

# **SYNOPSIS**

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

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In the early 20<sup>th</sup> 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 9<sup>th</sup> century and King Rajendra Chola-I in the 10<sup>th</sup> 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 7<sup>th</sup> century to the 14<sup>th</sup> century. On the other hand, when Islam arrived in the region in the early 15<sup>th</sup> 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 16<sup>th</sup> century to the 19<sup>th</sup> 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 21<sup>st</sup> 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 2<sup>nd</sup> 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 21<sup>st</sup> 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 9<sup>th</sup> 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 21<sup>st</sup> 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, especially 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 liberalization 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 21<sup>st</sup> 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 emphasized 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 emphasized 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 liberalization. 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 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.

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.

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 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.

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.

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.

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 21<sup>st</sup> 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.

### **Chapters:**

#### **Chapter I: Introduction**

Every research study's introduction provides a thorough explanation of the basic background as well as a rational analysis of the research's applicability to the contemporary world order. The study examines the history of bilateral trade relations between India and Indonesia with a similar focus. It covers the historical context, the development of the relationship, recent economic exchanges between the two nations,

strategic advantages, energy security, the importance of connectivity engagement, and India and Indonesia's position and challenges in the current global order in the face of rivalry between the two superpowers, China and the United States. Simultaneously, the fundamental technique for carrying out the research has been described, including the research rationale, research questions, research objectives, and literature review.

## **Chapter II:           Examining India's Energy Security Policies and Its Economic Engagement with Indonesia in Light of Their Economic and Geostrategic Importance**

In accordance with the scholars and experts, India's growing economic, military, and political influence in the current world order has made India a rising major power. However, India's transition began with the adoption of economic liberalization in 1991. India's integration with economic liberalization and globalization, India's foreign policy, and economic modernization brought a new paradigm shift. On the other hand, Indonesia, one of the emerging economies of Southeast Asia, is one of the main pillars of the region. Geographical size, population, GDP, greater market base, and military power—all make Indonesia a leader in the region, especially in ASEAN. Indonesia, unsurprisingly, has been the subject of recent global political crises and exchanges between superpowers and important countries in the Indo-Pacific region. Because of its location at the confluence of the Indo-Pacific, Indonesia has become a strategic funnel. This strategic position of Indonesia has fuelled India's desire for connectivity with it. However, India's geoeconomic and geostrategic interests were driving it.

However, while Indonesia's position has become the centrepiece of recent world politics, India, on the other hand, has become the main regulator of the Indian Ocean. India and Indonesia's access to the largest part of the Indian Ocean portends both states as potential maritime powers. In this context, the cartographical locations of India and Indonesia have been examined in light of the six principles of Mahan's 'Theory of Sea Power'—Geographical Position, Physical Confirmation, Extent of Territory, Population, Character of People, and Character of the Government. In addition, the first section of this chapter examines the effective implementation of the 'Sagarmala'

and 'Tol Laut' under India's "SAGAR Initiative" and Indonesia's "GMA" Policy, with a focus on both nations' maritime sectors in 2014.

The second section deals with the issue of energy security, one of the catalysts of current world politics. While India has emerged as a leader in the South Asian region, it is an energy-dependent country that has steadily pushed back its economic growth as well as geopolitical standing. Because at present, fuel is no longer being used as an essential commodity but as a strategic commodity. In that sense, energy security has become a tool for regulating global politics. In fact, Indonesia possesses the highest reserves of gas and coal, but its oil reserves are not sufficient for domestic demand. As a result, Indonesia is expanding its oil imports, which began in 2001. However, in the 1970s, the Arab-Israel oil crisis brought energy security to the centre of international political discourse. Since then, the powerful states have been trying to use military power and strategic areas in the interest of energy security. Moreover, India continues to diversify its energy sources for an uninterrupted supply of energy to sustain its growing economic growth—through stake partnerships, energy deals, and construction of pipeline projects. However, although the stakeholder of the coal and gas block or energy deal is practically successful and viable, the implementation of the pipeline project setup has not yet been completed—this poses a major challenge to India's energy security. In the context of India-Indonesia bilateral relations, the availability of Indonesia's natural resources, ceaseless supply of gas and coal, and India's partnership in gas extraction in Natuna Island can make Indonesia a reliable energy source state for India. This dimension was explored in the context of India-Indonesia bilateral relations in the research chapter.

