

ISAS Insights

No. 198 – 28 February 2013

469A Bukit Timah Road
#07-01, Tower Block, Singapore 259770
Tel: 6516 6179 / 6516 4239
Fax: 6776 7505 / 6314 5447
Email: isassecc@nus.edu.sg
Website: www.isas.nus.edu.sg



Expanding India-ASEAN Connectivity¹

*S Narayan*²

Introduction

The last decade has witnessed a sea change in the relationship between India and the Association of Southeast Asian Nations (ASEAN). Several significant economic and political developments have contributed to this.

First, the India's Look East Policy, strongly supported by Singapore, led to the Comprehensive Economic Cooperation Agreement between the two countries, the first that India was confident enough to ink. This has led to bilateral trade growing from a mere US\$ 1.5 billion in 2002 to over US\$ 17 billion in 2010. India was confident to enter into trade agreement negotiations with the other ASEAN members, and the India-ASEAN free trade agreement is also now a reality. The India-ASEAN Free Trade Agreement (AIFTA), which came into effect on 1 January 2010 with Malaysia, Singapore and Thailand, is central to the country's growing engagement with the ASEAN region. Bilateral trade volume between India and ASEAN exceeded US\$ 70 billion in 2012. By 2015, it is expected to reach US\$ 100 billion. The share of total trade of India with Mekong countries has more than doubled in a span of 15 years. India has signed partial FTA with Thailand and Comprehensive Economic Cooperation Agreement (CECA) with Singapore. India's FTA with ASEAN was signed on 13 August 2009; and India's Comprehensive Economic Cooperation Agreement with Malaysia was signed on 18 February 2011.

¹ This is a paper presented at a plenary session of India-ASEAN Delhi Dialogue V that was held in the Indian capital on 19 and 20 February 2013.

² Dr S Narayan is Head of Research and Visiting Senior Research Fellow at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore. He was formerly Economic Advisor to the Prime Minister of India. Dr Narayan can be contacted at snarayan43@gmail.com. The views expressed in this paper are those of the author and do not necessarily reflect those of ISAS.

Second, increased trade has brought about increased investment into the ASEAN member countries from India. Indian companies use Singapore as the hub for their financial, legal and investment activities. Indian entities are investing in natural resources in the ASEAN countries including coal mining in Indonesia, palm oil and rubber plantations in Malaysia and Laos, and in retail opportunities for Indian goods. Indian brand names are being found in retail malls in Singapore, Kuala Lumpur and Thailand.

Third, there is increasing tourism and MICE traffic from India into ASEAN. There are over 300 flights every week from different destinations in India to Singapore every week now, as against only around 50 flights a decade ago. This is contributing to the tourism, hotel, transport and entertainment industries in the ASEAN, and there is an estimate of US\$5 billion outflow from India in 2011 on this account. In return, there are inward remittances from workers and professionals of Indian origin in the ASEAN countries. While disaggregated figures are not readily available, anecdotal evidence indicates that this has grown multi-fold in the last decade.

Next, at the international level, security cooperation and participation by India at the meetings of regional bodies and networks have increased. There is cooperation in joint defence exercises as well as opportunities of training in India for defence personnel. The architecture of security for the Straits of Malacca is now a joint concern, and India is also a participant in discussions on the South China Sea. For several years now, there have been joint naval exercises with Singapore, and Singapore Air Force pilots avail of training opportunities in India.

Finally, the opening up of Myanmar is of strategic and trade importance to India. Pulses, rice and other agricultural produce find a ready market in India, and the trade routes are traditional and go back to colonial days. There is growing influence of China in the region, where the ASEAN countries need to examine the re-balance of influence between their northern neighbour and India. There is increasing appreciation of the need to balance the influence of the two large economies in the region and there is realisation that each has distinct opportunities for trade and development to offer.

