the Republic of India (India) and the Governments of Brunei Darussalam (Brunei Darussalam), the Kingdom of Cambodia (Cambodia), the Republic of Indonesia (Indonesia), the Lao People's Democratic Republic (Lao PDR), Malaysia, the Republic of the Union of Myanmar (Myanmar), the Republic of the Philippines (Philippines), the Republic of Singapore (Singapore), the Kingdom of Thailand (Thailand) and the Socialist Republic of Viet Nam (Viet Nam), Member States of the Association of Southeast Asian Nations (collectively, "ASEAN" or "ASEAN Member States", or individually, "ASEAN Member State");

RECALLING the Framework Agreement on Comprehensive Economic Cooperation between the Republic of India and the Association of Southeast Asian Nations ("the Framework Agreement") signed by the Heads of Government/State of India and ASEAN Member States in Bali, Indonesia on the 8th day of October 2003 and the Protocol to Amend the Framework Agreement on Comprehensive Economic Cooperation between the Republic of India and the Association of Southeast Asian Nations, signed in Bangkok, Thailand on the 13th day of August 2009;

RECALLING that Article 4 of the Framework Agreement calls on India and ASEAN to progressively liberalise and eliminate substantially all discrimination and/or prohibition of new or more discriminatory measures with respect to trade in services between the Parties, and to expand the depth and scope of such trade with substantial coverage beyond those undertaken by the Parties under the General Agreement on Trade in Services of the World Trade Organization (WTO);

STRIVING to enhance cooperation in services between the Parties in order to improve efficiency and competitiveness, as well as to diversify the supply and distribution of services of the respective service suppliers of the Parties, for implementation in accordance with the timeframes to be mutually agreed by the Parties to the Framework Agreement;

RECALLING the instruction from the ASEAN Economic Ministers (AEM) – India Consultations held on the 28th day of August 2008 in Singapore for officials to commence, as soon as possible, negotiations on trade in services and investment as a single undertaking, and to work towards the conclusion of substantive discussions on these two agreements by 2009 to bring about a complete India-ASEAN Comprehensive Economic Cooperation Agreement;

REAFFIRMING that Article 2 of the Framework Agreement has provisions for special and differential treatment to Cambodia, Lao PDR, Myanmar, and Viet Nam; and for flexibility to the Parties to address their sensitive areas with such flexibilities to be negotiated and mutually agreed based on the principle of reciprocity and mutual benefits;

RECOGNISING the right of the Parties to regulate, and to introduce new regulations, on the supply of services in their respective territories in order to meet national policy objectives and, given asymmetries existing with respect to the degree of development of services regulation within the

Parties, the particular need of the Parties to exercise this right;

HAVE AGREED AS FOLLOWS:

PART I: SCOPE AND DEFINITIONS

ARTICLE 1

Scope

1. This Agreement applies to measures by the Parties affecting trade in services.
2. This Agreement shall not apply to:
 - (a) services supplied in the exercise of governmental authority within the territory of each Party;
 - (b) laws, regulations, or requirements governing the procurement by governmental agencies of services purchased for governmental purposes and not with a view to commercial resale or with a view to use in the supply of services for commercial sale; and
 - (c) cabotage in maritime transport services.

ARTICLE 2

Definitions

For the purposes of this Agreement:

- (a) **a service supplied in the exercise of governmental authority** means any service which is supplied neither on a commercial basis, nor in competition with one or more service suppliers;

(b) **commercial presence** means any type of business or professional establishment, including through:

- (i) the constitution, acquisition or maintenance of a juridical person, or
- (ii) the creation or maintenance of a branch or a representative office,

within the territory of a Party for the purpose of supplying a service;

(c) **direct taxes** comprise all taxes on total income, on total capital or on elements of income or of capital, including taxes on gains from the alienation of property, taxes on estates, inheritances and gifts, and taxes on the total amounts of wages or salaries paid by enterprises, as well as taxes on capital appreciation;

(d) **GATS** means the General Agreement on Trade in Services;

(e) **juridical person** means any legal entity duly constituted or otherwise organised under applicable law, whether for profit or otherwise, and whether privately-owned or governmentally-owned, including any corporation, trust, partnership, joint venture, sole proprietorship, or association;

(f) **juridical person of another Party** means a juridical person which is either:

- (i) constituted or otherwise organised under the law of that other Party, and is engaged in substantive business operations in the territory of that Party or any other Party; or

(ii) in the case of the supply of a service through commercial presence, owned or controlled by:

(AA) natural persons of that Party; or

(BB) juridical persons of that other Party identified under subparagraph (i);

(g) a **juridical person** is:

(i) “owned” by persons of a Party if more than 50 per cent of the equity interest in it is beneficially owned by persons of that Party;

(ii) “controlled” by persons of a Party if such persons have the power to name a majority of its directors or otherwise to legally direct its actions;

(iii) “affiliated” with another person when it controls, or is controlled by, that other person; or when it and the other person are both controlled by the same person;

(h) **licensing procedures** means administrative or procedural rules that a natural or a juridical person, seeking authorisation to supply a service, including the amendment or renewal of a license, must adhere to in order to demonstrate compliance with licensing requirements;

(i) **licensing requirements** means substantive requirements, other than qualification requirements, with which a natural or a juridical person is required to comply in order to obtain, amend, or renew authorisation to supply a service;

