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EMERGING TRANS-REGIONAL CORRIDORS: SOUTH AND SOUTHEAST ASIA

Editors
K. Yhome
Rajeev Ranjan Chaturvedy



**EMERGING
TRANS-REGIONAL
CORRIDORS: SOUTH
AND SOUTHEAST
ASIA**

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Abbreviations

ACD	Asia-Cooperation Dialogue
ADB	Asian Development Bank
ADIZ	Air Defence Identification Zone
AEC	ASEAN Economic Community
AIIB	Asian Infrastructure Investment Bank
APEC	Asia-Pacific Economic Cooperation
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
ASEM	Asia-Europe Meeting
BCIM-EC	Bangladesh-China-India-Myanmar Economic Corridor
BIMP-EAGA	Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
CAREC	Central Asia Regional Economic Cooperation
CICA	Conference on Interaction and Confidence-Building Measures in Asia
DOC	Declaration of the Conduct of Parties
EAS	East Asia Summit
GMS-EC	Greater Mekong Sub-Region Economic Cooperation
GVC	Global Value Chain
HADR	Humanitarian Aid and Disaster Relief
HFZ	Hainan Fishing Zone
IMT-GT	Indonesia-Malaysia-Thailand Growth Triangle
IOR	Indian Ocean Rim
IPEC	Indo-Pacific Economic Corridor
LEP	Look East Policy
MSR	21 st Century Maritime Silk Road
OBOR	One Belt, One Road
PQI	Partnership for Quality Infrastructure
RCEP	Regional Comprehensive Economic Partnership
SAARC	South Asian Association for Regional Cooperation
SASEC	South Asia Sub-regional Economic Cooperation
SCO	Shanghai Cooperation Organization
SREB	Silk Road Economic Belt
THEC	Trans-Himalayan Economic Corridor
TPP	Trans-Pacific Partnership
UN ECAFE	United Nations Economic Commission for Asia and the Far East
UN ESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNCLOS	United Nations Convention on the Law of the Seas

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– Introduction –

EMERGING TRANS-REGIONAL CORRIDORS: Perspectives from South and Southeast Asia

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K. YHOME AND RAJEEV RANJAN CHATURVEDY
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Asia's rise on the global economic map has necessitated greater interconnection within, and with, the outside world. This development of interconnection is taking place between nations as well as across regions and sub-regions in Asia. The concept 'economic corridor' is used to explain this phenomenon. Economic corridors link economic agents within a country or across regions by providing connection between economic nodes or hubs where economic resources and actors are concentrated.¹ Economic corridors are seen as a "catalyst for regional integration" and a "driver for inclusive growth" by bringing in lagging regions into the growth process. They also provide "spatial focus" for regional cooperation initiatives by facilitating priorities of regional projects as well as access to global production chains.² The basic

emphasis that lies in the creation of economic corridors is to ensure that within a contiguous area, there is potential to attract investments and generate economic activity.³

Much of the emphasis in this form of economic activity is based on enhancing industrial development in a region where the potential exists but is underutilised. One of the important prerequisites for the development of economic corridors is the need to strategise and integrate infrastructural development within particular areas, and then to connect these areas to adjacent ones. Transportation systems which link the regions along such corridors are capable of connecting and integrating the processes of infrastructural development to key sectors such as trade, investments, and other economic

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- 1 Hans-Peter Brunner, "What is Economic Corridors Development and What Can it Achieve in Asia's Sub-regions," ADB Working Paper Series on Regional Economic Integration 117, 2013, 1, <http://www.adb.org/sites/default/files/publication/100110/reiwp-117-economic-corridor-development.pdf>.
 - 2 Kunal Sen, "Global Production Networks and Economic Corridors: Can They be Drivers for South Asia's Growth and Regional Integration?," ADB South Asia Working Paper Series 33, 2014, 25, <http://www.adb.org/sites/default/files/publication/152708/south-asia-wp-033.pdf>.
 - 3 Pradeep Srivastava, "Regional Corridors Development in Regional Cooperation," ADB Economics Working Paper Series 258, 2011, 6-16.

agencies. While this is a positive result of such corridors, there are also some downsides that need to be factored in, which relate to issues of social displacement and social conflict. These need to be addressed primarily because regional connectivity projects often permeate peripheral areas of nation-state boundaries, which at times remain somewhat removed from mainstream processes. Another aspect that needs to be factored in is the question of large-scale environmental impact by the expansion of industry.⁴

As Asia witnesses development of several economic corridors, this volume puts together perspectives from South and Southeast Asia on trans-regional economic corridors with a focus on connecting the two regions. South and Southeast Asia together form a significant geographic zone both in continental Asia and maritime Asia, and link the Indian Ocean with the Pacific Ocean.

As Asia witnesses development of several economic corridors, this volume puts together perspectives from South and Southeast Asia on trans-regional economic corridors with a focus on connecting the two regions. An obvious question here is: why South and Southeast Asia? There are two simple reasons. First, these papers were presented at a conference jointly organised by two think tanks—Observer

Research Foundation (India) and Institute of South Asian Studies (Singapore)—representing South and Southeast Asia, respectively.⁵ It was considered imperative that the two regions look at how they would be affected by the various emerging economic corridors. The second, more compelling, reason is that South and Southeast Asia together form a significant geographic zone both in continental Asia and maritime Asia, and link the Indian Ocean with the Pacific Ocean. No trans-regional economic corridor in the Indo-Pacific region is conceivable without linking South and Southeast Asia. Furthermore, the two regions also act as a bridge linking inner land-locked Asia to the open seas of the Indian and Pacific Oceans.

The volume looks at four specific proposed and/or planned projects of trans-regional economic corridors connecting South Asia and Southeast Asia, and through them to other regions. The proposed Indo-Pacific Economic Corridor will connect the Indian and the Pacific Oceans through South and Southeast Asian

littorals. China's Maritime Silk Road initiative plans to link East Asia to Africa and Europe through South and Southeast Asia. The four-nation Bangladesh, China, India and Myanmar Economic Corridor plans to connect China's southwest region to India's eastern region through Bangladesh and Myanmar. Lastly, the Trans-Himalayan Economic Corridor will link South and Southeast Asia to Central Asia

4 Ibid.

5 The conference under the theme "Emerging Trans-Regional Corridors: South and Southeast Asia" with participation from South and Southeast Asia was held on December 7, 2015 in Kolkata.

through Nepal. While economic corridors are of course judged on their economic merit, there are also strategic and security issues associated with these corridors, as is evident from the papers in this volume.

The first two papers address some broad ideas and developments in connecting South Asia and Southeast Asia, and set the stage for discussing various elements and dimensions further on. Tariq Karim provides a South Asian perspective by focusing the discussion sharply on the domestic and bilateral context of South Asia. As Karim argues, the Bangladesh, Bhutan, India and Nepal Motor Vehicles Agreement was, to a large extent, a result of improving political relations between New Delhi and Dhaka. The key idea here is that once two countries establish connectivity—whether it is road, rail, air, river, energy, IT—it can then be expanded to sub-regional and regional levels. This can be achieved if political leaderships realise that cooperation is in their larger national interests. He also argues that there is a need to rethink connectivity corridors by taking into account the diversity of terrain in different regions. He asserts that an “organic approach” should be adopted and suggests “multimodality of transport rather than uniformity,” stressing the need to link national waterways of the Ganges basin and the eastern Himalayan countries.

Sreeradha Datta discusses connectivity between South and Southeast Asia from the perspective of seeing India as the bridge between the two regions. The paper asserts that India’s central location in South Asia, with long land and maritime boundaries with Southeast Asia nations, makes it a natural bridge. Though enjoying an advantageous geographical position, India is often handicapped by various challenges that include security and poor infrastructure in its

Northeastern region that shares a land boundary with Myanmar, and ineffective execution of connectivity projects. Datta also points out the challenge of terrain in India’s Northeast for building road and rail lines. She suggests that, as India pushes for connectivity through continental routes, it is important that maritime links with Southeast Asia are further strengthened as there is huge scope to improve and expand maritime connectivity.

The next four papers focus on various trans-regional connectivity corridors in and around South and Southeast Asia that are at different stages of development—from the ideational stage to works in progress. Shankari Sundararaman addresses the key factors responsible for the emergence of the concept of Indo-Pacific Economic Corridor (IPEC) and highlights the opportunities and challenges in translating the vision into reality. Sundararaman argues that the origins of the IPEC lie in the growing recognition that the Indian and Pacific Oceans can no longer be seen as two separate regions but instead, as “one single maritime entity.” The paper further asserts that the IPEC is a vision rooted in the US ‘rebalance’ and ‘pivot to Asia’ strategy to intensify its role in the wider Asia-Pacific region. In the context of South and Southeast Asia, Sundararaman points out that the objective of the United States of linking Indian and Pacific Oceans opens up the possibility of further connecting the economies of these two regions.

In his paper on the Chinese proposal for the development of a 21st century Maritime Silk Road (MSR) initiative, Rajeev Ranjan Chaturvedy examines the rationale behind the proposal, and identifies the strengths and challenges of the MSR proposal. Chaturvedy argues that the Chinese MSR initiative manifests many

elements of a 'grand strategy' of a rising power—a masterstroke that aims to transform China's domestic challenges of production overcapacity and the slowing down of economy, as well as creating a favourable international environment conducive to China's economic development. The paper asserts that China's economic outreach through the MSR provides huge opportunities for South and Southeast Asia, as it complements various connectivity initiatives both within and between the two regions. He concludes with a word of caution and observes that the onus lies with China in explaining the "how and what" of the MSR to gain confidence of nations in South and Southeast Asia.

The paper on Bangladesh-China-India-Myanmar Economic Corridor (BCIM-EC) by K. Yhome explores the evolution of the sub-regional initiative and assesses its future prospects. Examining the problems and challenges of the BCIM-EC, Yhome asserts that as the BCIM initiative makes progress there are new issues and dilemmas confronting the sub-regional forum. He points out that there is still no clarity on what approach/idea may form the basis of the BCIM initiative—regionalism or sub-regionalism, "economic driven" or "people-centric," or centralisation / decentralisation. Different views on how to take the BCIM initiative forward, and the geo-strategic issues that create hurdles for realisation of the initiative, are discussed. The paper concludes with a few suggestions on areas the sub-regional forum could consider for increased cooperation, keeping in mind ground realities.