### **Chapter III: Evolution of Business Relations and Connectivity Between India and Indonesia (1991-2023)**

International relations, one of the main components of the modern state system, is considered a very dynamic subject. International relations were explicitly introduced into the Western curriculum in the early twentieth century. Although the establishment of the nation-state through the 'Treaty of Westphalia' in 1688 is recognized as the beginning of contemporary international relations, references to international relations were found in the writings of Machiavelli and Kautilya. Commercial relationships

between two or more states are typically considered as the bedrock of international relations. International relations, especially trade relations, have recently moved away from mainstream economic theory due to the addition of investment, developed market systems, national interests, and security.

As the bilateral and multilateral commercial relationship includes politics, social policy, and economy, it becomes International Political Economy (IPE). It should be noted that the term ‘political economy’ is made up of two words combining ‘politics’ and ‘economy,’ respectively. In the context of international relations, international political economy simultaneously deals with international and transnational issues, but the scholar of international political economy presents Waltz’s Levels of Analysis for reviewing the social phenomena—such as the global level, interstate level, societal level, and individual level. These levels of analysis of international political economy highlight the global implications associated with the information available through appropriate research questions. However, Professor Susan Strange has built the ‘Theory of Four Structures’ based on Waltz’s Levels of Analysis to present the IPE more structurally. The four structures are, respectively, production and trade, money and finance, security, and knowledge and technology. However, these four institutions might be considered the cornerstones of international political economy.

Since the 1980s, as periphery states began to transition from an agricultural to an industrial economy, Waltz revised the concept of semi-periphery in accordance with ‘World Systems Theory.’ In the neoliberal economy, trade relations between two emerging economies are creating semi-periphery integrity on the one hand and challenging the core economy on the other. But does the stability of bilateral relations depend only on trade? Or does a well-developed market system with economic security play an important role in building trade relations? This chapter ontologically presents the trade relations and connectivity between the two semi-peripheral states, India and Indonesia, respectively, in the context of the development of bilateral relations.

In the changing world order, both India and Indonesia are considered emerging economies of South and Southeast Asia, respectively. However, both states are among the top economies in terms of economic development, and their economic transformations are rather astonishing. The economic changes and trends of both states share many similarities while also differing significantly.

According to Wallerstein's 'World System Theory,' the two semi-periphery states can be evaluated using data on expanding trade relations between India and Indonesia. In 1960, American economist W. W. Rostow published an article titled "Stages of Growth" to conduct a structural analysis of the state's economic development. In this paper, he proposed Rostow's "Stages of Growth," model which has five stages: The Traditional Society, Preconditions to Take-off, Take-off, Drive to Maturity, and The Age of High Mass Consumption.

In the context of Rostow's 'Stages of Growth' model, this long thirty-two-year relationship between India and Indonesia from 1991 to 2023 is divided into four phases according to significant economic events. Such as 1991-2005, 2005-2011, 2011-2014, and 2014-2023. These four stages explain important political developments, including economic advancement, investment, connectivity engagement, and trade exchanges between India and Indonesia, which analyse the second, third, and fourth stages of Rostow's 'Stages of Growth' model. Commercial transactions are as important as mutual investments in the analysis of bilateral trade relations. However, investment is considered as one of the main factors in commercial transactions. UNCATED (2016) defines a bilateral investment treaty as an agreement between two countries regarding the promotion and protection of investments made by investors from respective countries in each other's territory.

However, investment had little impact in comparison to the 32 years of import and export growth in bilateral business ties from 1991 to 2023, but the rising connectivity infrastructure had a considerable impact on the development of investment throughout this time. As a result, it is possible to conclude that the investment made at this time was reasonably successful, which is explained extensively in the first section of this chapter.