(j) **measure** means any measure by a Party, whether in the form of a law, regulation, rule, procedure, decision, administrative action, or any other form;

(k) **measures by Parties** means measures taken by:

- (i) central, regional, or local governments and authorities; and
- (ii) non-governmental bodies in the exercise of powers delegated by central, regional or local governments or authorities;

In fulfilling its obligations and commitments under the Agreement, each Party shall take such reasonable measures as may be available to it to ensure their observance by regional and local governments and authorities and non-governmental bodies within its territory;

(l) **measures by Parties affecting trade in services** include measures in respect of:

- (i) the purchase, payment, or use of a service;
- (ii) the access to and use of, in connection with the supply of a service, services which are required by the Parties to be offered to the public generally;
- (iii) the presence, including commercial presence, of persons of a Party for the supply of a service in the territory of another Party;

(m) **monopoly supplier of a service** means any person, public or private, which in the relevant market of the territory of a Party is authorised or established formally or in effect by that Party as the sole supplier of that service;

- (n) **natural person of another Party** means a natural person who resides in the territory of that other Party or elsewhere, and who under the law of that other Party:
- (i) is a national of that other Party; or
 - (ii) has the right of permanent residence¹ in that other Party, in the case of a Party which accords substantially the same treatment to its permanent residents as it does to its nationals in respect of measures affecting trade in services, as notified after the entry into force of this Agreement provided that no Party is obliged to accord to such permanent residents treatment more favourable than would be accorded by that other Party to such permanent residents. Such notification shall include the assurance to assume, with respect to the permanent residents, in accordance with its laws and regulations, the same responsibilities that other Party bears with respect to its nationals;
- (o) **Parties** means India and the ASEAN Member States, collectively;
- (p) **Party** means India or an ASEAN Member State;
- (q) **person** means either a natural person or a juridical person;

¹ In the case of India, Cambodia, Indonesia, Lao PDR, Myanmar, Thailand and Viet Nam, natural person of another Party shall be limited to a natural person who resides in the territory of that other Party or elsewhere and who under the law of that other Party is a national of that other Party. Therefore, in line with the principle of reciprocity, this Agreement shall not apply to the permanent residents of India, Cambodia, Indonesia, Lao PDR, Myanmar, Thailand and Viet Nam. Once any of these Parties enacts its domestic law on the treatment of permanent residents of another Party or non-party, there shall be negotiations on the issue of whether to include permanent residents in the coverage of natural person under this Agreement in respect of that Party.

- (r) **qualification procedures** means administrative or procedural rules that a natural person must adhere to in order to demonstrate compliance with qualification requirements, for the purpose of obtaining authorisation to supply a service;
- (s) **qualification requirements** means substantive requirements relating to the competence of a natural person to supply a service, and which are required to be demonstrated for the purpose of obtaining authorisation to supply a service;
- (t) **sector** of a service means,
 - (i) with reference to a specific commitment, one or more, or all, subsectors of that service, as specified in a Party's Schedule,
 - (ii) otherwise, the whole of that service sector, including all of its subsectors;
- (u) **services** includes any service in any sector except services supplied in the exercise of governmental authority;
- (v) **service consumer** means any person that receives or uses a service;
- (w) **service of another Party** means a service which is supplied,
 - (i) from or in the territory of that other Party, or in the case of maritime transport, by a vessel registered under the laws of that other Party, or by a person of that other Party which supplies the service through the operation of a vessel and/or its use in whole or in part; or

(ii) in the case of the supply of a service through commercial presence or through the presence of natural persons, by a service supplier of that other Party;

(x) **service supplier** means any person that supplies a service;²

(y) **supply of a service** includes the production, distribution, marketing, sale and delivery of a service;

(z) **technical standards** means measures that lay down the characteristics of a service or the manner in which it is supplied. Technical standards also include the procedures relating to the enforcement of such standards;

(aa) **trade in services** is defined as the supply of a service:

(i) from the territory of a Party into the territory of any other Party ("cross-border");

(ii) in the territory of a Party to the service consumer of any other Party ("consumption abroad");

(iii) by a service supplier of a Party, through commercial presence in the territory of any other Party ("commercial presence");

(iv) by a service supplier of a Party, through presence of natural persons of a Party in the territory of any other Party ("presence of natural persons").

² Where the service is not supplied directly by a juridical person but through other forms of commercial presence such as a branch or a representative office, the service supplier (i.e. the juridical person) shall, nonetheless, through such presence be accorded the treatment provided for service suppliers under this Agreement. Such treatment shall be extended to the presence through which the service is supplied and need not be extended to any other parts of the supplier located outside the territory where the service is supplied.

PART II: OBLIGATIONS AND DISCIPLINES

**ARTICLE 3
Transparency**

1. Each Party shall publish promptly and, except in emergency situations, at the latest by the time of their entry into force, all relevant measures of general application which pertain to or affect the operation of this Agreement. International agreements pertaining to or affecting trade in services to which a Party is a signatory shall also be published.

2. Where publication as referred to in paragraph 1 of this Article is not practicable, such information shall be made otherwise publicly available.

3. Each Party shall respond promptly to all requests by any other Party for specific information on any of its measures of general application or international agreements within the meaning of paragraph 1 of this Article. Each Party shall also establish one or more enquiry points to provide specific information to any other Party, upon request, on all such matters.

**ARTICLE 4
Disclosure of Confidential Information**

Article III *bis* of the GATS is, *mutatis mutandis*, incorporated into and shall form an integral part of this Agreement.