Madhukar S.J.B. Rana examines the idea of a Trans-Himalayan Economic Corridor (THEC) centred on Nepal. The paper suggests that as China revives the old Silk Roads and develops the initiative to reconnect China's Yunnan with

India through the BCIM-EC, the extension of the corridor to Nepal will complete the full revival of the ancient Southern Silk Road that once connected Tibet, Nepal, India and Yunnan. The paper argues that given its geographical location Nepal can "act as a Himalayan land-bridge" between Central, South and Southeast Asia, and emphasises rivers as the bedrock of sub-regional cooperation. He also discusses interesting ideas such as 'green mission,' 'total connectivity' and 'trilateralism' for sub-regional and trans-regional cooperation.

The next three papers discuss the economic and security implications of the emerging trans-regional economic corridors with a particular focus on the MSR. Amitendu Palit addresses the economic implications of the MSR on regional trade and specifically the challenges India faces in fully integrating with the MSR. Palit argues that variations in economic conditions and capacities among the MSR-affected countries will mean "differentiated abilities" to exploit the benefits of the MSR. This may limit the benefits of the MSR and produce mixed results. The paper also brings to focus the challenges of Indian ports and suggests that unless India develops its own infrastructure capabilities with a long-term objective of developing a trans-shipment hub, it will remain uncompetitive and unable to take advantage of the emerging economic corridors.

Darshana M. Baruah examines the strategic implications of the MSR from an Indian perspective and within the context of the evolving regional geopolitical dynamics marked by growing competition and rivalry. Baruah argues that the MSR would obviously contribute to regional connectivity and boost regional integration in Asia, but the strategic consequences of the initiative on countries like India cannot be overlooked. The paper also addresses the

question of how India may respond to the MSR by suggesting that if the evolving geopolitical dynamics have created strategic challenges for Delhi in the form of China's MSR, they have also provided more strategic options such as Japan and the United States. India needs to take full advantage of developing its infrastructure with its partners and friends.

Martin A. Sebastian provides a Southeast Asian perspective on the MSR by examining the evolving security and economic relations between China and member nations of the Association of Southeast Asian Nations

(ASEAN). Sebastian asserts that the MSR is China's "charm offensive" to allay fears and mend its ties with Southeast Asian nations against the backdrop of rising tensions caused by the South China Sea dispute. The paper observes that the Chinese would like to achieve two goals through the MSR—safeguarding the sea lanes and access to resources. China's growing regional clout is pushing the ASEAN nations towards the United States in order to balance a rising China. The complex security ties between China and ASEAN will cast shadows over the MSR.



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**LINKING SOUTH
AND SOUTHEAST
ASIA**

CONNECTING SOUTH ASIA WITH SOUTHEAST ASIA: A Reality Check

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TARIQ A. KARIM
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The Rationale

Southeast Asia and East Asia are already well-known economic success stories. Countries in these regions adopted an outward-looking strategy with trade-oriented growth, and signalled to potential investors their openness to encouraging foreign direct investment (FDI) flowing in from developed countries within Asia and elsewhere.

The South Asia region is a relative latecomer to dynamic regional growth that was perceived largely having been impeded by inadequate/very poor infrastructure, high levels of regulations and trade barriers. Linking up South and Southeast Asia has figured in the political thinking of leadership in both regions, but somehow the conditions until recently were not conducive to embarking on such a venture. The post-colonial isolationist attitude of Myanmar was a big impediment to it taking advantage of its naturally configured geostrategic bridge between South and Southeast Asia. Developments in Myanmar after it joined the Association of Southeast Asian

Nations (ASEAN) translated into economic reforms that gradually eased the restrictions and selectively opened its economic landscapes. The 2015 elections in that country signal the beginnings of a political transformation, and now offer renewed hope of facilitating linkages between the two regions.

However, conditions are not equally conducive at the moment for South Asia's westward linking with Iran and Central Asia.

A Fractured Saga

Trade and connectivity are handmaidens to each other, anywhere. However, in the South Asian region, land and rail connectivity have remained hostage to the negative post-Partition political syndrome. Although road and rail corridors had long been identified by the UN ECAFE/ESCAP decades ago in its Trans-Asian Highway and Railway scheme presented to member governments concerned, progress remained excruciatingly slow—and painful, particularly



Map I: South and Southeast Asia¹

within the South Asian Association for Regional Cooperation (SAARC) region. Within the SAARC framework as well, while senior officials, after many years of hard and often fruitless consultations and negotiations, finally managed to cobble together a consensus draft regional Motor Vehicles Agreement (MVA) in 2014, their result did not pass political muster from some, and efforts to get an all-SAARC endorsement of the SAARC MVA at the Kathmandu Summit in November 2014 was stonewalled by Pakistan. Following this disappointment, some of the SAARC countries, namely Bangladesh, Bhutan, India and Nepal (BBIN) in the eastern sub-region decided that their economic development aspirations that required increased physical connectivity across borders to boost trade, could not be allowed to be held hostage by some and decided to try and get a framework agreement in place at the sub-regional level. Senior officials from the four countries met in January 2015 and put final touches to a draft MVA for the BBIN sub-region (essentially along lines of the draft

SAARC MVA that had been aborted earlier at the summit) and declared that others in the SAARC region (or beyond) could join as and when they were ready. On 15 June 2015, at a ministerial meeting convened in Thimphu by Bhutan, the ministers from the four concerned countries signed the BBIN MVA. Trial runs for passenger and cargo vehicles commenced in November, and Standard Operating Procedures were tested and completed by end-December 2015. It allows the four signatory countries to move forward with implementation of land transport facilitation measures amongst themselves, exchanging traffic rights and easing greatly the rites of passage at border crossings of passenger and cargo vehicles, thus promoting increased people-to-people contact, trade and economic exchanges between the four countries. The framework document signed is, *ab initio*, of a bilateral nature in practice, on the basis of reciprocity. For every vehicle one country allows another co-signatory to enter its territory, the agreement makes it incumbent

1 Nations Online Project, http://www.nationsonline.org/oneworld/map_of_southeast_asia.htm.

upon the recipient country to reciprocate in equal measure. Passengers will still be subject to prevailing immigration requirements of countries and goods are subject to payment of existing taxes and levies. Nevertheless, this is a very positive and historic development within the region, and paves the way for progressive easing of restrictions on ease of movement of vehicles, goods and peoples across the borders of the four countries. The BBIN MVA will become fully operational as soon as it is ratified by the respective parliaments of the signatory states.

BIMSTEC and BBIN

India's earlier Look East policy, now metamorphosed by current Prime Minister Modi's government into the Act East initiative, may be viewed as mirroring ASEAN's "Look West" aspirations, and is aimed at linking up with the latter and beyond to East Asia. The BBIN sub-grouping of SAARC and its recent efforts to put in place and operationalise enhanced connectivity amongst them is an essential first step towards actually operationalising the Act East initiative. The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) that was formed in the late nineties, and includes the BBIN countries as well as Sri Lanka, Myanmar and Thailand, could also well embrace the ongoing BBIN initiatives and play a bridging role between the SAARC and ASEAN regions. Progression along this pathway has been slow but organically enlarging. The BBIN achievement could not have happened without the upswing in Bangladesh-India relations since 2010 that put in place the critical stepping-stone for forging forward. In other words, it first required Bangladesh and India getting their relations right before meaningful connectivity aspirations between and beyond

them could be envisaged or embarked upon.

Road and Rail Corridors

ESCAP, ADB and other multilateral donors have assisted the SAARC countries over many years in identifying a number of road and rail corridors to facilitate trade and movement of people. The BBIN MVA will (or should effectively) enable these four countries to now work together with a sense of purpose for operationalising, in stages, the following identified road corridors, first among them, and then extending beyond them to the east and linking with Myanmar (and thence with the ASEAN corridors):

- **SAARC Corridor 4:** Kathmandu (NP)-Kakarbitta (NP)-Panitanki (IN)-Phulbari (IN)- Banglabandha (BD)-Mongla-Chittagong (BD)
- **SAARC Corridor 8:** Thimphu (BH)-Phuentsoling (BH)-Jaigon (IN)-Changrabandha (IN)-Burimari (BD)-Mongla/Chittagong (BD)
- **Asian Highway 2:** Northeast India-Myanmar
- **Kaladan Multimodal Transit Transport Project:** Mizoram (IN)-Sittwe (Myanmar)

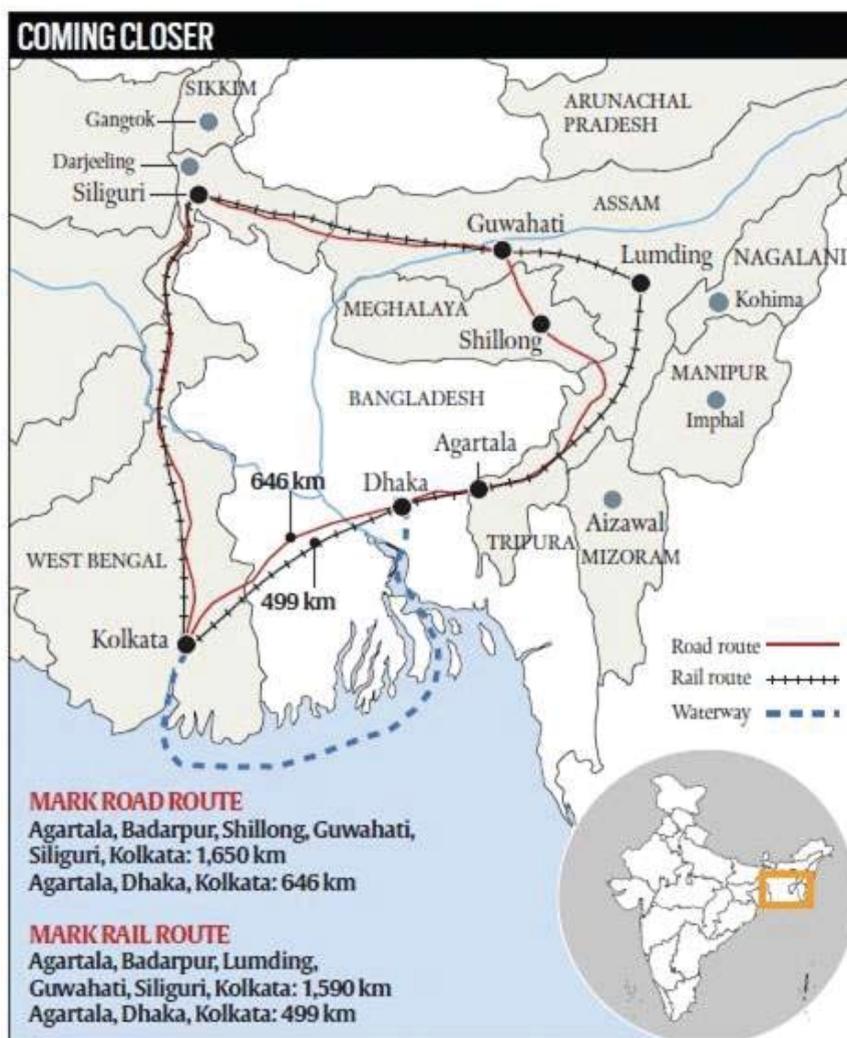
Additionally, Bangladesh and India are collaborating on linking up existing national highways at Dalu (Meghalaya, India)-Nakugaon (Mymensingh, Bangladesh), thus establishing a North-South corridor of great importance for Bhutan and the Indian Northeast states of Meghalaya and Assam in India. In addition, Bhutan has been increasingly using the integrated check post at Dawki-Tamabil for the last few years, instead of the corridor earlier designated (Corridor 8) because of operational difficulties and delays. Bangladesh and India