The connectivity infrastructure between the two states in the context of trade and investment is discussed in the second section of this chapter. Giddens argues 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. Whereas realists analyse interconnectedness in terms of relative power in the context of anarchist frameworks, liberals define connectivity as interdependence. The term "connectivity" was officially used by the ASEAN Master Plan in 2010. But in 2013, Xi Jinping

launched the OBOR initiative to revive China's old Economic Silk Road, later known as the BRI project. However, not only did China's project prioritize connectivity and infrastructure development for commercial purposes, but the scholars and experts also claimed that China's initiative was one of the political tactics. For instance, the sovereign debt traps of Bangladesh, Pakistan, Myanmar, and Sri Lanka can be discussed in addition to infrastructure development. Therefore, many countries have taken their own initiatives to counter China's BRI project, including the US's Indo-Pacific Strategy, Japan's Free and Open Indo-Pacific, India's SAGAR Initiative, etc.

In terms of commercial exchange between India and Indonesia, the port of Chennai in India and the port of Jakarta in Indonesia are the most effective major ports in both states. However, to review the evolution of connectivity between the two states, the UNCTAD's Bilateral Connectivity Index has been emphasized, which shows that the connectivity index performance of both the states has improved considerably in this long relationship of 32 years. In addition, the leaders of the two countries have taken a number of positive initiatives to further enhance maritime connectivity between Aceh Island and the Andaman & Nicobar Islands and direct air connectivity, keeping in view the growing trade. However, the issues faced by both states have been discussed in order to examine how connectivity not only promotes trade but also has an impact on security. In addition, the recommendations proposed by experts in the interest of trade and security have been mentioned in the context of both states in this section.

#### **Chapter IV: Big Power Conflicts: Challenges and Consequences in India-Indonesia Relations**

In modern global politics, the Indian Ocean has become a complex interaction between superpowers, major powers, and middle powers. Needless to say, India's presence and strategic policies reflect its distinctive position in the Indian Ocean. This chapter examines the extent to which India-Indonesia bilateral financial transactions have been influenced by the setting of major power politics, using appropriate evidence and theoretical concepts. The use of power as a fundamental component in the study of international relations is a highly relevant concern presently. Therefore, power is unquestionably crucial to regulating the entire global system. This chapter

covers the power dynamics that have emerged as a result of the formation of bilateral relations in such concepts of power, including realism, neorealism, liberalism, neoliberalism, and constructionism. Furthermore, the smart power approach is evident in the seamless execution of hard and soft power in the setting of complex interdependence. However, according to Organski's 'Power Transition Theory', power transfer is inevitable when a financially and militarily capable rising power expresses dissatisfaction with the world system dominated by the superpower. In this sense, the recent power transition between the two superpowers, the United States and China, in the global system has been reflected. However, the Indo-Pacific has become the theatre of conflict. This is largely due to the region's economic growth, strategic location, energy security, and extensive market base—where China's growing dominance is a major concern for the United States.

In this sense, the chapter has been divided into three sections. China has gained key interests in the region, including economic infrastructure engagement, through its BRI initiatives. Similarly, with the String of Pearls and military modernization, it is expanding its military dominance in the region. The United States has also emphasized defense agreements, upgraded the QUAD, and given importance to FOIP and ITEP to strengthen its position in the region. But what kind of challenges are the major and middle powers in the region facing due to the policies and projects adopted by these two superpowers? And what are their prospects? It's been analysed. The US-China rivalry has affected India-Indonesia bilateral relations in all spheres—economic, commercial, and military. India lags behind the US and China in all these areas. However, between these two superpowers, the Southeast Asian area, particularly ASEAN, never wants to be the meat of the sandwich. They are looking for an alternate partner. India's increasing economic, capable military, and maritime strength ensures its potential as an alternative power.

However, institutions like ASEAN, EAS, and BIMSTEC have strengthened India's partnership and position in the region. At the same time, India's economic transactions and military power have been broadly reflected in defense treaties and trade deals. However, ASEAN and EAS connect India in the economic and political domains of Southeast and East Asia. Similarly, India's participation in BIMSTEC has helped sustain its influence in the Bay of Bengal. In addition, the strategy has been strengthened as a counterstrategy to the BRI.