ARTICLE 5
Domestic Regulation

1. In sectors where specific commitments are undertaken under Part III of this Agreement, each Party shall ensure that all measures of general application affecting trade in services are administered in a reasonable, objective, and impartial manner.

2. (a) Each Party shall maintain or institute as soon as practicable judicial, arbitral or administrative tribunals or procedures which provide, at the request of an affected service supplier, for the prompt review of, and where justified, appropriate remedies for, administrative decisions affecting trade in services. Where such procedures are not independent of the agency entrusted with the administrative decision concerned, the Party shall ensure that the procedures in fact provide for an objective and impartial review.

(b) The provisions of paragraph 2(a) of this Article shall not be construed to require a Party to institute such tribunals or procedures where this would be inconsistent with its constitutional structure or the nature of its legal system provided, however, that in the event separate tribunals or procedures cannot be constituted, the relevant Party shall ensure that adequate remedies are available for the affected services supplier referred to in paragraph 2(a) of this Article through the ordinary judicial or quasi-judicial procedure of that Party³.

3. Where authorisation is required for the supply of a service on which a specific commitment under this

³ For greater certainty, the application of this paragraph shall be governed by the respective laws and regulations of the Parties.

Agreement has been made, the competent authorities of each Party shall:

- (a) within a reasonable period of time after the submission of an application considered complete under domestic laws and regulations, inform the applicant of the decision concerning the application;
- (b) at the request of the applicant, without undue delay, provide information concerning the status of the application, including incomplete application. In the case of an incomplete application, identify all the additional information that is required to complete the application and provide an opportunity to the applicant to remedy deficiencies within a reasonable timeframe;
- (c) if an application is terminated or denied, to the maximum extent possible, inform the applicant in writing, without undue delay, the reasons for such action. The applicant will have the possibility of resubmitting, at its discretion, a new application.

4. With the objective of ensuring that measures relating to qualification requirements and procedures, technical standards and licensing requirements do not constitute unnecessary barriers to trade in services, the Parties shall jointly review the results of the negotiations on disciplines on these measures, pursuant to paragraph 4 of Article VI of the GATS, with a view to their incorporation into this Agreement. The Parties note that such disciplines aim to ensure that such requirements are, *inter alia*:

- (a) based on objective and transparent criteria, such as competence and the ability to supply the service;

- (b) not more burdensome than necessary to ensure the quality of the service;
 - (c) in the case of licensing procedures, not in themselves a restriction on the supply of the service.
5. (a) In sectors in which a Party has undertaken specific commitments under Part III of this Agreement, pending the incorporation of the disciplines referred to in paragraph 4 of this Article, that Party shall not apply licensing and qualification requirements and technical standards that nullify or impair its obligation under this Agreement in a manner which:
- (i) does not comply with the criteria outlined in paragraphs 4(a), (b) or (c) of this Article; and
 - (ii) could not reasonably have been expected of that Party at the time the specific commitments in those sectors were made.
- (b) In determining whether a Party is in conformity with the obligation under paragraph 5(a) of this Article, account shall be taken of international standards of relevant international organisations⁴ applied by that Party.

6. In sectors where specific commitments regarding professional services are undertaken, each Party shall provide for adequate procedures to verify the competence of professionals of any other Party in accordance with provisions in paragraph 5 of this Article.

⁴ The term "relevant international organisations" refers to international bodies whose membership is open to the relevant bodies of all Parties to this Agreement.

ARTICLE 6
Recognition

1. For the purposes of fulfilment of their respective standards or criteria for the authorisation, licensing or certification of service suppliers, each Party may recognise the education or experience obtained, requirements met, or licenses or certifications granted in another Party. Such recognition, which may be achieved through harmonisation or otherwise, may be based upon an agreement or arrangement between the Parties or the relevant competent bodies or may be accorded autonomously.

2. A Party that is a party to an agreement or arrangement of the type referred to in paragraph 1 of this Article, whether existing or future, shall afford adequate opportunity for other interested Parties to negotiate their accession to such an agreement or arrangement or to negotiate comparable ones with it. Where a Party accords recognition autonomously, it shall afford adequate opportunity for any other Party to demonstrate that education, experience, licenses, or certifications obtained or requirements met in that other Party's territory should be recognised.

3. Upon request being made in writing by a Party to the other Party, the Parties shall encourage their respective professional bodies or professional regulatory authorities, in any regulated services sector of mutual interest to negotiate and conclude within 12 months or a reasonable timeframe to be mutually agreed between the professional bodies of both Parties, any arrangement for mutual recognition of education, or experience obtained, requirements met, or licenses or certifications granted in that service sector, with a view to the achievement of early outcomes. Any delay or failure by these professional bodies to reach and conclude agreement on the details of such agreements or arrangements shall not be regarded as a breach of a Party's obligations under this paragraph and shall not be subject to the Agreement on Dispute Settlement Mechanism under the Framework

Agreement (India-ASEAN DSM Agreement). Progress in this regard will be reviewed by the Parties in the course of the review of this Agreement pursuant to Article 27 (Review).

4. Where harmonisation, agreement or arrangement as provided in paragraphs 1, 2 and 3 of this Article does not exist, each Party shall leave any consideration on mutual recognition or licensing to relevant professional bodies or professional regulatory authorities in its territory in accordance with domestic laws and regulations of the host country.