have also worked together to upgrade earlier minimal facilities at Bhomra, further southeast of Benapole-Petrapole in a bid to augment the capacity of the latter, plagued for long by technical and handling capacity glitches.

The operationalisation of the BBIN MVA will also exponentially augment the ability of peoples of the four states traveling to each other's

countries in personal or commercial transport vehicles. Prior to this development, passenger bus services were as follows:

- Kolkata-Dhaka-Agartala (operational)
- Dhaka-Sylhet-Shillong-Guwahati (operational)
- Dhaka-Kathmandu (announced)
- Dhaka-Thimphu (announced)



Map II: Road and Rail Routes between India and Bangladesh²

2 “Through Bangladesh, a development shortcut,” *The Indian Express*, November 30, 2015, <http://indianexpress.com/article/explained/through-bangla-a-developpment-shortcut-for-notheast/>.

South Asia Rail Corridors

The BBIN MVA takes the long nurtured dream of road connectivity a significant step closer to reality. The translation of contemplated railway corridors from concept to reality, however, is incremental. Of the rail corridors, existing or proposed, for the SAARC region, the following are worth mentioning:

Western sector

- Wagah-Atari (linking India and Pakistan—notably, this particular corridor has never been disrupted in over six decades, four wars notwithstanding, but this is essentially a point-to-point connection, and trains from either country do not foray further west or east beyond these two stations into each other’s railway networks).

Eastern sector

- Dhaka-Chittagong (internal to Bangladesh)
- Dhaka- Darsana-Khulna (internal to Bangladesh)
- Dhaka-Kolkata (operational between India and Bangladesh, point-to-point as at Wagah-Atari, for several years now, but needs to be made more passenger-friendly in terms of customs and immigration procedures)
- Khulna-Kolkata (under active consideration between Bangladesh and India)
- Agartala-Akhaura (work in progress, with Indian assistance; will link Bangladesh with Tripura in India)
- Agartala-Ramu (requested by Agartala state, under consideration, will require a bridge over Feni River which India is willing to build)

Notably, if the points between the Kolkata and Agartala route are linked, either preferably through trains between both countries or through transferring passengers with national services at destination points, the current travel distance between these two cities will be shortened from 1590 kilometres to 499 kilometres.

Following the decisions announced by the Prime Ministers of Bangladesh and India in their joint communiqué at the conclusion of Sheikh Hasina’s game-changing visit to India in January 2010, the two sides have cooperated on upgrading, synchronising and operationalising existing facilities between Rohanpur-Singabad (facilitating transit to Nepal) and at Radhikapur-Birol (that will help both Nepal and Bhutan).

Additionally, a South Asia-Southeast Asia rail corridor of 4,430 kilometres—the Kolkata-Ho Chi Minh City corridor—is also under consideration, but remains mainly on the drawing board at present. However, daunting impediments remain to realising this dream, primarily the significantly higher costs with more extensive gaps (2,493 kilometres of missing links) that require to be connected over somewhat difficult terrain in places, and incompatibilities of railway track gauges between different national grids. The challenges facing the entire Trans-Asian Railway project are even more daunting, with 10,500 kilometres of missing links. Trans-shipment costs between regions are also costly.

Considering the diversity of terrain in different regions and locations, perhaps the best choice would be to adopt an organic approach, and configure the corridors and linkages in a manner that best appear to be in consonance with geomorphology of different terrain. In the Northeast of India and in parts of Bangladesh,

for example, the foothills of the Himalayas are composed of relatively soft clay-like soil, and roads are very expensive and extremely difficult to maintain throughout the year. Unplanned construction of roads across hilly terrain, cutting hills and leaving the shaved sides naked without buttressing them, in combination with constant vibrations from heavy road traffic and increasingly frequent cloudbursts make many of the new arterial roads unusable for months. Extending existing railway links is also beset by multiple challenges, particularly where large and extensive water bodies dominate much of the landscape. Northeast India, Bangladesh and West Bengal, prior to the Partition (and even until the mid-sixties) were always water-linked

Unplanned construction of roads across hilly terrain... in combination with constant vibrations from heavy road traffic and increasingly frequent cloudbursts make many of the new arterial roads unusable for months. We need to rethink connectivity corridors to be in sync with the diversity of the terrain that supports multimodality of transport rather than uniformity.

perennially. The rivers systems had constituted the arterial system, with the railways akin to the venous system, while the roads, large and small, whether primary, secondary or tertiary, were not unlike the human body's circulatory system. We need to rethink connectivity corridors to be in sync with the diversity of the terrain that supports multimodality of transport rather than uniformity.

Additional Augmenting Corridors

India and Bangladesh, and even Bhutan, are now keen to revive national waterways to augment national highways in consonance with geo-morphology. Where national waterways can be linked (and the Eastern Himalayan Rivers, the Ganges and the Brahmaputra essentially are trans-national rivers), they can easily be transformed into sub-regional or regional waterways. Conceptually, one could then conceive of the Lower Brahmaputra Basin network linking Bhutan, Assam and Meghalaya (India) and Bangladesh, while the Ganges Basin network could act as water corridor connecting Nepal, India and Bangladesh.

Bangladesh and India have recently entered into a direct Maritime Shipping Agreement and also signed a Coastal Shipping Agreement. These could be expanded to embrace BIMSTEC countries, with Sri Lanka, Myanmar and Thailand also joining, thereby adding another dimension to the transport corridors between South Asia and Southeast Asia.

Air corridors within South Asia and between South and Southeast Asia are still very much inadequate. In the eastern sub-region of SAARC, Paro in Bhutan, Kathmandu in Nepal, only Kolkata and Guwahati in West Bengal and Northeast India, and Dhaka, Chittagong and Sylhet in Bangladesh are designated international airports. Bangladesh has offered to develop Saidpur or Ishwardi as possible gateways for Bhutan and Nepal. Airlines in the region need to seriously consider and explore a sub-regional "hub and

spoke” concept. A major impediment to this is the narrow and extremely conservative approach of airlines—that there is not sufficient passenger traffic to justify extra connections. This begs the question that, if there are no easily available connections where will the traffic come from?

Other Corridors

Energy corridor

Ready and adequate availability of energy is the key to development. Without fuel, the engine of the state cannot run far. All South Asian countries are deficient in power supply, whether for domestic, industrial or agricultural use, and still very heavily dependent on thermal power from using coal and hydrocarbons. This, despite there being nascent capacity to generate anywhere between 70,000 to 100,000 megawatts of hydro power in Northeast India (in addition to large capacity for generating thermal power as well), almost equal capacity of hydropower generation in Nepal, and 27000 megawatts in Bhutan. The latent hydropower in the Northeast is largely hostage to lack of incentives for investment, since evacuation of power from that region to the Indian national grid across Indian territory is extremely limited (15,000 megawatts at most), unless Bangladesh were to agree to offer itself as a conduit—which it has now offered, in return for power for itself. A petroleum product pipeline from Numaligarh refinery to Parbatipur is under active consideration, as is the evacuation of power from the Northeast to Muzzafarnagar via Bangladesh.

Indian and Bangladeshi power grids are now being linked in the eastern, western and northern sectors of Bangladesh that could open up vast

new vistas of cooperation. The power grids of Bhutan and India are also linked, as are those of Nepal with India. These three grids could eventually be triangulated to form a sub-regional grid. Eventually, an interlinking sub-regional grid of symbiotic interdependence would emerge, that would guarantee long-term energy for the sub-region and beyond, and fuel the engines of growth and development for the peoples of this sub-region. Conceptually, with the still-untapped reservoirs of power in Myanmar, the energy corridors could link the two regions dynamically in helping each other fuel their respective economies even more deeply. Were the three-nation gas pipeline project between Myanmar, Bangladesh and India, aborted in the mid-nineties, to be revived, the concept of energy corridors between South Asia and Southeast Asia would acquire dynamic new substance. The main challenge to converting this concept into reality for the political leaderships is to recognise that the need to cooperate is in their larger national interests to begin with, that would then enlarge and converge into shared trans-regional prosperity.

IT corridor

In today’s age where information technology dominates the power of acquiring new knowledge and research, but where bandwidth shortage can be a real impediment to vaulting national ambitions, the idea of also having an IT corridor for sharing bandwidth has now come of age. Bangladesh happens to possess more bandwidth than it can domestically consume now, by virtue of its sea cable link acquired from Singapore. So it is exporting some of it to India’s Northeast, with the IT gateway in Agartala connecting Tripura to Cox’s Bazaar through Akhaura. In a sense, an IT corridor has already

been established by this deal between the two regions. One foresees further steady expansion in this field as well.