**Chapter V: Smart Power in Practice: India–Indonesia Relations and the Strategic Role of AIFTA in the 21<sup>st</sup> Century**

The evolving foreign policy dynamics between India and Indonesia through the theoretical lens of soft and smart power argue that while deep-seated historical and cultural affinities provide a foundational soft power advantage, the bilateral relationship’s significant economic progress in the 21<sup>st</sup> century is best understood as a result of a “smart power” strategy. This strategy consciously blends soft power elements with strategic, economic, and security cooperation—characterized by complex interdependence. In this landscape, the classical dichotomy between hard power—understood as coercion through military or economic sanctions—and soft power—the power of attraction through culture, political values, and foreign policies—has proven insufficient. Joseph Nye, who coined the term “soft power,” later advanced the more pragmatic concept of ‘smart power,’ which he defines as the capacity to combine hard and soft power resources into effective strategies. It is this paradigm of smart power that offers a compelling framework for analysing the rapidly evolving relationship between India and Indonesia. This chapter posits that the transformation of this bilateral relationship is a direct result of a deliberate smart power strategy.

India, in particular, has leveraged its soft power foundations while engaging in strategic hard power cooperation, all within the institutional framework provided by the ASEAN-India Free Trade Agreement (AIFTA). This chapter has first outlined the theoretical underpinnings of foreign economic policy and smart power, then analysed the specific soft and hard power assets at play, and finally, assessed how the AIFTA has acted as a catalyst to enhance supply chains and create new economic dimensions between the two nations.

Foreign Economic Policy (FEP) refers to how a country deals with other countries in terms of finance and trade. The primary goal of foreign economic policy is to help the country become richer, safer, and more significant. As the world is so interconnected these days, foreign economic policy is no longer considered in isolation. Instead, it is part of a country’s overall strategy for engaging with foreign

countries while remaining safe. The idea of smart power is really important in terms of FEP. However, using an approach to economic relations like trade wars or forcing other countries to do what you want can damage the diplomatic relations and cause big problems in the long run. On the other hand, if it only uses friendly methods to build relationships, it may not be enough to get the results we want because it lacks clear steps and rules that everyone has to follow. A smart power strategy tries to bring these two approaches together to achieve something better. It employs soft power tactics such as cultural diplomacy, educational exchanges, and developmental aid to generate trust, mutual understanding, and a conducive climate for cooperation.

The soft power connection between India and Indonesia is profound and unique. The historical influence of Hinduism and Buddhism, which spread across the Indonesian archipelago centuries ago, has left an indelible mark. Epics like the Ramayana and Mahabharata are not merely foreign stories but are deeply woven into the cultural and artistic fabric of Indonesian society, from wayang kulit (shadow puppet) performances to temple architecture. This shared heritage provides a deep reservoir of goodwill and familiarity that modern diplomacy can tap into. India's "Act East" policy has been instrumental in consciously leveraging this asset, emphasizing people-to-people ties, cultural festivals, and capacity-building programs like the Indian Technical and Economic Cooperation (ITEC) scheme, which has trained thousands of Indonesian professionals. However, the relationship's recent acceleration is due to the astute incorporation of hard power elements into this soft power base, transforming it into a smart power strategy. High-level diplomatic engagements consistently make this link explicit.

Furthermore, cooperation in the realm of hard power has been crucial. The two nations conduct regular joint naval exercises, such as the 'Samudra Shakti' series, and coordinate maritime patrols. This security cooperation serves a critical economic function: safeguarding the sea lines of communication in the Indian Ocean, which are vital arteries for the trade and energy supplies upon which both economies depend. Here, hard power is not used coercively against one another but protectively, as a public good that secures the very foundation of their economic prosperity, demonstrating a classic smart power calculus.

The chapter further explores how the AIFTA has transformed bilateral trade, creating complementary economic structures and catalysing cooperation in new domains such as the digital economy, blue economy, and renewable energy. It also addresses challenges, including persistent trade imbalances, non-tariff barriers, bureaucratic hurdles, domestic political constraints, and the strategic influence of China. Drawing on historical case studies, economic data, and contemporary policy initiatives, the study underscores the self-reinforcing nature of smart power in promoting both stability and innovation.

## **Chapter VI: Conclusion**

In the conclusion of this study, the definite findings of the research question in each chapter are mentioned, along with a key summary of the reviewed chapters. The analysis of several aspects of the topic of India-Indonesia bilateral ties has revealed both adequacy and defects, enhancing the research's reliability. Policy recommendations were also made for areas that require special attention in the context of India-Indonesia bilateral ties. At the same time, the factors identified in several cases could not be further examined, underscoring the study's limitations. However, these have paved the path for groundbreaking research, which is highlighted here.

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