5. A Party shall not accord recognition in a manner which would constitute a means of discrimination between countries in the application of its standards or criteria for the authorisation, licensing or certification of services suppliers, or a disguised restriction on trade in services.

6. The Parties agree that they shall not be responsible in any way for the settlement of disputes arising out of or under the agreements or arrangements for mutual recognition concluded by their respective professional bodies or professional regulatory authorities under the provisions of this Article and that the provisions of the India-ASEAN DSM Agreement shall not apply to disputes arising out of, or under, the provisions of such agreements or arrangements.

ARTICLE 7

Monopolies and Exclusive Service Suppliers

1. Each Party shall ensure that any monopoly supplier of a service in its territory does not, in the supply of the monopoly service in the relevant market, act in a manner inconsistent with that Party's obligations under specific commitments.

2. Where a Party's monopoly supplier competes, either directly or through an affiliated company, in the supply of a

service outside the scope of its monopoly rights and which is subject to that Party's specific commitments, the Party shall ensure that such a supplier does not abuse its monopoly position to act in its territory in a manner inconsistent with such commitments.

3. If any Party has reason to believe that a monopoly supplier of a service of any other Party is acting in a manner inconsistent with paragraphs 1 or 2 of this Article, that Party may request the Party establishing, maintaining or authorising such supplier to provide specific information concerning the relevant operations.

4. The provisions of this Article shall also apply to cases of exclusive service suppliers, where a Party, formally or in effect,

- (a) authorises or establishes a small number of service suppliers; and
- (b) substantially prevents competition among those suppliers in its territory.

ARTICLE 8 Business Practices

1. The Parties recognise that certain business practices of services suppliers, other than those falling under Article 7 (Monopolies and Exclusive Service Suppliers), may restrain competition and thereby restrict trade in services.

2. Each Party shall, at the request of any other Party, enter into consultations with a view to eliminating practices referred to in paragraph 1 of this Article. The Party addressed shall accord full and sympathetic consideration to such a request and shall cooperate through the supply of publicly available non-confidential information of relevance to the matter in question. The Party addressed shall also

provide other information available to the requesting Party, subject to its domestic law and to the conclusion of satisfactory agreement concerning the safeguarding of its confidentiality by the requesting Party.

ARTICLE 9
Safeguards

1. The Parties note the multilateral negotiations pursuant to Article X of the GATS on the question of emergency safeguard measures based on the principle of non-discrimination. Upon the conclusion of such multilateral negotiations, the Parties shall conduct a review for the purpose of discussing appropriate amendments to this Agreement so as to incorporate the results of such multilateral negotiations. Until such a time, no Party shall take safeguard actions against services and service suppliers of the other Party or Parties, except in accordance with the procedure as detailed in paragraph 2 of this Article.

2. In the event that the implementation of this Agreement causes substantial adverse impact to a service sector of a Party before the conclusion of the multilateral negotiations referred to in paragraph 1 of this Article, the affected Party may request for consultations with the other Party or Parties for the purposes of discussing any safeguard measures with respect to the affected service sector. Any measure taken pursuant to this paragraph, including the duration for which the measure shall apply, shall be mutually agreed by the Parties concerned, shall be applicable based on the principle of non-discrimination, and shall be limited to the specific service sector. The Parties concerned shall take into account the circumstances of the particular case and give sympathetic consideration to the Party seeking to take a measure.

ARTICLE 10
Payments and Transfers

1. Except under the circumstances envisaged in Article 11 (Restrictions to Safeguard the Balance of Payments), a Party shall not apply restrictions on international transfers and payments for current transactions relating to its specific commitments.

2. Nothing in this Agreement shall affect the rights and obligations of any Party who is a member of the International Monetary Fund under the Articles of Agreement of the Fund, including the use of exchange actions which are in conformity with the Articles of Agreement of the Fund, provided that a Party shall not impose restrictions on any capital transactions inconsistently with its specific commitments regarding such transactions, except under Article 11 (Restrictions to Safeguard the Balance of Payments) or at the request of the Fund.

ARTICLE 11
Restrictions to Safeguard the Balance of Payments

Where a Party is in serious balance of payments and external financial difficulties or threat thereof, it may adopt or maintain restrictions on trade in services in accordance with paragraphs 1, 2, and 3 of Article XII of the GATS.

ARTICLE 12
General Exceptions

Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between Parties where like conditions prevail, or a disguised restriction on trade in services, nothing in this Agreement shall be

construed to prevent the adoption or enforcement by any Party of measures:

- (a) necessary to protect public morals or to maintain public order;⁵
- (b) necessary to protect human, animal or plant life or health;
- (c) necessary to secure compliance with laws or regulations which are not inconsistent with the provisions of this Agreement including those relating to:
 - (i) the prevention of deceptive and fraudulent practices or to deal with the effects of a default on services contracts;
 - (ii) the protection of the privacy of individuals in relation to the processing and dissemination of personal data and the protection of confidentiality of individual records and accounts;
 - (iii) safety;
- (d) inconsistent with Article 18 (National Treatment), provided that the difference in treatment is aimed at ensuring the equitable or effective⁶ imposition

⁵ The public order exception may be invoked only where a genuine and sufficiently serious threat is posed to one of the fundamental interests of society.