Major Challenges

While waxing eloquent on all these ambitious trans-regional linkages soaring with visionary ambitions, one must at the same time keep one's feet on the ground.

We must keep in mind that financing such cross-regional infrastructure projects always tends to pose major challenges, primarily the risk-prone nature of such projects (subject to a complex mix of problems), mostly stemming from politics, whether domestic or regional, being at cross-purposes. There is therefore historically a tendency of great wariness, resulting in financing vehicles being bearish rather than bullish. Public sector financing also tends to be increasingly constrained due to fiscal challenges facing national economies. Commercial financing has also been constrained by successive global financial crises. In such a shaky situation, perhaps the best option would be to take recourse to bond markets, and encourage more public-private partnerships.

Having a Large Vision for the Future

Improving trade and transport facilitation between the two regions would undoubtedly

make trading between these regions easier and more stable, while also lowering transaction costs. This, however, first needs to be done within the South Asian countries themselves, where the infrastructure currently in place is abysmally inadequate and of poor quality when compared with what exists in the Southeast Asian region. If this daunting challenge is addressed, this will create more opportunities for successful cross-regional linkages. Peoples in both regions should ideally recognise the potential gains from such cross-border cooperative linkages as being significantly large for both regions and push for such cooperative projects wholeheartedly.

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INDIA:

The Bridge Linking South and Southeast Asia

SREERADHA DATTA

In the last decade Asia's growth trajectory has perceptibly shifted the global balance away from the western economies towards the Asian economies. Several significant studies have predicted the rise of Asia, and today it is recognised as an important player and an economic powerhouse. With a group of large, medium and small nations increasingly able to generate noteworthy development and attract international investment, the Southeast Asian region has emerged as a significant economic group on the Asian map. But these expanding economies have not been confined to their borders; inevitably the contiguous South Asian region was part of the phenomena too. South Asia in the meantime was recording its own growth graph, and realised the rich potential offered by its neighbouring region.

This paper starts by briefly tracing the state of regionalism in South Asia and Southeast Asia. The next section examines the extent of physical connectivity that exists in India vis-à-vis South and Southeast Asia. It then goes on to highlight India's position with regard to facilitating

connectivity projects between the two regions, and concludes with the challenges that India will need to overcome in order to transform itself into a dynamic bridgehead.

South and Southeast Asia Regional Economic Cooperation

The adjacent regions of South Asia and Southeast Asia have had deep historical links since ancient times, with established routes for the movement of goods, services and people. The trans-boundary connections had facilitated intersections of ideas, arts and sciences. Apart from commodities along the spice, silk and tea routes, religious influences were also carried across this region. Indeed, both overland and maritime routes were used with varied efficacy over the past centuries. However, with the passage of time and with the establishment of European colonialism, cross-boundary linkages between the two regions turned tenuous. Interdependency between South Asia and Southeast Asia decreased and new alignments

came about, diluting cross-border and regional linkages.

Developments in the 20th century led to dramatic changes on a global scale. In the aftermath of the Second World War, the deeply affected international community became sharply polarised. Even within Southeast Asia, the Cold War divided the region along the two power blocs of the post-war period. It was only in 1967 that the five states of the region (Indonesia, Malaysia, the Philippines, Singapore and Thailand) got together to form a regional forum, the Association of Southeast Asian Nations (ASEAN), which later expanded to ten members, including Brunei Darussalam in the 1980s and Laos, Cambodia, Myanmar and Vietnam in the 1990s. These Southeast Asian states began to seek a joint platform for common issues, and regionalism began to germinate. The post-colonial period was critical for the newly emerging South Asian states too. Nation-building tasks and bilateral endeavours became focal issues for them. Regionalism and inter-region cooperation was a distant concern for these newly independent states. Arguably, regional developments in South Asia, unlike in other regions, caused the threat perception emanating from within the region to dismiss the idea of a common platform. Indeed, the earlier physical connectivity that the region had enjoyed was broken off with the partition of the Indian sub-continent and subsequent breakup of Pakistan. The South Asian regional forum, i.e. South Asian Association for Regional Cooperation (SAARC), proposed by Bangladesh, was finally established in 1985. However, while Southeast Asian countries have increasingly realised the efficacy of regional approaches to accomplish

their development goals, SAARC's achievement has been limited. Its intra-regional trade is far below the expected levels, its infrastructure development remains low and intra-regional connectivity is under-developed. As succinctly summarised in a recent Asia Foundation report:

It is currently one of the least integrated regions in the world in terms of trade, infrastructure, water, and energy cooperation. Some progress has been made through regional arrangements such as the South Asian Association for Regional Cooperation (SAARC), the agreement on the South Asian Free Trade Area (SAFTA), and several bilateral agreements, but trade connectivity is below what is necessary to unlock the region's potential for prosperity...¹

Given the political differences within South Asia, the common platform of SAARC could never be fully optimised for regional economic growth and development. The lack of political consensus ensured that the economies remain disconnected. Unavailability of cross-border connectivity services made intra-regional cooperation almost stagnant. At the same time, given the spurt in economic cooperative initiatives that were being undertaken by regions across the globe, South Asia did not remain immune to the momentum, and in recent years there has been an improvement in developing cross-border overland infrastructure. Limited bilateral agreements have taken place, but several connectivity projects at the sub-regional levels are yet to become operational. In fact while the significant Motor Vehicles Agreement (MVA) has been signed amongst the four-nation sub-

¹ "Intra-Regional Trade in South Asia," The Asia Foundation, 2016, <http://asiafoundation.org/resources/pdfs/IndiaRegionalTrade.pdf>.

regional group comprising Bangladesh, Bhutan, India and Nepal (BBIN), it has not yet moved beyond the trial run. In contrast, the success of the ASEAN Economic Community (AEC), which is a single regional market for goods and services, made Southeast Asia increasingly attractive. The AEC, the third largest economy in the world, represents a market worth \$2.6 trillion.

There are clear imperatives for South and Southeast Asia to engage closely:

With a combined population of more than 1.7 billion in ASEAN and South Asia, integrating the two regions can have profound implications for Asia as well as the world as a whole. The countries of these two regions are very diverse in all aspects. In terms of demographic size, countries vary from highly populous, such as India (nearly 1.2 billion in 2009) and Indonesia (nearly 238 million) to very small ones such as the Maldives (0.31 million) and Brunei Darussalam (0.39 million)... The different stages of development of these countries are also reflected in their performances in trade in goods and services, FDI inflows and outflows as well as annual consumer price inflation rates. This diversity could be a great opportunity for growth and development if proper cooperation and integration can be achieved among these economies.²

India's Look East Policy, which was launched in the early 1990s, deepened India's ties with Southeast Asia, especially ASEAN. India became a sectoral partner of ASEAN in 1992, a dialogue

partner in 1996 and a summit level partner at Phnom Penh, Cambodia, in 2002. India's participation in several ASEAN-led institutions like ASEAN Regional Forum (ARF), East Asia Summit (EAS) and ASEAN Defence Ministers' Meeting Plus are all a reflection of this deepening of ties. India has interacted with the organisation on various issues, from economic exchange to counter-terrorism measures. Both sides have strengthened their cooperation via the ARF and the EAS. During his recent participation at the ASEAN Summit 2015, Indian Prime Minister Modi emphasised India's active participation in the ASEAN-led security dialogue. While some have argued that India has been able to engage deeply with the Southeast Asia region, its physical connectivity has been tenuous.

India—the Bridge between South Asia and Southeast Asia

Geographically, India is strategically positioned in South Asia. It is the only state to enjoy direct physical contact with all the states in the region. Its central location within the region allows it to be the bridge between South Asian economies such as Bangladesh, Pakistan and Sri Lanka, and the Southeast Asian economies. Nepal and Bhutan, the two landlocked states, can also access the eastern region through India.

Over the years there have been several sub-regional initiatives linking up the two regions. South Asia Sub-Regional Economic Cooperation (SASEC), Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), ASEAN+1 and the

2 B.N. Bhattacharya, "Prospects and Challenges of Integrating South and South East Asia," *International Journal of Development and Conflict* 4 (2014): 40-66, http://www.ijdc.org.in/uploads/1/7/5/7/17570463/article_3.pdf.

Bangladesh-China-India-Myanmar (BCIM) initiative all have India as a common factor. Not only India, but other South Asian states have also been increasing their linkages with the other region in question. Indeed, as it has been argued, “trade integration through ASEAN + India FTA and bilateral FTAs such as India-Singapore, India-Malaysia, Pakistan-Malaysia will include the service sector and eventually the agricultural sector. Free movement of goods, services, labour, knowledge and capital within ASEAN and South Asia will pave the way for an Asian common market.”³ Developing economic and connectivity linkages between South and Southeast Asia seems a natural and progressive move towards growth and prosperity. The trade linkages and connectivity between the regions can be achieved through land borders, maritime routes and air connections.

Land Connectivity through India’s Northeast

Given the course of the region’s history, borders are viewed more as barriers than windows of opportunity and possibility, and have long remained stagnant.⁴ With the maturing of the economies it was reasoned that “these economies need to remove border barriers to realize the full impact of integration.”⁵ As also highlighted in a World Bank study, for South Asia to be a leading

sub-region in global trade, it is essential for the region to reduce the cost of doing business. The issue is the cost of transport—and time is a major component of that cost.⁶ Over the last few years, bilateral agreements on cross-border connectivity have taken place but have not extended to multilateral levels. It is only recently that the idea of cross-border connectivity at a sub-regional level has been envisaged. Although India’s Look East policy was initiated in 1990s it has found greater significance in recent times and coincided perhaps with the suggestions of former US Secretary of State Hillary Clinton for India to “not just to look East, but to engage East and act East.”⁷ India’s focus towards its east has been the precursor to many of its connectivity projects. The MVA signed in 2015 will now facilitate the seamless movement of passengers and goods through the signatories’ land borders. This agreement will not only reduce transport cost but will also enable better connectivity and growth of regional trade. This agreement will be a force multiplier with the multimodal transport and transit facilities that are being discussed at various sub-regional levels simultaneously. Access to Chittagong port by Bangladesh will allow India greater connectivity and enhanced trade movement. Given the geography of the region, India’s land connectivity with Myanmar or Southeast Asia was only be possible through its Northeast region. Thus, the issue of South-Southeast land border connectivity is directly

3 Ibid.

4 Sreeradha Datta, “India Bangladesh Boundary Agreements: Follow up concerns need fair approach,” ISAS Working Paper 219, 2016, <http://www.isas.nus.edu.sg/ISAS%20Reports/ISAS%20Working%20Paper%20No.%20219%20-%20India-Bangladesh%20Land%20Boundary%20Agreement.%20Follow-up%20Concerns%20Need%20a%20Fair%20Approach.pdf>.

