

# Southeast Asian Relations: India and Vietnam

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With the end of the Cold War and the dissolution of the Soviet Union, it was necessary for India, which was opening up its economy around the same time, to look for new markets. An obvious area to explore was Southeast Asia and its emerging dynamic economy. It was therefore logical that India and Association of Southeast Asian Nations (ASEAN) would begin discussions for a more formal relationship between India and Southeast Asia culminating in India becoming a full dialogue partner of ASEAN. The fact of the matter, however, is that the Look East Policy (LEP) formulated in 1991, could not have taken place earlier for at least two reasons. Before the end of the Cold War, India was seen to be closely allied to the Soviet Union and hence ASEAN countries were reluctant as a group to associate with India.<sup>1</sup> The second important reason was that the Indian economy before 1991 economic reforms was a closed one and had very little attraction for Southeast Asian countries. The opening of the Indian economy was therefore a crucial factor for engaging with the Southeast Asian states.

This preliminary paper aims to look at some of the strengths and weaknesses of the India-Vietnamese relationship with special emphasis on the economic dimension and to make out a case for India to play a more active role in Vietnam. In the final analysis, it would be interesting to calibrate, based on a more extensive study, the extent to which Vietnam has integrated itself with the global economy. This is a particularly interesting point since Vietnam is still ruled by a communist regime.

## INDIA-ASEAN RELATIONS

While the main topic of my paper concerns Vietnam, I will try and put it in context within India's broader relations with Southeast Asia as defined in the LEP. Partly prompted

by Singaporean Prime Minister Goh Chok Tong<sup>2</sup>, the principle objective of the LEP was to actively cooperate with the dynamic economies of the Southeast Asian states so as to expand India's trade and economic cooperation with those countries. As explained by the then Indian Prime Minister, Mr. Atal Behari Vajpayee at the annual Singapore Lecture in 2002, "[the Southeast Asian] region is one of the focal points of India's foreign policy strategic concerns and economic interests".<sup>3</sup> And more recently, Prime Minister Narendra Modi, articulating India's concerns regarding regional security in the Southeast Asian region at the 14<sup>th</sup> ASEAN-India Summit, reiterated this view when he said, "In the face of growing traditional and non-traditional challenges, politico-security cooperation is a key emerging pillar of our relationship. Rising export of terror, growing radicalization through ideology of hatred and spread of extreme violence define the landscape of common security threats to our societies. The threat is local, regional and transnational at the same time. Our partnership with ASEAN seeks to craft a response that relies on coordination cooperation and sharing of experiences at multiple levels".<sup>4</sup> In this new relationship, Vietnam has a special place.

Let me flag here some major developments with ASEAN. India became a sectoral dialogue partner in 1992. In 1995, this was upgraded to full dialogue partnership. Since 2002, India has had annual summits with ASEAN along with China, Japan and the Republic of Korea (ROK/South Korea). Apart from trade, India and ASEAN cooperate in a number of other areas such as agriculture, health, science and technology, human resource development and so on. For India, both physical and digital connectivity as well as enhancing science and technology cooperation continue to form the core areas of collaboration with ASEAN nations. There is also scope for further enhancing the defence

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industry collaboration. A major achievement of LEP was the signing of the Indo-ASEAN Free Trade Agreement in August 2009 in Bangkok. The India-ASEAN Free Trade Agreement (FTA) came into force on 1 January 2010. The upgradation of the relationship to a Strategic Partnership in 2012 was perhaps a natural progression to the ground covered since India became a Sectoral Partner of ASEAN in 1992, Dialogue Partner in 1996 and Summit Level Partner in 2002. India-ASEAN trade and investment relations have been growing steadily with ASEAN being India's fourth largest trading partner. Trade has strengthened with the relatively more developed of the Southeast Asian economies like Singapore and Malaysia, followed by Thailand, Indonesia and the Philippines. And while India does not seem to have integrated its manufacturing sector with Asian production networks like China has, it is seen to be emerging as a gradually growing market for Asian goods. Currently, India's trade with ASEAN is \$70 billion in 2016-17.<sup>5</sup> However, given ASEAN's economic significance, India still does not figure prominently as a trade partner.<sup>6</sup> Although the signs are undeniably good, much more still needs to be done.