⁶ Measures that are aimed at ensuring the equitable or effective imposition or collection of direct taxes include measures taken by a Party under its taxation system which:

- (i) apply to non-resident service suppliers in recognition of the fact that the tax obligation of non-residents is determined with respect to taxable items sourced or located in the Party's territory; or
- (ii) apply to non-residents in order to ensure the imposition or collection of taxes in the Party's territory; or
- (iii) apply to non-residents or residents in order to prevent the avoidance or evasion of taxes, including compliance measures; or
- (iv) apply to consumers of services supplied in or from the territory of another Party in order to ensure the imposition or collection of taxes on such consumers derived from sources in the Party's territory; or

or collection of direct taxes in respect of services or service suppliers of other Parties;

- (e) resulting in difference in treatment provided that the difference in treatment is the result of an agreement on the avoidance of double taxation or provisions on the avoidance of double taxation in any other international agreement or arrangement by which the Party is bound.

ARTICLE 13
Security Exceptions

1. Nothing in this Agreement shall be construed:

- (a) to require any Party to furnish any information, the disclosure of which it considers contrary to its essential security interests; or
- (b) to prevent any Party from taking any action which it considers necessary for the protection of its essential security interests, including but not limited to:
 - (i) action relating to fissionable and fusionable materials or the materials from which they are derived;
 - (ii) action relating to the traffic in arms, ammunition and implements of war and to such traffic in other goods and materials as

(v) distinguish service suppliers subject to tax on worldwide taxable items from other service suppliers, in recognition of the difference in the nature of the tax base between them; or

(vi) determine, allocate or apportion income, profit, gain, loss, deduction or credit of resident persons or branches, or between related persons or branches of the same person, in order to safeguard the Party's tax base.

Tax terms or concepts in subparagraph (d) of this Article and in this footnote are determined according to tax definitions and concepts, or equivalent or similar definitions and concepts, under the domestic law of the Party taking the measure.

is carried on directly or indirectly for the purpose of supplying a military establishment;

- (iii) action taken so as to protect critical public infrastructures including communication, power and water infrastructures from deliberate attempts intended to disable or degrade such infrastructure;
 - (iv) action taken in time of war or other emergency in domestic or international relations; or
- (c) to prevent any Party from taking any action in pursuance of its obligations under the United Nations Charter for the maintenance of international peace and security.

2. Each Party shall inform the other Parties to the fullest extent possible of measures taken under paragraphs 1(b) and 1(c) of this Article and of their termination.

3. Nothing in this Agreement shall be construed to require a Party to accord the benefits of this Agreement to a service supplier of another Party where a Party adopts or maintains measures in any legislation or regulation which it considers necessary for the protection of its essential security interest with respect to a non-Party or a service supplier of a non-Party that would be violated or circumvented if the benefits of this Agreement were accorded to such service supplier.

ARTICLE 14 **Subsidies**

1. Except where provided in this Article, this Agreement shall not apply to subsidies or grants provided by a Party, or to any conditions attached to the receipt or continued receipt

of such subsidies or grants, whether or not such subsidies or grants are offered exclusively to domestic services, service consumers, or service suppliers. If such subsidies or grants significantly affect trade in services committed under this Agreement, any Party may request for consultations with a view to an amicable resolution of this matter.

2. Pursuant to this Agreement, the Parties shall:

- (a) on request, provide information on subsidies related to trade in services committed under this Agreement to any requesting Party; and
- (b) review the treatment of subsidies when relevant disciplines are developed by the WTO.

3. The provisions of the India-ASEAN DSM Agreement shall not apply to any request made or consultation held under the provisions of this Article or to any dispute that may arise between the Parties under the provisions of this Article.

ARTICLE 15 Cooperation

The Parties shall strengthen cooperation efforts in services sectors, including sectors which are not covered by existing cooperation arrangements. The Parties shall discuss and mutually agree on the sectors for cooperation and develop cooperation programmes in these sectors in order to improve their domestic capacities, efficiencies and competitiveness.

ARTICLE 16
Increasing Participation of Cambodia, Lao PDR,
Myanmar and Viet Nam

1. The increasing participation of Cambodia, Lao PDR, Myanmar, and Viet Nam in this Agreement shall be facilitated through negotiated specific commitments, relating to:

- (a) the strengthening of their domestic services capacity and its efficiency and competitiveness, *inter alia*, through access to technology on a commercial basis;
- (b) the improvement of their access to distribution channels and information networks on a commercial basis; and
- (c) the liberalisation of market access in sectors and modes of supply of export interest to them.

2. Appropriate flexibility shall be accorded to Cambodia, Lao PDR, Myanmar, and Viet Nam for progressive liberalisation in terms of specific commitments undertaken in line with their respective stage of development.