Several aspects of this rapid change have happened sui generis, and only some aspects like security cooperation and trade agreements have been due to strategic policy-level agreements on both sides. Nowhere is this more evident than in the Northeast of India. The seven Northeast Indian states have had a geographical disadvantage of poor linkage with the rest of India. The narrow land corridor had offered limited access to trade with the rest of India. The opening of the land routes from Manipur and Mizoram have multiplied trade with Myanmar multi-fold in the last couple of years, and increasing informal trade across the border of retail consumer items from China is now flooding the markets in Manipur and Aizawl. Interestingly, it is the Myanmar trade that is growing rapidly, but over the years one can expect goods from China to arrive in increasing quantities along the border. It is a geographical reality that the Northeast states of India share a much longer and integrated land border with the ASEAN countries than even with their motherland, India; and it is only

natural that economic opportunities for this region arise from greater connectivity with ASEAN. Greater connectivity is essential for the realisation of the full benefits of the regional free trade and cooperation agreements, since one of the major obstacles to the expansion of trade between India and ASEAN is the high cost of moving goods across the borders.

There is an unsaid parameter behind these developments. The initiatives taken by China to develop a rail network in Tibet, and a road network to connect with several points in the Kunming province, are likely to open up a number of opportunities for inter-regional trade. The road trade across the Nathu La Pass, which was opened in 2008, is now flourishing, with the gradual addition of permissible goods. Substantial infrastructure has been developed on the Chinese side, and similar infrastructure is being developed on the Indian side. The presence of China in the trade, investment and development patterns of all ASEAN countries would be quite significant, and India needs to pick and choose the advantages, develop cooperation and avoid conflict-prone situations. Diplomacy and international relations would have as much of a role to play as design and construction of infrastructure

These ground-level developments have led to a flurry of activity among the governments to encourage, develop and regulate the opportunities of inter-linkages between India and the ASEAN countries and to examine the entire issue of connectivity in a comprehensive manner. At the 17th ASEAN Summit in 2010, the leaders adopted the Master Plan on ASEAN Connectivity, which identifies key strategies and actions to enhance the region's connectivity in three dimensions: physical, institutional, and people-to-people. The Comprehensive Asian Development Plan (CADP), designed by Economic Research Institute for ASEAN and East Asia (ERIA) for EAS members, provides a grand spatial design for infrastructure development in East Asia. The ASEAN-India Connectivity Report by RIS (Research and Information System for Developing Countries) advocates the enhancement of connectivity between India and ASEAN with an emphasis on two major axes: land connectivity with the northeast region, and air- and sea-connectivity with the southern region, with a thrust on the Chennai-Ennore area.

Land Transport

Roads: The most important of the proposed linkages involves land transport. In particular, the road network offers a number of challenges: poor quality of roads and incomplete road networks, including missing links. Highway lanes, lighting system, and quality of roads differ across countries in Asia, and there is a lot of work to be done in standardisation of highway construction.

With a long international border and landlocked location, featuring a hilly terrain, access to India's northeast region has been a challenge. Development of roads and railway networks to connect this region to ASEAN countries will provide an avenue for cross-border trade while simultaneously expediting economic development in this region.

Completion of the ASEAN Highway Network, including the Trilateral Highway connecting Thailand, Myanmar and India, has been adopted as one of the priorities of the Master Plan on ASEAN Connectivity. The project is expected to be completed by 2016. At the plenary session of the India-ASEAN Commemorative Summit held in December 2012, Prime Minister Manmohan Singh proposed that a second track of the trilateral highway be launched to connect India with Myanmar, Laos, Cambodia and Vietnam.

The planned Mekong-India Economic Corridor (MIEC) will integrate Myanmar, Thailand, Cambodia and Vietnam (Mekong Countries) with India through its east coast. It is proposed to connect Ho Chi Minh City (Vietnam) with Dawei (Myanmar) via Bangkok (Thailand) and Phnom Penh (Cambodia) and further linking to Chennai in India. MIEC should be included in the designated Trade Transport Routes (TTRs), which receive special emphasis for implementation by 2015 under transport cooperation in ASEAN.

The completion of national road projects such as the Chennai-Ennore Port Road Connectivity Project, the National Highway Development Programme and Dedicated Freight Corridor Projects to improve national connectivity within India is essential to allow smooth flow of goods and services.