And then of course, there is the China factor. Indeed, it was largely to counter China's successful push towards closer economic ties with Southeast Asia that India had crafted a few initiatives of its own aimed at greater regional cooperation. For example, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) signed in June 1997, which has its members: Bangladesh, Bhutan, India, Myanmar, Nepal and Thailand. The objective of this body was to create an environment for economic development and social progress in the region. It fit the 'Look West' policy of Thailand and ASEAN and the LEP of India. BIMSTEC can be seen as a link organization as it were between Southeast Asia and South Asia. The other organization that links India to South-East Asia is the Mekong-Ganga Cooperation (MGC) established in November 2000 in Vientiane, Laos.<sup>7</sup> This group has six members – Cambodia, India, Laos, Myanmar, Thailand and Vietnam. They identified four major areas of cooperation – tourism, culture, education and transportation linkage to boost trade and investment in the region. India is also an active participant in several regional forums like the Asia-Europe Meeting (ASEM), East-Asia Summit (EAS), ASEAN Regional Forum (ARF), ASEAN Defence Ministerial Meeting (ADMM) and Expanded ASEAN Maritime Forum (EAMF).

India is thus well linked to Southeast Asia in terms of institutions, an important component of the LEP. India's strength lies in the fact that none of the Southeast Asian states see India as a security threat. Besides, its democracy and legal systems are attractive to Southeast Asian

investors as the fact that English is generally the language of governance and commerce in India. ASEAN states, of course, accept that for the time being, India lacks behind China's resources, has poor infrastructure and its decision-making is cumbersome with a difficult bureaucracy. India also needs to bring its tariffs closer to ASEAN levels so as to make trade with the countries of the region easier. In this new relationship, Vietnam has an important role to play. India and Vietnam closely cooperate in various regional forums such as ASEAN, East Asia Summit, Mekong Ganga Cooperation, Asia-Europe Meeting (ASEM) besides UN and WTO. Vietnam is also an important pillar amongst India's CLAV partners grouping Cambodia, Laos and Myanmar. CLMV's similarities include their primarily agro-based transition economies, high poverty incidence rate, insufficient infrastructure and institutions that are still too weak for a shift to a market economy. CLMVs still face huge challenges in fighting poverty alleviation, narrowing gaps in wealth among the population as also development gaps within the region. Although each country in CLMV faces different development constraints, CLMV as a whole, has a huge potential for future development, which will depend on the individual country's efforts and support from development partners within and outside of the region.<sup>8</sup>

#### WHY VIETNAM?

Historically speaking, relations with Vietnam can be traced back to ancient times. There is evidence suggesting close ties between India and the kingdom of Champa, which existed between the eighth and nineteenth centuries in some of the areas comprising present day Cambodia, Laos and Vietnam. In the modern era, relations have been based on the recognition by both countries of their common struggle against colonial rule. Vietnam has been appreciative of India's support during the National Liberation struggle against the French and later its resistance to the United States. India had recognized the Heng Samarin regime in spite of pressures from the West, China and ASEAN. India was chairman of the International Commission of Control and Supervision (ICC). As American involvement grew in Vietnam, India experienced considerable distress over the death and destruction it caused in that country. India earned the ire of the US President Johnson in 1965, when it condemned the US bombing of Vietnam. The US retaliated by delaying PL-480 wheat shipments to India. In 1966, Prime Minister, Indira Gandhi reiterated India's position by calling for an immediate cessation of bombings by the United States and the resolution of the Vietnam conflict within the framework of the Geneva Accords. India did not accept the domino theory of communist expansion and recognized Vietnam's national struggle for independence.

Given these strong views of India, it came as no surprise when India was not included in the second supervisory Commission on Vietnam established in 1973.