PART III: SPECIFIC COMMITMENTS

ARTICLE 17
Market Access

1. With respect to market access through the modes of supply identified in paragraph (aa) of Article 2 (Definitions) of this Agreement, a Party shall accord services and service suppliers of any other Party treatment no less favourable than that provided for under the terms, limitations and conditions agreed and specified in its Schedule.⁷

⁷ If a Party undertakes a market-access commitment in relation to the supply of a service through the mode of supply referred to in paragraph (aa)(i) of Article 2

2. In sectors where market access commitments are undertaken, the measures which a Party shall not maintain or adopt either on the basis of a regional subdivision or on the basis of its entire territory, unless otherwise specified in its Schedule, are defined as:

- (a) limitations on the number of service suppliers whether in the form of numerical quotas, monopolies, exclusive service suppliers or the requirements of an economic needs test;
- (b) limitations on the total value of service transactions or assets in the form of numerical quotas or the requirement of an economic needs test;
- (c) limitations on the total number of service operations or on the total quantity of service output expressed in terms of designated numerical units in the form of quotas or the requirement of an economic needs test;⁸
- (d) limitations on the total number of natural persons that may be employed in a particular service sector or that a service supplier may employ and who are necessary for, and directly related to, the supply of a specific service in the form of numerical quotas or the requirement of an economic needs test;

(Definitions) of this Agreement and if the cross-border movement of capital is an essential part of the service itself, that Party is thereby committed to allow such movement of capital. If a Party undertakes a market-access commitment in relation to the supply of a service through the mode of supply referred to in paragraph (aa)(iii) of Article 2 (Definitions) of this Agreement, it is thereby committed to allow related transfers of capital into its territory.

⁸ Paragraph 2(c) of this Article does not cover measures of a Party which limit inputs for the supply of services.

- (e) measures which restrict or require specific types of legal entity or joint venture through which a service supplier may supply a service; and
- (f) limitations on the participation of foreign capital in terms of maximum percentage limit on foreign shareholding or the total value of individual or aggregate foreign investment.

ARTICLE 18
National Treatment

1. In the sectors inscribed in its Schedule, and subject to any conditions and qualifications set out therein, each Party shall accord to services and service suppliers of any other Party, in respect of all measures affecting the supply of services, treatment no less favourable than that it accords to its own like services and service suppliers⁹.

2. A Party may meet the requirement of paragraph 1 of this Article by according to services and service suppliers of any other Party, either formally identical treatment or formally different treatment to that it accords to its own like services and service suppliers.

3. Formally identical or formally different treatment shall be considered to be less favourable if it modifies the conditions of competition in favour of services or service suppliers of the Party compared to like services or service suppliers of any other Party.

ARTICLE 19
Additional Commitments

⁹ Specific commitments assumed under this Article shall not be construed to require any Party to compensate for any inherent competitive disadvantages which result from the foreign character of the relevant services or service suppliers.

The Parties may negotiate commitments with respect to measures affecting trade in services not subject to scheduling under Article 17 (Market Access) and Article 18 (National Treatment), including those regarding qualifications, standards or licensing matters. Such commitments shall be inscribed in a Party's Schedule.

ARTICLE 20
Schedules of Specific Commitments

1. Each Party shall set out in a schedule the specific commitments it undertakes under Article 17 (Market Access), Article 18 (National Treatment), and Article 19 (Additional Commitments). With respect to sectors where such commitments are undertaken, each Schedule shall specify:

- (a) the sectors in which such commitments are undertaken;
- (b) terms, limitations and conditions on market access;
- (c) conditions and qualifications on national treatment;
- (d) undertakings relating to additional commitments; and
- (e) where appropriate the timeframe for implementation of such commitments.

2. Measures inconsistent with both Articles 17 (Market Access) and 18 (National Treatment) shall be inscribed in the column relating to Article 17 (Market Access). In this case the inscription will be considered to provide a condition or qualification to Article 18 (National Treatment) as well.

3. Where commitments are undertaken on the movement of natural persons, they shall include any one or more of the categories of natural persons as defined in Annex on Movement of Natural Persons subject to paragraph 1 of this Article.

4. The Parties' schedules of specific commitments shall be annexed to this Agreement upon completion of the negotiations and shall form an integral part thereof.

ARTICLE 21

Application and Extension of Commitments

1. India shall make a single schedule of specific commitments under Article 20 (Schedules of Specific Commitments) and shall apply this Schedule to Brunei Darussalam, Cambodia, Lao PDR, Malaysia, Myanmar, Singapore, Thailand and Viet Nam, and separate individual schedules of specific commitments to Indonesia and the Philippines, respectively.

2. Each ASEAN Member State shall make its individual schedule of specific commitments under Article 20 (Schedules of Specific Commitments) and shall apply this Schedule to India and the rest of the ASEAN Member States.

ARTICLE 22

Modification of Schedules

1. A Party may modify or withdraw any commitment in its Schedule, at any time after three years from the date on which that commitment has entered into force provided that:

- (a) it notifies the Joint Committee on Services of its intention to modify or withdraw a commitment no later than three months before the intended date of implementation of the modification or withdrawal; and
- (b) it enters into negotiations with any affected Party to agree to the necessary compensatory adjustment.

2. In achieving a compensatory adjustment, Parties shall ensure that the general level of mutually advantageous commitment is not less favourable to trade than provided for in the Schedules prior to such negotiations.

3. Any compensatory adjustment pursuant to this Article shall be accorded on a non-discriminatory basis to all Parties.

4. If the Parties concerned are unable to reach an agreement on the compensatory adjustment, the matter shall be resolved under the India-ASEAN DSM Agreement. The modifying Party may not modify or withdraw its commitment until it has made compensatory adjustments in conformity with the findings of the arbitration.

5. If the modifying Party implements its proposed modification or withdrawal and does not comply with the findings of the arbitration, any Party that participated in the arbitration may modify or withdraw substantially equivalent benefits in conformity with those findings. Notwithstanding Article 21 (Application and Extension of Commitments), such a modification or withdrawal may be implemented solely with respect to the modifying Party.