5 Bhattacharya, “Prospects and Challenges.”

6 Shamshad Akhtar, “Seamless Connectivity for Shared Prosperity in South Asia” (speech delivered at the Asian Institute of Transport Development, New Delhi, India, February 3, 2015), <http://www.unescap.org/speeches/seamless-connectivity-shared-prosperity-south-asia-and-beyond>.

7 Sangeetha Kandavel and Joe A Scaria, “Look East, and act East, too: US Secretary of State Hillary Clinton to India,” *The Economic Times*, July 20, 2011, http://articles.economictimes.indiatimes.com/2011-07-20/news/29794815_1_state-hillary-clinton-india-asia-pacific-region.

linked to India's Northeast states with common borders with Myanmar and Bangladesh. Indeed, several of the connectivity projects of the region will also connect with the Asian Highway and the various Asian Development Bank projects that are underway. However, the physical connectivity status between South and Southeast Asia needs further examination.

From Bilateral to Multilateral Connectivity

The changing political landscape in both of India's eastern neighbours has led to positive bilateral relations, and also opened up the scope of increasing the connectivity linkages to include sub-regional levels. Thus, the possibility of a similar agreement amongst India, Myanmar and Thailand is now being discussed. The 1,360-kilometre-long road Moreh-Mae Sot will pass through Mandalay and link Northeast India and Southeast Asia. This route could then easily connect with the Kaladan Multimodal Transit Transport Project that will link Kolkata port with landlocked Mizoram via Myanmar into economic highways with special economic zones.

None of the three sub-regional initiatives undertaken to enhance road connectivity between India and the Southeast Asian region, namely BCIM and BIMSTEC, have as yet shown tangible progress. The BCIM forum for regional economic cooperation was drawn up to boost trade and economic activities in the sub-region stretching from southwest China to eastern India to Myanmar, India's Northeast and Bangladesh. The main artery of the 2,800-kilometres K-2-K

(Kolkata to Kunming) corridor is nearly ready. A stretch of less than 200 kilometres from Kalewa to Monywa in Myanmar needs to be upgraded to an all-weather road, apart from a short segment in India's Northeast region that needs upgrading. Aside from the infrastructural issues, this route poses political and security problems as it passes through an insurgency-plagued area.⁸ Also, as pointed out, India was keen to draw Mizoram into the framework through the Kaladan Multimodal Transit Transport Project. Under this plan, Mizoram would be connected with Myanmar's port of Sittwe through the Kaladan River, and the passage would provide all the landlocked north-eastern states access to the sea.⁹ Indeed the Rhi-Tiddim (80.178 kilometres) and Rhi-Falam (151.5 kilometres) roads connecting Mizoram with Myanmar's bordering Chin state and onto Mandalay are other identified potential routes to boost bilateral trade. The double lane hilly road stretch from Aizawl to Zokhawthar is in better condition, although trade through this route is extremely limited. Although the Zokhawthar Land Customs Station has been operationalised, the weighbridge poses a challenge: head loads are the only means for goods to move across. However, if the route from Aizawl to Agartala is improved, and transit trade through Bangladesh is realised, this will become the shortest land route connecting Myanmar and Kolkata. For the Kaladan Multimodal Project to be fully effective, connectivity from Sittwe Port, Myanmar, up to Silchar is imperative. Indeed, Manipur's connectivity route with Myanmar through the Moreh-Tamu-Kalewa-Kalemyo road is fully operational. However, problems of maintenance continue to plague the route and this, coupled with security issues, has slowed down traffic considerably. The Avankhu land custom station

8 Atul Aneja, "China, India fast-track BCIM economic corridor project," *The Hindu*, June 26, 2015.

9 *Ibid.*

in Phek district of Nagaland has been identified as a border trading point with Myanmar, but there has been no progress on that front.

India in the meantime had decided to improve 57 kilometres of the old WWII Stilwell road from Lekhapani in Assam to Pangsau Pass on the Indo-Myanmar borders, although the roads on the Myanmar side, too, would need to be restored to make this particular road network operational. In keeping with India's reformulated Act East Policy, Union Commerce Minister Nirmala Sitharaman stated that "the Government of India has accorded high priority to economic

There certainly exists a buzz at the moment about the imperative to improve physical connectivity, but India's Northeast throws up several challenges to the optimisation of its potential at the present level of development.

engagements with the four countries, and is working towards establishing seamless physical connectivity with the region."¹⁰ However, the proposal to connect with the four Mekong countries, namely Myanmar, Laos, Cambodia and Vietnam, which will invariably involve India's Northeast region, also poses several challenges for quick implementation.

There certainly exists a buzz at the moment about the imperative to improve physical connectivity, but India's Northeast throws up several challenges to the optimisation of its potential

at the present level of development. Clearly, the two large issues that remain unresolved—of terrain and security—will prevent any large proposal from being fully implemented. The undulating, hard-to-traverse terrain makes it time consuming and difficult to build adequate infrastructure to support international trade. Maintenance is equally daunting in the face of harsh climatic conditions, and is often the cause of movement delay and loss of revenue. Even where infrastructure is in place, trading points are under-utilised due to various domestic compulsions and unrealistic policies. At present the basket of goods that are exported to Southeast

Asia has very little contribution from the Northeast region. The type of goods that are allowed across the border is limited and non-reflective of demand on the ground. This region will initially be a transit point before it begins to enjoy the spinoffs of trade and transport movement, and becomes closely integrated

through the entire cross-border process.

The intricacies of centre-state political dialogue in India have not been able to provide stability to the turbulent Northeastern region, which continues to pose challenges. It has been succinctly stated that "while transport connectivity is crucial for eastern South Asia, the achievement of significant developmental outcomes has been hampered because the facts have weighed less than the out-dated attitudes of decision-makers in some segments of the region."¹¹ Thus, the idea of creating a

10 Press Release, Ministry of Commerce & Industry, Government of India, December 11, 2014, <http://pib.nic.in/newsite/PrintRelease.aspx?relid=113100>.

11 Ram Upendra Das and Nitya Batra, "Fresh Perspectives needed to boost South Asian Connectivity," East Asian Forum, February 21, 2015, <http://www.eastasiaforum.org/2015/02/21/fresh-perspectives-needed-to-boost-south-asian-connectivity/>.

connectivity cobweb linking the South Asian Corridors and the Asian Highway network will need to be translated into a functional pathway before it can yield expected results of cross-border linkages.

Maritime Link

It is clear that the potential for road connectivity between South and Southeast Asia is huge. Yet it still remains in the realm of possibility at present. For the connectivity network to be complete, the wide road network needs to be linked with maritime routes to ensure seamless movement of cargo, trade and transportation. According to an RIS report, nearly 95% of India's merchandise trade by volume (70% by value) is moved by sea.

India's maritime connectivity with Southeast and East Asia, although presently limited, can be the facilitator of pan-Asian integration. The report also notes that despite having one of the largest merchant fleets in the developing world, Indian ports have a limited number of direct calls with ASEAN ports. Also, given Myanmar's direct coastline with India and Southeast Asia, developing infrastructure along the coast of Myanmar is imperative to India's engagement with the Southeast Asian region. While India is rebuilding a port at Sittwe in Myanmar under the Kaladan Multimodal Transit Transport Project, it could also explore developing the Dawei port and SEZ project in Myanmar.¹² The Indian

governmental position echoes this:

Government of India is committed to working towards a more integrated South East Asia and close-knit relations amongst the ASEAN countries. The country is also invested in enhancing connectivity across all dimensions: physical, institutional, and regional... India has maritime boundaries with many ASEAN countries. Enhancing this connectivity with the ASEAN community as well as the rest of South East Asia is a strategic priority.¹³

In fact, at its annual meeting with the ASEAN Connectivity Coordinating Committee in 2013, India had suggested setting up a Joint Working Group on Maritime Connectivity between India, Myanmar, Thailand, Cambodia and Vietnam, which would examine the need to create soft infrastructure in order to permit seamless movement of goods and passenger traffic along the ASEAN-India connectivity corridors.¹⁴ India had also initiated a study on a Mekong-India Economic Corridor. Conducted by the Economic Research Institute for ASEAN and East Asia, it was to examine the production networks in the Mekong region along the Greater Mekong Sub-region Southern Economic Corridor (Ho Chi Minh City-Phnom Penh-Bangkok) to the corridors in India (Delhi-Mumbai-Industrial Corridor and Mumbai-Bangalore-Chennai Industrial Corridor) through the Chennai-Dawei Sea link. There is an even broader potential to link trade routes from sea ports in Myanmar,

12 "ASEAN-India Maritime Connectivity Report," Research and Information System for Developing Countries, 2014, http://www.mcrg.ac.in/Logistics/Report_Final_Print_Maritime_connectivity.pdf.

13 Anil Wadhwa, Secretary (East), Ministry of External Affairs, Government of India, "India's Look East - Act East Policy: A Bridge to the Asian Neighbourhood" (quoted at International Relations Conference, Symbiosis Institute Of International Studies, Symbiosis International University, Pune, 2014).

14 National Transport Policy Development Committee, "Chapter 13: Promoting International Transport corridor between India and Southeast Asia," in National Transport Development Policy Committee Report, vol. 2, part 2, 2013, http://planningcommission.nic.in/sectors/NTDPC/volume2_p2/promoting_v2_p2.pdf

Thailand, Cambodia, Vietnam, and even Japan to ports along India's eastern seaboard.¹⁵ Connectivity through India between South and Southeast Asia will be fully effective when maritime and rail links are complete for cargo and passenger movement. At present, the railway link through India's Northeast is the weakest link between the two regions.