Rail: Rail is not a widely used mode of transport in Mekong countries. The share of rail transport in total freight is low at three per cent (excluding Cambodia). Presently, the rail network has severe capacity constraints to deliver efficient and reliable services for heavy usage as axle-load is low at less than 20 tonnes (except Thailand). The lack of interoperability constrains the use of rail as a transport method in the region. Track gauges, voltages, and signalling systems differ from one country to another.

However, multimodal transportation hubs could be created that would leverage existing rail connectivity. Investments in standardisation of tracks, signals and procedures, along with linkages to markets through a road work, would require the development of a master plan that would take into account national priorities and existing infrastructure. In India, technological up-gradation and modernisation of the existing infrastructure and assets need to be undertaken in the railways sector.

There is a plan to establish a rail link from Kolkata to Ho Chi Minh City via Myanmar, Thailand, Cambodia and Vietnam, but this project is more in a wish list than in the realm of reality in planning and design. The investments required are likely to be substantial, and it is not clear whether international traffic alone will provide adequate returns on such investment. Further, there is the question whether such a route would pass through Bangladesh.

Air Transport

Air transport is an important mode of transportation for passengers, high-value fragile goods, and perishable commodities; the trade in fragile and perishable goods is expected to grow significantly. The passenger flow will also multiply as the tourism potential of the corridor is

enhanced and new sites are developed. There is considerable interest in the ASEAN countries for tourism in the Northeast India, and there is considerable travel by the residents of the seven Northeast Indian states to the rest of Asia.

The 14th ASEAN Transport Ministers' meeting held in Manila in 2008 upheld the proposed Open Skies Agreement and India's keen interest to join the ASEAN Member States in an Open Skies Regime, covering airfreight and passenger services. Collaboration with Singapore and Malaysia to improve airport infrastructure may be explored by India and other ASEAN nations.

Air transport network is expected to be enhanced by the ongoing initiatives to establish the ASEAN Single Aviation Market (ASAM) and the ASEAN's air transport agreements with its Dialogue Partners including India, China, and Korea. The implementation of the Single Aviation Market is likely to permit integrated trade agreements.

Sea Transport

Port network and sea transportation will be the main trade link of ASEAN region, particularly for bulk transport. But many ASEAN countries (except Singapore and Malaysia) rank poorly in the UNCTAD Liner Shipping Connectivity Index.

Capacity utilisation at most gateway ports in the region is fairly high, indicating that investments in port expansion are required. Current port capacity will have to be increased after 2014, particularly in India and the Mekong region, in order to meet the expected increase in demand for port services.

A JICA study on 47 designated ports in ASEAN revealed a number of challenges in providing more efficient shipping services given the varying levels of port infrastructure development. There is a significant mismatch in the port facilities offered in different countries; these infrastructure gaps create difficulties for port users. Operational efficiency of Indian ports needs to be enhanced significantly to bring them at par with international ports. The construction of new ports in Dawei, Kyauk Phyu, and Pakbaran is under way; and the expansion/upgrading of existing ports, such as Yangon, Sittwe, and Chennai, is expected.

Inland waterways along the Kaladan River and Ganga can also enhance the connectivity between the mainland and Northeast India via Myanmar and Bangladesh respectively.

In April 2008, India and Myanmar signed the agreement for the Kaladan Multi-Modal Transit Transport Project, financed by India's Ministry of External Affairs. The project will connect the port of Kolkata with Sittwe port in Myanmar. It will then link Sittwe to Mizoram via river and road transport. The project is scheduled for completion in 2014. This project will reduce distance from Kolkata to Sittwe by approximately 1328 km and provide an alternative transport route to the narrow Siliguri corridor.