PART IV: OTHER PROVISIONS

ARTICLE 23

Relation to Other Agreements

1. Each Party reaffirms its rights and obligations vis-à-vis another Party under the WTO Agreement and other agreements to which these Parties are party.

2. Nothing in this Agreement shall be construed to derogate from any right or obligation of a Party under the WTO Agreement and other agreements to which these Parties are party.

3. In the event of any inconsistency between this Agreement and any other agreement to which two or more Parties are party, such Parties shall immediately consult with a view to finding a mutually satisfactory solution.

4. Nothing in this Agreement shall prevent any individual ASEAN Member State from entering into any agreement with India and/or any one or more ASEAN Member State.

5. This Agreement shall not apply to any agreement among ASEAN Member States or to any agreement between India and any ASEAN Member State unless otherwise agreed by the parties to that agreement.

ARTICLE 24
Annexes and Future Legal Instruments

1. The Annexes shall form an integral part of this Agreement.

2. The Parties may adopt legal instruments in the future pursuant to the provisions of this Agreement, including those proposed to them by the Joint Committee on Services. Upon their respective entry into force, such instruments shall form an integral part of this Agreement.

ARTICLE 25
Contact Point

1. Each Party shall designate a contact point to facilitate communications between the Parties on any matter covered by this Agreement, including the exchange of information relevant to the implementation and operation of this Agreement.

2. At the request of any Party, the contact point of the requested Party shall identify the office or official responsible for the matter and assist in facilitating communication with the requesting Party.

ARTICLE 26
Joint Committee on Services

1. A Joint Committee on Services shall be established under this Agreement within one year upon entry into force of this Agreement.

2. The functions of the Joint Committee on Services shall be to:

- (a) review the implementation and operation of this Agreement;
- (b) submit a report to the Parties on the implementation and operation of this Agreement;
- (c) consider and recommend to the Parties any amendments to this Agreement;
- (d) supervise and coordinate the work of all Sub-Committees established under this Agreement; and
- (e) carry out other functions as may be agreed by the Parties.

3. The Joint Committee on Services:

- (a) shall be composed of representatives of the Parties; and
- (b) may establish Sub-Committees and delegate its responsibilities thereto.

ARTICLE 27

Review

The Joint Committee on Services shall meet within one year from the date of entry into force of this Agreement to review the implementation and operation of this Agreement or as mutually agreed by the Parties. Thereafter, biennially or otherwise as appropriate the Joint Committee on Services shall review this Agreement, including for the purpose of progressively liberalising trade in services as well as developing disciplines and negotiating subsequent packages of commitments as may be agreed, with a view to facilitate the elimination of substantially all remaining discriminations between the Parties with regard to trade in services covered under this Agreement, including the Annex on Movement of Natural Persons.

ARTICLE 28

Miscellaneous Provisions

1. The GATS Annexes, namely: Annex on Movement of Natural Persons Supplying Services, Annex on Air Transport Services, Annex on Financial Services, and Annex on Telecommunications shall apply to this Agreement, *mutatis mutandis*.
2. This Agreement shall include (a) the Annexes including the Annex on Movement of Natural Persons agreed under this Agreement and the contents therein which shall form an integral part of this Agreement, and (b) all future legal instruments agreed pursuant to this Agreement.
3. Except as otherwise provided in this Agreement, this Agreement or any action taken under it shall not affect or nullify the rights and obligations of a Party under existing agreements to which it is a party.

ARTICLE 29
Amendments

This Agreement may be amended by agreement in writing by the Parties and such amendments shall enter into force on such date or dates as may be agreed by the Parties.

ARTICLE 30
Dispute Settlement

Unless otherwise provided in this Agreement, any dispute concerning the interpretation, implementation, or application of this Agreement shall be resolved through the procedures and mechanisms as set out in the India-ASEAN DSM Agreement.

ARTICLE 31
Denial of Benefits

A Party may deny the benefits of this Agreement:

- (a) to the supply of a service, if it establishes that the service is supplied from or in the territory of a non-Party;
- (b) in the case of the supply of a maritime transport service, if it establishes that the service is supplied:
 - (i) by a vessel registered under the laws of a non-Party; and
 - (ii) by a person of a non-Party which operates and/or uses the vessel in whole or in part;

- (c) to a service supplier of another Party where a Party establishes that:
 - (i) where such service supplier is a natural person, such natural person is not a "natural person of another Party" as defined under this Agreement; and
 - (ii) where such service supplier is a juridical person, such person is not a "juridical person of another Party" as defined under this Agreement.

ARTICLE 32
Entry into Force

1. Each Party shall notify the other Party in writing upon completion of its internal requirements¹⁰ necessary for entry into force of this Agreement. This Agreement shall enter into force on 1 July 2015 for any Party that has made such notifications provided that India and at least four (4) ASEAN Member States have made such notifications by that date.

2. If this Agreement does not enter into force on 1 July 2015 it shall enter into force, for any Party that has made the notification referred to in Paragraph 1 of this Article, sixty (60) days after the date by which India and at least four (4) ASEAN Member States have made the notifications referred to in Paragraph 1 of this Article.

3. After the entry into force of this Agreement pursuant to Paragraph 1 or 2 of this Article, this Agreement shall enter into force for any Party sixty (60) days after the date of its notification referred to in Paragraph 1 of this Article.

¹⁰ For greater certainty, the term "internal requirements" may include obtaining governmental approval or parliamentary approval in accordance with domestic law.