Railway Network

The terrain of India's Northeast is a challenge for establishing railway links. While India has one of the world's largest railway networks, the Northeastern region has limited railway links with other parts of India. Prime Minister Modi has recently flagged a large connectivity network in this region and while the Indian Railways intends to connect all state capitals in the Northeast region by March 2020, the gaps in the network are rather wide at present.¹⁶ Indeed, the recently commissioned (in March 2015) 120 kilometres-long Lumding-Silchar broad gauge line connecting Barak valley in South Assam with Tripura, Manipur and Mizoram for movement of goods is yet to be declared safe for passenger travel. Sometime in the future, this line will also link with Agartala and Tripura. More significantly, the planned 15.06-kilometres line between Agartala and Akhaura in Bangladesh connecting West Bengal with Tripura will also then provide cross-border linkages with Tripura and the entire Badarpur-Lumding-Guwahati-Siliguri route.

In order to establish a cross-border link with Myanmar, Indian Railways is surveying a possible route from Sairang to Hmawngbuchhuah on Mizoram's southern tip, bordering Myanmar's Rakhine state. Hmawngbuchhuah neighbours Zochachhuah, and the railway line under discussion will link up with the yet to be completed Kaladan Multimodal Transit Transport Project. This project has also been faced with inordinate delays and shifting deadlines.¹⁷ Unfortunately, the latest India Railway budget (February 2016) paid scant attention to improving railway connections in the Northeast.

Geographical and security issues continue to hinder infrastructural development and sustenance. For the same reasons, airport links have also been difficult to build in the region. Limited international flights are now operational from Guwahati, but most cities are not yet connected by air links.

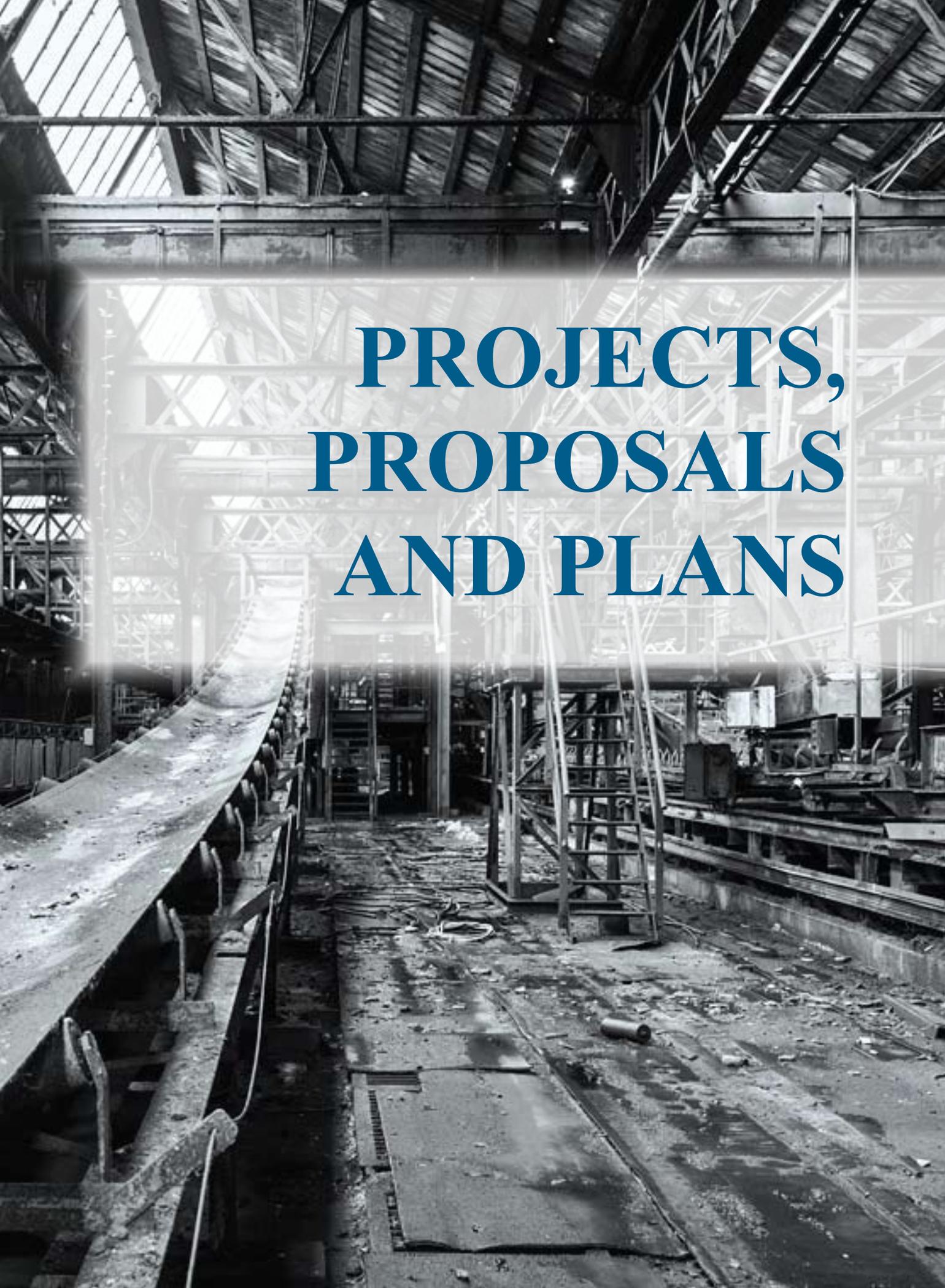
India's Northeast, although a critical connecting link between South and Southeast Asia, is clearly beleaguered with security issues, economic stagnation and poor infrastructure. While India's Look East Policy has made tremendous progress, it has bypassed the Northeastern region. The Act East policy is perhaps meant to redeem that. Plans and proposals are in place and the possibilities of building a cobweb of connectivity networks through India and its Northeast region are high. However, given India's implementation track record, how soon it can be a real bridge between South and Southeast Asia remains an open-ended question.

15 Ibid.

16 "Northeast capitals to get rail link by 2020," *The Hindu*, January 14, 2016, <http://www.thehindu.com/todays-paper/tp-national/northeast-capitals-to-get-rail-link-by-2020/article8103994.ece>.

17 Samudra Gupta Kashyap and Adam Halliday, "Massive push to railway infrastructure under way in Northeast," *The Indian Express*, July 2, 2015, <http://indianexpress.com/article/explained/the-new-northeast-expresses/#sthash.L2r69MXc>.





PROJECTS, PROPOSALS AND PLANS

INDO-PACIFIC ECONOMIC CORRIDOR: A Vision in Progress

.....
SHANKARI SUNDARARAMAN
.....

Introduction

The emergence of trans-regional economic corridors is drawing considerable attention among academia and policymakers. The potential to harness economic growth by creating these corridors is an area where India is showing interest. While looking at the progress of these corridors in the context of South and Southeast Asia, there is a growing awareness of the benefits of such economic measures, which will link regions together to promote trade and economic activity along territories that can complement the movement of goods and people, with economic development and growth along specific sectors. The focus on trans-regional economic corridors between South and Southeast Asia brings to attention the changing regional geopolitics and geo-economics within an area that is being seen as the wider Indo-Pacific. Affected by the rise of China and India

as economic powers and also influenced by the US pivot to Asia or rebalancing, which keeps the economic focus of the United States on the wider Indo-Pacific, this region is witnessing profound changes both politically and economically. With the engine of global economic growth shifting eastwards, the potential to harness the integration of economic ties across the region is becoming more crucial.¹

Among the various trans-regional economic corridors in the region, the Indo-Pacific Economic Corridor (IPEC) is still at a very nascent stage. Its conception can be traced to the US-India Strategic Dialogue of 2013, where Secretary of State John Kerry referred to the potential of the Indo-Pacific Economic Corridor to transform the prospects for development and investments, as well as for trade and transit, between the economies of South and Southeast Asia.²

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- 1 Foreign Minister Marty Natalegawa, "An Indonesian Perspective of the Indo-Pacific" (speech given at Centre for Strategic and International Studies, Washington DC, May 2013), http://csis.org/files/attachments/130516_MartyNatalegawa_Speech.pdf.
 - 2 Tridivesh Singh Maini, "Indo-Pacific Economic Corridor: Opportunities and Challenges," East Asia Research Programme, June 24, 2016, <http://earp.in/en/indo-pacific-economic-corridor-opportunities-and-challenges/>.

Origins of the IPEC

With regard to the specific case of the IPEC, its origins lie in the increasing recognition of the Indian and Pacific Oceans as one single maritime entity. The corridor is a vision that is clearly embedded in the ‘US rebalancing’ and ‘pivot to Asia’ strategy that began in late 2011/early 2012.³ One of the core objectives of the strategy has been to intensify America’s role in the wider Asia-Pacific region, with an emphasis on three critical areas—military planning, foreign policy and economic and trade policies. The core focus of the US rebalance strategy is to ensure that within the context of the wider Asia-Pacific, the United States would continue to engage and play both “a larger and long-term” role.⁴ This larger and long-term role was primarily conditioned upon three tenets—first, that international law and norms were to be respected; second, issues relating to free passage and the freedom of navigation were not to be hindered or blocked; and third, where emerging powers and their neighbours conflicted over unresolved territorial claims, the United States began to emphasise the need to approach resolution through peaceful negotiation.⁵ As part of this strategic turn towards Asia there are clearly four areas where the United States is increasing its activities and engagement. First, in the area of military deployment, where the US strategy of rebalancing aims to deploy military presence in the Pacific and Atlantic sectors to

the tune of 60% and 40% respectively. Second, while there is an overall reduction in America’s global defence expenditure, in the case of East Asia its defence spending would be increased. Third, the increased interaction and focus on East Asia will be critical and remains very much in tune with the rise of China in this region. This shift eastwards is clearly founded on the fact that global economic growth has actually shifted eastwards and the rise of China has resulted in altering the regional balance, making it imperative for the United States to seek a role in the larger dynamics of change.⁶ Fourth, in the arena of economic integration the Trans-Pacific Partnership has been seen as another demonstration of Washington’s willingness to remain a major economic force in the region.⁷ However, the TPP trade deal that was signed by the participating nations on 5 October 2015 now faces an uncertain future with the new US President Donald Trump threatening to pull out of the deal.⁸

While these are the efforts from the side of the United States in terms of their own interests within the wider region, there are simultaneous developments shaping the Asia-Pacific which critically impact this strategic shift by the United States. First, the engine of global economic growth has shifted eastwards, particularly with the economic rise of China. Both India’s economic growth and the role played by Japan as a considerable economic power necessitates a

3 Mark E. Manyin et al., “Pivot to the Pacific? The Obama Administration’s “Rebalancing” Toward Asia,” Congressional Research Service Report for Congress, March 28, 2012, 1, <https://fas.org/sgp/crs/natsec/R42448.pdf>.