Vietnam, in its turn, has also been supportive of India including their position on Kashmir. It had also gone to the extent of supporting the Government of India's internal policies such as its approval of the Indian Emergency imposed by Prime Minister Indira Gandhi in 1975, regrettable as it may look in hindsight. However, the Vietnamese were basically underlining their full support for the Government of India given the close political relations that existed between the two countries. Vietnam was also an early supporter of India's candidacy for a permanent seat at the UN Security Council, advocated for India's inclusion in the East Asian Summit in 2005 and for a time, helped block Pakistan's inclusion in the ASEAN Regional Forum.<sup>9</sup> All these have been reflected during continuing contacts at the highest levels between the two countries over the years.

I have already mentioned that Vietnam is fast emerging as a dynamic economic power. It has, for example, achieved high levels of economic development (ranging between 6-7 per cent annual growth rate), per capita income and industrialization while the other CLAV group members still suffer from low per capita income and limited human resources. I believe that would be its greatest strength. Indeed, in some ways, the Vietnamese economy is even more globalized than the Indian economy – Vietnam's trade is 120 per cent of its GDP. However, one of the most important reasons why Vietnam of all countries is best qualified to develop a more multi-faceted relationship with India is because of its geographical location, and geopolitical concerns.

Strategically, Vietnam is important to us since it occupies a strategic location in Southeast Asia, straddling important oil and trade routes and as an immediate neighbour of China. For the present, there is no unanimity among ASEAN countries on how to deal with the rise of China. Indonesia and Malaysia, for example, seek to enmesh China institutionally. That leaves us in effect Vietnam, which too will be cautionary. Nevertheless, given its long acrimonious history with China and the bitter dispute over the maritime border involving the Spratly and Paracel Islands<sup>10</sup>—a reflection of China's sovereign claims to the South China Sea as also the strategic value of the archipelago, which straddles some of the world's most important sea lanes,<sup>11</sup> they would see a resonance with India's own fears. For the present, however, India does not have the capacity nor the need to venture into any military alliances directed howsoever covertly against China. For one thing, the major countries in the region would not welcome it since they would look upon India as a premature power that will complicate the security situation in the South China Sea

and the Pacific Sea rather than contribute in real terms to any balance of power. Being major powers themselves they would resent, at least at the present moment, India, punching above her strength so to speak. And second, India's natural security environment is South Asia and the Indian Ocean – from the Suez to the Malacca Straits through which most of its trade passes and through which most of its energy supplies come. It is true of course that almost all of India's maritime trade to and from East Asian and Southeast Asian countries such as Thailand, Indonesia, Malaysia, Brunei, Philippines Vietnam, Cambodia, Laos, China (including Hong Kong), North and South Korea, Japan and the Western seaboard of the USA – passes into or emerges from the Strait of Malacca. However, trade to and from the Malacca Strait Littorals (Malaysia, Indonesia, Thailand and Singapore) – which is quite substantive, does not transit the South China Sea at all!

Having said that, some 25 per cent of all India's external (maritime) trade – that is approximately 190 billion dollars-worth of trade, does pass through the South China Sea (including Hong Kong), Japan, Pacific Russia and the Western seaboard of the USA and is certainly susceptible to geopolitical disruptions in the South China Sea. Hence and as stated previously, India at the moment, does not have the capacity or the need to form any ostensible military alliances or to play any kind of a balance of power role in Southeast Asia and by extension, the Indian Ocean. However, it still does not prevent India from putting together the building blocks of a mature security relationship with the countries of Southeast Asia and more specifically, with Vietnam, with whom it shares much strategic congruency.

Finally, observers of the Indian reality believe that a more intense and diversified engagement with Vietnam will help India strengthen its presence in the ASEAN and other regional forums. However, any analysis of the India-Vietnam partnership should not blind us to the fact that the future of the relationship would also depend to an extent on how Vietnam and China continue to behave towards each other. This is because Beijing and Hanoi, despite having territorial disputes in the South China Sea, continue to maintain a robust trade relationship. Despite friction in the relationship, China provided more than one-fifth of Vietnam's FDI inflow in 2010 and has had an average of one Fleet visit annually between 2008 and 2014.<sup>12</sup> Hence it is highly unlikely that Vietnam will undertake any measures that might potentially jeopardize its economic interests with China. In the final analysis, both India and Vietnam conduct far more trade with China than they do with each other. This makes it all the more imperative that India take more proactive measures to accelerate its own economic engagement with Vietnam.