ARTICLE 33
Depositary

For the ASEAN Member States, this Agreement shall be deposited with the Secretary-General of ASEAN, who shall promptly furnish a certified copy thereof, to each ASEAN Member State.

ARTICLE 34
Withdrawal and Termination


1. Any Party may withdraw from this Agreement by giving 12 months advance notice in writing to the other Parties.
2. This Agreement shall terminate if, pursuant to paragraph 1:
 - (a) India withdraws; or
 - (b) this Agreement is in force for less than four ASEAN Member States.
3. The other Parties may request in writing consultations concerning any matter that would arise from the withdrawal within 60 days after the date of receipt of the notice in paragraph 1 of this Article. The requested Party shall enter into consultations in good faith upon receipt of the request.

IN WITNESS WHEREOF, the undersigned being duly authorised by their respective Governments, have signed the Agreement on Trade in Services under the Framework Agreement on Comprehensive Economic Cooperation between the Republic of India and the Association of the Southeast Asian Nations.

DONE at Nay Pyi Taw, Myanmar, this Thirteenth
day of November in the year Two Thousand and Fourteenth

in two original copies in the English Language.

For the Republic of India:



NIRMALA SITHARAMAN
Minister of State for
Commerce and Industry

For Brunei Darussalam:



LIM JOCK SENG
Second Minister of Foreign Affairs and
Trade

For the Kingdom of Cambodia:



SUN CHANTHOL
Senior Minister and Minister of
Commerce

For the Republic of Indonesia:



MUHAMMAD LUTFI
Minister of Trade

For the Lao People's Democratic
Republic:



KHEMMANI PHOLSENA
Minister of Industry and Commerce

For Malaysia:




MUSTAPA MOHAMED
Minister of International Trade and
Industry

For the Republic of the Union of
Myanmar:



KAN ZAW
Union Minister for National Planning
and Economic Development

For the Republic of the Philippines:



GREGORY L. DOMINGO
Secretary of Trade and Industry

For the Republic of Singapore:



LIM HNG KIANG
Minister for Trade and Industry

For the Kingdom of Thailand:



CHUTIMA BUNYAPRAPHASARA
Permanent Secretary
Acting for the Minister of Commerce

For the Socialist Republic of Viet Nam:



VU HUY HOANG
Minister of Industry and Trade

Annex on Movement of Natural Persons

For the purposes of this Agreement:

- (a) **Business Visitor** means a natural person seeking to enter the territory of another Party temporarily, whose remuneration is derived outside that other Party:
 - (i) for negotiating sale of goods or supply of services on behalf of a service supplier of a Party where such negotiations do not involve making direct sales to the general public and the representative of the service supplier is not involved in supplying services directly; or
 - (ii) as an employee of a juridical person who is a manager, an executive or a specialist (as defined in paragraphs (c)(i), (c)(ii) and (c)(iii) of this Annex) for the purpose of establishing an investment or setting up a commercial presence for the juridical person in the territory of another Party; or
 - (iii) for the purpose of establishing an investment or setting up a commercial presence; or
 - (iv) for the purpose of participating in business negotiations or business meetings.
- (b) **Contractual Service Supplier**¹¹ means an employee of a juridical person of a Party which

¹¹ For greater certainty, in the case of the Philippines, Contractual Service Supplier covers this definition, and also (a) is either an executive, manager, or specialist as may be specified in the schedule of commitments, and (b) has been an employee of

does not have commercial presence in another Party where the services will be provided, who:

- (i) enters the territory of that other Party temporarily in order to perform a service pursuant to a contract(s) between the employer and a service consumer(s)¹² in the territory of that other Party;
 - (ii) receives remuneration from his or her employer; and
 - (iii) must possess the appropriate educational and other qualifications relevant to the service to be provided and has obtained, wherever necessary, registration with the relevant professional body.
- (c) **Intra-Corporate Transferee (ICT)** refers to an employee of a juridical person of a Party as defined in this Agreement who is transferred temporarily for the supply of a service through commercial presence in the territory of another Party, and has been an employee of that juridical person for a period as may be specified in the schedule of commitments, and who is:
- (i) an **Executive**: a natural person within the organisation who primarily directs the management of the organisation and exercises wide latitude in decision making and receives only general supervision or direction from higher level executives, the board of directors, or stockholders of the business. Executives would not directly

the juridical person for a period as specified in the schedule of commitments of each Party preceding the date of the application for entry or temporary stay.

¹² In the case of Indonesia, Thailand and Viet Nam, the service consumer(s) have to be juridical person(s).

perform tasks necessary for the provision of the service to the extent that this does not prevent the Executive, in the course of executing his duties as described above, from performing such tasks as may be necessary for the provision of the service;

- (ii) a **Manager**: a natural person within the organisation who primarily directs the organisation/department/ subdivision and exercises supervisory and control function over other supervisory, managerial or professional staff; does not include first line supervisors unless employees supervised are professionals, nor does it include employees who directly perform tasks necessary for the provision of the service provided that this does not prevent the Manager, in the course of executing his duties as described above, from performing tasks as may be necessary for the provision of the service; or
- (iii) a **Specialist**: a natural person within the organisation who possesses knowledge at an advanced level of expertise essential to the establishment/provision of the service and/or possesses relevant knowledge of the organisation's service, research equipment, techniques or management. A specialist may include, but is not limited to, members of a licensed profession.