4 Ibid.

5 Ibid.

6 Ibid.; See also Catharin E. Dalpino, “New Power Dynamics in Southeast Asia: A Report of a Stanley Foundation Project on Examining US Relations with Southeast Asia,” Stanley Foundation, 2008, 2-21, <http://www.stanleyfoundation.org/publications/report/NPDinSEA908.pdf>.

7 Ibid.

8 “Trump says US to quit TPP on first day in office,” BBC News, November 22, 2016, <http://www.bbc.com/news/world-us-canada-38059623>.

new approach to this region. For the first time all the three leading economic players in the globe are within the Asia-Pacific region. For the United States, this compels an engagement that will be very crucial to sustaining its economic interest in this region. Second, with respect to China's growing military capabilities, there is some degree of trepidation in the region. Particularly regarding Chinese claims in the South China Sea, the United States has been very clear about issues relating to the 'right of passage' and 'freedom of navigation.' Much of the conflict also relates to the different interpretations of the United Nations Convention on the Law of the Seas (UNCLOS) and the normative shifts that result from such interpretations. The US focus in this context is to engage China into accepting the existing normative positions which are in consonance with other regional players, particularly the members of the Association of Southeast Asian Nations (ASEAN), some of whom are claimants in the South China Sea dispute. The recent ruling by the Permanent Court of Arbitration on a complaint filed by the Philippines rejected China's historical claims to the South China Sea. This ruling was in turn rejected by China, effectively indicating that it does not accept the ruling or the veracity of the UNCLOS. States in the region, the United States and other players have reasserted the significance of the UNCLOS and the normative role it plays.

From the standpoint of the United States, the logic of extending the 'Pacific pivot' to include the coastal areas of South Asia is a critical shift because this links the Indian Ocean, the Bay

of Bengal and the Straits of Malacca, Sundah and Lombok into a single strategic unit.⁹ This linking of the two oceanic extents is actually a clear shift in conventional thinking, which mostly tended to view South, Southeast and East Asia as three distinct sub-units of the Asian continent.¹⁰ However, the Indo-Pacific context becomes more relevant while looking at the region as a singular unit given that nearly 55% of the world's container trade travels through this region. Added to this nearly 70% of ship-borne energy transport moves through these waters, which necessitates the perceptual change in how the region is currently being viewed.¹¹ The recent approach to linking the Indian and Pacific Oceans is clearly being driven with a focus on the geopolitical shifts that are influencing the region.

It is within this context that the IPEC becomes relevant—the objective of the United States to link South and Southeast Asia, through a linking of the maritime extents, also opens up the possibility of linking trade and economics among these two regions. If the IPEC as a vision gains momentum, it will need to be enhanced by building greater physical infrastructure, more regulatory trade architecture, and human and digital connectivity.¹²

Opportunities Contributing to the Implementation of the IPEC

While the concept of the corridor in question is relatively new, there are several opportunities

9 This was highlighted in the Speech by Hillary Clinton in 2011 at the East West Centre. For details see, Hillary Clinton, "America's Pacific Century," *Foreign Policy*, October 11, 2011, <http://foreignpolicy.com/2011/10/11/americas-pacific-century>.

10 Ibid.

11 Manyin et al., "Pivot to the Pacific?"

12 Asian Development Bank, *Logistics Development Study of the GMS North-South Economic Corridor: Summary* (Manila: ADB, 2008).

that can be explored to further this idea into reality. First, the growth of the economies of both South and Southeast Asia is crucial in pushing forward the concept. Undoubtedly, as the global economic growth has shifted eastwards, there is also a significant change that is visible in these regions. Both South and Southeast Asia play a very significant role in linking the largest economic player in the region, China. China's investments in Southeast Asia stand as the highest, while in the case of South Asia they are growing rapidly.¹³ Simultaneously, there are steps towards establishing greater economic integration in the wider Asia-Pacific through two

With this growing focus on economic integration, there is a significant opportunity to link the IPEC into the larger web of regional economic integration initiatives that are already taking shape.

initiatives—the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP). With this growing focus on economic integration, there is a significant opportunity to link the IPEC into the larger web of regional economic integration initiatives that are already taking shape.

Second, the logic of the IPEC is also being driven by certain political changes. In this context, one set of changes that will remain significant in the years to come are the developments

shaping Myanmar, which lies at the pivot of both South and Southeast Asia, thereby acting as a critical link between these two regions. Myanmar remains the land connecting India and Southeast Asia, which was one of the factors that impacted on India-Myanmar ties when the Look East Policy was initiated. With connectivity, as it relates to South and Southeast Asia, becoming imperative, Myanmar's political transition will be important.¹⁴ Added to this, there is also the question of extending the existing Greater Mekong Sub-region to link up to Myanmar through the expansion of the East-West Corridor—this in effect will link the

entire Southeast Asian mainland region together—from the port of Da Nang in Vietnam through Laos and Thailand to the port of Mawlamyine in Myanmar. Once this corridor is realised, the 1,320-kilometer link will be critical, since it will in essence link two points in the Indian

and the Pacific Oceans—Mawlamyine lies on the western coast of Myanmar on the Andaman Sea (Indian Ocean) while Da Nang lies on the eastern coast of Vietnam on the South China Sea (Pacific Ocean).¹⁵

A third issue likely to have a positive impact on the furtherance of the IPEC is the move towards establishing the ASEAN Economic Community (AEC), which came into existence in December 2015. While there are still hurdles in the actual implementation of the AEC, once recognised

13 "China ASEAN Trade to hit 500 Billion USD," Xinhua News, July 23, 2013, http://news.xinhuanet.com/english/china/2013-07/23/c_132566755.htm. See also ASEAN-China Dialogue Relations, <http://www.asean.org/news/item/asean-china-dialogue-relations>.

14 Hector Florento and Maria Isabela Corpus, "Myanmar: The Key Link between South and Southeast Asia," Asian Development Bank Working Paper Series 506, 2014, 3-9, accessed May 14, 2016, https://papers.ssrn.com/sol3/Data_Integrity_Notice.cfm?abid=2538991.

15 Asian Development Bank, *Strategy and Action Plan for the Greater Mekong Subregion East-West Economic Corridor* (Manila: ADB, 2010), 6-10.

it will be able to provide a larger and more integrated market which will also address the issues relating to economies of scale.¹⁶ If this takes more concrete shape than Southeast Asian integration will be on firmer ground, and it can actually act as a catalyst for pushing integration within the South Asian states too. India is already a core economic partner for Southeast Asia. Additionally, in terms of looking at some of the sub-regional initiatives that are in place such as BIMSTEC and Mekong Ganga Cooperation, there are already efforts to link the two regions together through these and this can be expanded to cover the scope of the IPEC.

Fourth, while trade between South and Southeast Asia has grown in the last two decades, there is still a huge potential that needs to be explored. Both in terms of trade and investments, these two regions can be better integrated if the full potential is tapped. The evolution of the IPEC will enhance this potential and is capable of creating crucial trade and investment links along this region. A key area is trade in energy, where the current focus is on conventional sources of energy. With the recent initiatives taken on matters relating to climate change, the scope for exploring possibilities of trade in alternate energy sources is bound to increase in the future. One example is trade in hydro-electric power.¹⁷ In the context of energy trade as well, Myanmar is emerging as a potential hub that can link the regions of South and Southeast Asia together, both in terms of conventional and alternate energy resources. Myanmar is likely to play a critical role on three accounts. It is showing an increasing hydro-electric power capacity which

can be better integrated to the regional demands and trade; there are huge reserves of natural gas; and given that it lies at the mouth of the Malacca Straits and links the regions of South and Southeast Asia through the land route, the potential for linking the region through pipelines can also be examined.

While the above section of the paper looks at the opportunities, there are several challenges to realising the IPEC. Some of these are discussed in the following section of the paper.

Challenges to the IPEC

In order to understand the potential of such a corridor as IPEC, it is imperative to highlight the challenges that are inherent to the idea of this corridor. Understanding these challenges will be vital to the formulation of strategies and policies that regional and national stakeholders will consider in the move towards the establishment of such a corridor. Given the enormous diversity in both South and Southeast Asia, the move towards linking the regions through trade and investment integration is fraught with challenges.

The first challenge relates to the oft-asked question of establishing the linkages for connectivity. This issue is not new. For nearly two decades it has remained the key factor for promotion of trade and economic integration. A recent ADB report has indicated that the overall cost of establishing connectivity through roads, railways, maritime port connectivity, and energy

16 Peter A. Petri, Michael G. Plummer and Fan Zhai, *The Economics of the ASEAN Economic Community* (Brandeis University, 2010), 14, http://www.brandeis.edu/departments/economics/RePEc/brd/doc/Brandeis_WP13.pdf.