## ECONOMIC RELATIONS

The exceptional circumstances that gave Vietnam international importance in the 1950s, 60s and until mid-1975 do not exist anymore. Vietnam is a poor country with limited resources but it has shown resilience and dynamism so that it could become another East Asia Tiger. It has done well to reach out to ASEAN and nations outside of the region to assist its economic development.

As with other South Asian countries, real economic content has been put into the relationship only after the liberalization of India's economy and India's decision to deliberately craft a policy towards Southeast Asia, first through the LEP and more recently, with the more focused Act East Policy.

Both India and Vietnam are fast growing Asian economies and there is already a large international presence in both countries. Given Government support, the infrastructural quality and cost of human resources, Vietnam has become the centre for manufacturing of a wide range of products such as textile, shoes and so on. The economic dynamism of the country has impressed nations like France and the US which are now returning there in a major way. India's trade with Vietnam too has exceeded official targets. Indian companies, both public sector and private, are working there. Indian investments in Vietnam presently total around \$600 million, one of the largest in any ASEAN country. Sectors such as oil exploration hold out particular promise. Indian foreign oil and gas companies operating successfully in Vietnam include ONGC, Reliance and Essar among others. The award of a US \$1.8 billion Thermal Power Project to India's Tata Power in Vietnam in Vietnam's Soc Trang Province, is seen as an epoch-making shift in the energy relations between the two countries. In addition, there is growing interest among Indian companies in the agricultural, health and pharmaceutical sectors. Identified as one of the national development priorities, the Vietnam health care sector needs a wide variety of medical equipment, particularly for surgery and intensive care units. This market relies almost exclusively on imports. Top foreign suppliers of medical equipment include Germany, Japan and the United States each accounting for about 30 per cent of the market.<sup>13</sup> Vietnam also imports major parts of its pharmaceutical needs including ingredients for drug production and finished pharmaceutical products. India, on the other hand, is doing very well in the pharmaceutical sector. Clearly, there is scope for Vietnam to constitute an even bigger market for Indian companies in this sector. Yet another area where India could profitably invest in is human resources development. Although French is still a widely taught language in Vietnam, its popularity is on the wane (just like in Laos and Cambodia, two other French

colonies). The recent focus on the English language provides an opportunity for India to set up English language centres in Vietnam (and in Laos and Cambodia). Academic linkages between India and Vietnam are presently limited and this needs to be strengthened with the help of India's institutions. English language skills, in particular, can become an important component for the projection of India's soft power in the Indo-China States. Simultaneously and given the fact that Ho Chi Minh City is attracting a good deal of interest from major IT companies, the Indian presence in IT education in Vietnam could be strengthened if this were to be linked to the teaching of English and soft skills by Indian companies. As a matter of fact, under the Framework of the India-Vietnam Protocol on IT, Vietnam receives Indian assistance for training its manpower in the area of IT and IT enabled services. Indian assistance contributed to the cause of Vietnam's renewal programme (Doi Moi), which began in 1986. The Government is committed to promoting the IT business. New IT companies receive a four-year Income Tax exemption as well as zero per cent Value Added Tax (VAT) for software products and services and zero per cent export tax for software tax. Furthermore, companies that locate their offices in selective software parks receive a subsidized fee for Internet access and much better uptime guarantee. Although the Government still needs to do more to reduce tax rates and create more special enterprise zones and software parks, Indian IT companies can take advantage of the facilities already offered to make an even stronger impact.

While a few of the possibilities have been identified here, China, inarguably, has taken the lead in this instance. India, for the present, is only considered as a smaller trading partner among the Mekong countries, its trade with Vietnam accounting for less than 2 per cent of its total volume. In recent years, however, changes in institutions, growth paths and policies have further drawn economic relations between the two nations closer. And all indications for future growth and development are positive.

## CONCLUSIONS

In 2000 when India's Minister for External Affairs visited Vietnam, President Tan Duch Luang expressed the view that "Vietnam treats India with strategic importance". What he meant was that India and Vietnam should develop long-term cooperation strategies. Vietnam is eminently qualified to develop a multi-faceted relationship with India, which could develop into a strategic partnership because of (a) its geographical location, (b) its historical experience and (c) its geopolitical concerns.