Conclusion

The benefits, in India, are likely to flow not only to the northeast states but to other regions as well. Increasingly, it is being realised that sea trade should be directed to the southern part of India, perhaps to the ports of Chennai, Krishnapatnam and Visakhapatnam. There are historical as well as logistical reasons for this. Historically, there is a large presence of South Indian (primarily Tamil) traders in the Southeast Asian countries, more so in Malaysia and Singapore. Traders from the south, primarily Andhra Pradesh, have been at the helm of commodity trade with Malaysia and Myanmar. Substantial quantity of pulses, primarily Toor Dhall, and also rice and oil seeds, is being imported from the ASEAN countries into south India. The trade in pulses and rice is in the hands of Andhra traders, while oilseeds are more the forte of Gujarati and Marwari traders. These traditional trading patterns in India have existed for centuries and are now getting strengthened through increased volumes and enhanced opportunities. These goods, after landing at the eastern ports, are transported through the local railway and road logistics to the relevant markets. The volumes of trade in these commodities have been growing at a compounded annual rate of close to 25 per cent in the last five years, driven by increased incomes and changing consumption. There is a strong Indian argument for improved connectivity in terms of lowering costs and increasing reliability, thereby raising the efficiency of trade.

In the eastern part of India, Kolkata has traditionally been a gateway to product and retail markets of Bihar and Bengal, and the improvement in connectivity will increase opportunities for this movement. With enhanced connectivity, less developed regions may expand their economic activities to leverage their location and resource advantages, particularly in India's northeast region and Myanmar. Industrial agglomerations like Chennai and Bangkok will lead economic growth for the region by providing large markets of goods for neighbouring regions. Integrated connectivity plans will especially benefit smaller countries by giving them access to the international market at a lower cost.

Improved infrastructure and connectivity must be accompanied by trade facilitation. Conducive trade climate, through appropriate policies, regulation and private sector participation needs to be created.

The key to making all this happen is not just physical connectivity. Physical connectivity should be developed along with institutional connectivity, in the form of institutional arrangements to facilitate cross-border movement of goods and services. Currently, a substantial quantum of trade takes place across informal channels, especially in Manipur and Mizoram. The formal procedures are still quite rigid and time-consuming. As an example, agricultural goods and products coming into India require a certification, for which facilities are available only in Guwahati in Assam – it is more expedient to move these through informal channels. Facilitation of trade, better customs and border clearance infrastructure, as well as more channels of transportation would increase formal trade and- revenues. It is possible to consider some tariff reductions in the case of locally procured agricultural goods and commodities that are used for retail consumption rather than trade, to improve the flow of

these goods. Currently, the growth of these informal channels is giving rise to a parallel and underground economy that is to be viewed with concern, especially in the states where there is a history of insurgency and terrorism. It would be worthwhile for the Indian revenue authorities to study the pattern of trade across these borders and to set up more venues for road movement, improve infrastructure at check points, and also to expedite procedures. Infrastructure is still poor, and the trade is small, it should be possible for the revenue authorities to develop some rapid clearance mechanisms for small-value items. Investments in processes and in procedural facilitation are as urgent as investment in infrastructure.

The funding requirement for transport infrastructure is huge, and at least a part of it must be solicited from the private sector through public-private partnerships. In order to improve risk allocation and operational efficiency, India should collaborate with countries that have technological/operational expertise in these areas. Quick project execution in difficult areas requires a considerable degree of planning and logistics management; and collaborative efforts with the ASEAN countries are likely to lead to substantial gains in time and costs.

It is clear that better connectivity between India and ASEAN will help bridge the existing development gaps, lead to increased trade and investment, fuel economic growth and create employment. It is now important to convert ideas and wishes into investment in planning, design, institutional improvements. It is also obvious that in terms of each of these aspects, India has considerable leeway to make up. Many of the ASEAN countries, with probably the exception of Myanmar, have the institutional capabilities as well as the financial muscle to carry out their part of the programme – in India, these need to be developed, funded, implemented and monitored.

The benefits of improved connectivity are obvious. Apart from enhancing trade and development, it provides employment and livelihood opportunities. These would arise initially in project construction, and later in logistics, warehousing, trading, retail, as well as in tourism and entertainment sectors. The Nathu La trade has enhanced Gross State Domestic Product of Sikkim by close to one per cent, bestowing considerable benefit on its local population in terms of increased incomes and employment. There is need and opportunity to do the same for Northeast India through connectivity to the ASEAN corridors.

.....