India should consider treating Vietnam as a "neighbouring state" that is provide concessions or duty-free access to

Vietnamese products, set up joint ventures for exports to third countries, build infrastructures that would ultimately benefit Indian projects in Vietnam. India is now in a position to provide capital and technology. India should also look to cooperate with third countries such as France, in putting together joint proposals in Vietnam, Cambodia, Laos and elsewhere.

India's LEP does not have the classical definition of a strategic partnership since there is no military component to it. India's natural security environment is South Asia and the Indian Ocean through which most of its trade and energy resources pass. India does not have the need to project any military power in Southeast Asia including Vietnam. ASEAN welcomes all major powers to the region and is averse to any one power dominating the region. This is a view that should coincide with our own interests. It is precisely for this reason that India is seen as a benign, liberal power and has closer bilateral relationships with individual ASEAN States, more so than China. India will retain this perceptual advantage as long as it continues to remain an open and plural democracy.

#### NOTES

1. The strategic rift between India and South-East Asia had hardened in the 1980s when Mrs. Indira Gandhi recognized the Vietnam backed the Heng Samrin regime in Cambodia, which had friendly ties with the Soviet Union, over the China backed Khmer Rouge regime, which the Southeast Asian States preferred.
2. Countries like Singapore were quick to grasp both the economic and strategic potential of the end of the Cold War and India's economic liberalization program. Senior Minister Goh Chok Tong played a key role in generating an "India fever" in Singapore.
3. A.B. Vajpayee, 9 April 2002, 'India's Perspectives on ASEAN and the Asia Pacific Region', Indian Ministry of External Affairs website, <http://www.mea.gov.in/sshome.htm> (accessed on 17 November 2007).
4. Opening Statement by Prime Minister at the 14th ASEAN-India Summit (8 September 2016), accessed 13 April 2017, <http://www.mea.gov.in>
5. 'ASEAN-India Relations', <http://mea.gov.in/aseanindia/20-years.htm> (accessed on 12 June 2018).
6. Dr. Mohammed Samir Hussain and Dr. Janatun Begum, 'India-ASEAN Economic and Trade Partnership', 32 October, 2011, <https://igordirgantara.wordpress.com/2011/11/04/india-asean-economic-and-trade-partnership/> (accessed on 12 June 2018).
7. Gupta Shishir, Mekong-Ganga Project signed, boost to ASEAN economic ties', *Hindustan Times*, November 11, 2000.
8. Chap Sotharith, 'Development Strategy for CLMV in the Age of Economic Integration', [http://www.eria.org/uploads/media/Research-Project-Report/RPR\\_FY2007\\_4\\_Executive\\_Summary.pdf](http://www.eria.org/uploads/media/Research-Project-Report/RPR_FY2007_4_Executive_Summary.pdf) (accessed 23 April 2017).
9. Pakistan joined in 2004.
10. Following the 1988 Johnson Reef Clash, which saw Chinese naval frigates sink two Vietnamese ships leaving 64 sailors dead and secure its first six holdings in the Spratlys and which continues to be a point of friction between the two nations.
11. In 2016, only five countries relied on South China Seas for more than 50 per cent of their total trade. These include, in descending order, Vietnam (80 per cent), Indonesia (85 per cent), Thailand (74 per cent), Singapore (60 per cent) and Malaysia (58 per cent). Of these States, only Vietnam and Malaysia are claimants in the South China Sea while India maintains an exclusive economic zone-dispute with China. China, meanwhile, despite grabbing headlines for its island-building activities in the South China Sea and broader assertion of jurisdiction in disputed areas, through its coast guard, relies on the South Sea for 39 per cent of all its trade.
12. Heginbotham, Rabasa and Harold, 2013, p.15.
13. Vietnam's healthcare information and projects are available at the following websites; Vietnam's Ministry of Health ([www.moh.gov.vn](http://www.moh.gov.vn)); the ABB (<http://www.adb.org/Vietnam/projects.asp>).