17 United Nations Development Programme, *Accelerating Energy Access for all in Myanmar* (UNDP: 2013), <http://www.mm.undp.org/content/dam/myanmar/docs/Accelerating%20energy%20access%20for%20all%20in%20Myanmar.pdf>.

trading for linking South and Southeast Asia stands at \$73 billion.¹⁸ Achieving this target is a huge challenge since it requires \$18 billion for roads, \$34 billion for railways, \$11 billion for port projects and \$10 billion for energy trading.¹⁹ The current allocation of funds to address connectivity issues on a priority basis in linking the two regions remains far below the expected amount—of the \$8 billion that has been earmarked for this purpose, \$1 billion is for roads, \$5 billion for railways and \$2 billion will cater to development of ports.²⁰

The second crucial challenge is the role that the Northeastern region of India will play. The development of this region will remain a vital challenge in envisioning the links between South and Southeast Asia. When the Look East Policy was initiated it was understood that India's Northeast would be important in the overall approach to connecting with Southeast Asia. Though initiatives like the Bangladesh-China-India-Myanmar Forum for Regional Cooperation have been started, these have not been able to achieve much impact in the region. The old debate where development is pitted against security challenges still remains within the mindset of the Indian government when looking at the possibility of establishing such economic corridors. There is a complex relation in this regard—as long as the Northeast remains politically sensitive, the promotion of development will be hindered and development projects will be held back as a result of the

political context. This approach needs to be thoroughly reviewed in light of the changes that are shaping the wider region. Moreover, when it comes to the question of the Northeast fitting into the Look East Policy, the approach has been a top-down method where the Centre has been focused on the implications of the policy on the Northeast.²¹ As a result all the initiatives are orchestrated from the Centre, leaving a gap between the way the Centre and state respond to the policies that link the Northeast to the Look East Policy. Even organisations like the Ministry for the Development of the Northeast Region and the North Eastern Council are seen as initiatives that are driven from the Centre.²² It is essential for the regional state governments and stakeholders within the Northeastern region to be invested in the policies initiated in the Look East Policy. Understanding the benefits and links in the policy and its impact on the region must be locally driven through a bottom-up approach that will bring the benefits of economic integration closer to local expectations.

A third issue that will be important to address is intra-ASEAN connectivity itself. While connectivity across regions will be a challenge, even intra-regional connectivity is far below optimal levels. As early as 2009, the Master Plan for ASEAN connectivity was conceived. This was done to address two crucial areas in the context of establishing a level playing field for all ten ASEAN member states. The plan sought to reduce two vital gaps among the member

18 Asian Development Bank and Asian Development Bank Institute, *Connecting South and Southeast Asia* (Japan: ADBI, 2015), xx-xxi.

19 Ibid.

20 Ibid.

21 Suba Chandran, "The Indo-Pacific: India's Look East 3.0," Institute for Peace and Conflict Studies, March 14 2013, <http://www.ipcs.org/article/india/the-indo-pacific-indias-look-east-30-3843.html>.

22 For details see "Look East Policy and the Northeastern States," Ministry for Development of North Eastern Region, Government of India, February 15, 2011.

states—developmental and connectivity.²³ It also gave credible focus to the need to link the smaller sub-regions together in order to create the linkages necessary for overall connectivity. However, this initiative has made little headway. With AEC now in place, there seems to be some possibility of linking the issue of connectivity to the overall AEC plans. This will have to be implemented if the AEC is to be effectively realised. Within the AEC itself the question of connectivity remains a key pillar that has to be addressed through the adoption and implementation of the Master Plan.²⁴

Conclusion

While trying to understand the rationale behind the IPEC, it would be worthwhile to look at some of the strategies that have been initiated in order to further the possibility of its realisation. Under the current government, Prime Minister Modi has emphasised a Look East and Link East policy whereby the question of addressing connectivity challenges seem to be of critical interest. As early as November 2014, Prime Minister Modi, during his visit to Myanmar for the India-ASEAN Summit and the East Asia Summit, reflected on the nuanced change to the Look East Policy by calling it the Act East Policy. In this context the emphasis was to be given to the completion of key projects. The Prime Minister also highlighted that there would be an

effective role for three C's—culture, commerce and connectivity. The primacy given to the need to bolster India-ASEAN connectivity is one of the key prerogatives of the current government.²⁵ For the IPEC to be effective the impetus to complete pending projects must be instituted from both the Indian and the ASEAN side.

Significant among these is the trilateral highway which will link India's Northeast through Myanmar to Thailand. This will be the first key implementation on the connectivity side whereby the land link through Myanmar into Southeast Asia will be established. Once operational, there will be a 3200 kilometres-long road link from Moreh (Manipur) to Mae Sot (Thailand), making it one of the first sub-regional connectivity projects that will link South Asia to Southeast Asia.²⁶ Interestingly, in the India-ASEAN Comprehensive Economic Partnership Agreement the emphasis given to the infrastructural component clearly outlines the importance of the move towards infrastructural connectivity. A second project that will be given due attention is the Kaladan Multimodal Transit Transport Project, which aims to link Kolkata to Sittwe through both sea and river ports to further connect to India's Northeast by inland-waterway and road. There is one concern, however, that the project runs through the Arakan region, which remains politically volatile. Effective implementation of this project is therefore a cause for concern.²⁷ A third key project is the

23 Joycee A. Teodoro, "ASEAN's Connectivity Challenge," *The Diplomat*, June 27, 2015, <http://thediplomat.com/2015/06/aseans-connectivity-challenge>.

24 *Ibid.*

25 For details on India-ASEAN Connectivity see Ted Osius and C. Raja Mohan, "Enhancing India-ASEAN Connectivity," CSIS, 2013, 54-66.

26 Sharmishta Mukherjee, "New Economic Corridors: India on Road to Redefine trade Ties with South Asian Neighbours," *The Indian Express*, November 15, 2015, <http://indianexpress.com/article/business/business-others/new-economic-corridors-india-on-road-to-redefine-trade-ties-with-south-asian-neighbours>.

27 Sinderpal Singh, "Debating Physical Connectivity between India and ASEAN: Economics versus Security," in *India's Approach to Asia: Strategy, Geopolitics and Responsibility*, ed. Namrata Goswami (New Delhi: Pentagon Press, 2016), 164-182.

development of the India-Mekong Economic Corridor which will seek to connect the ports of India and Myanmar, and then link the resultant route to the roads into the Mekong sub-region. Additionally, this project also seeks to explore the potential of linking the Chennai-Dawei corridor, which will also increase connectivity to the southern parts of the country.

Added to the above is the important strategy of connectivity through the transit rights India has acquired from Bangladesh. This has been a very vital step forward in gaining easier access to India's Northeast and in the development of the region.²⁸ Additionally, in November 2015 India signed a proposal for vehicular movement with Bangladesh, Bhutan, India and Nepal (BBIN). Along with other sub-regional initiatives such as the BIMSTEC and the Ganga Mekong Cooperation, the BBIN will also complement the existing sub-regional frameworks that will eventually link up to the IPEC. Finally, there is also a plan to construct a road between Kolkata and Ho Chi Minh city in Vietnam, covering a land route of nearly 4430 kilometres, which if completed, will give access to all the mainland countries in Southeast Asia.

Some of the options and strategies from the ASEAN side will also be critical. There is a growing focus on sub-regional development initiatives within the Southeast Asian region among which three are very important initiatives. The first is the Greater Mekong Sub-region

(GMS), started in 1992 under the auspices of the Asian Development Bank. It seeks to improve the trade facility among countries that are connected through the Mekong River by opening up borders and integrating through development projects.²⁹ It has been one of the most successful initiatives. The next target for the GMS is to open up the East-West Corridor which will link Da Nang in Vietnam to the port of Mawlamyine in Myanmar. The second initiative is the Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area started in 1994. Third is the grouping of Indonesia-Malaysia-Thailand Growth Triangle which links these three countries together. Fourth is the latest initiative by President Joko Widodo in which Indonesia seeks to transform itself into the '*porosmaritimdunia*' or the global maritime fulcrum. As part of this vision, Indonesia is now looking at a two-ocean strategy where it will explore the linking of its eastern and western maritime extents. This has a dual strategy of developing both the internal connectivity between the islands and also external linkages to promote better connectivity and integration with the region.

While many of these options and strategies still remain at the nascent stage and it is difficult to pronounce their effectiveness currently, there is little doubt that this approach to trans-regional integration can create tremendous economic integration in the wider Indo-Pacific region.

28 For details see Anasua Basu Ray Chaudhury and Pratinashree Basu, "India-Bangladesh Connectivity: Possibilities and Challenges," Observer Research Foundation, <http://www.orfonline.org/wp-content/uploads/2015/06/IndiaBangladesh.pdf>.

29 Trishia P. Octaviano, "Economic Corridors Boost Markets and Living Conditions," Business World Research, March 24, 2014, <http://research.bworldonline.com/popular-economics/story.php?id=350&title=Economic-corridors-boost-markets,-living-conditions>.

THE 21ST CENTURY MARITIME SILK ROAD

RAJEEV RANJAN CHATURVEDY

The current Chinese leadership seems fairly optimistic in its effort to reshape the country's global profile in a bold and creative way—a key element of which is to build up an economic system with China at the centre of it. Undoubtedly, the proposal to revive the ancient Maritime Silk Road (MSR) demonstrates this innovative approach. The 21st century MSR, together with the Silk Road Economic Belt, has emerged as a signature foreign policy initiative, and is the first global strategy for enhancing trade and 'fostering peace' proposed by the new Chinese leadership under President Xi Jinping. This paper discusses the Chinese rationale behind the MSR proposal and examines where it fits in China's 'grand strategy.' In so doing, it also analyses the potentials and challenges of the MSR.

21st Century Maritime Silk Road

China has proposed to revive the centuries-old 'Silk Road of the Sea' into a 21st century MSR. This proposal has attracted enormous interest from policymakers and scholars. Is there a confluence of maritime interests or is the idea of reviving the Silk Road of the Sea an instrument of Chinese 'grand strategy'? Grand strategy denotes "a country's broadest approach to the pursuit of its national objectives in the international system."¹ A state's grand strategy provides an understanding of its long-term foreign and security policy goals. One important aspect of China's grand strategy is strategic access.² China is going out in search of natural resources and developing overland transport

1 Robert H. Dorff, "A Primer in Strategy Development," in US Army War College Guide to Strategy, eds. Joseph R. Cerami and James F. Holcomb, Jr., Strategic Studies Institute, 2001, 12, <http://www.au.af.mil/au/awc/awcgate/army-usawc/strategy/02dorff.pdf>.

2 The term 'access' normally subsumes all types of bases and facilities (including technical installations), aircraft over flight rights, port visit privileges and use of offshore anchorages within sovereign maritime limits. The term 'strategic access' is used more broadly to include, for instance, access to markets, raw material sources, and/or investments, penetration by radio and television broadcasts, and access for intelligence operations. See Robert E. Harkavy, *Great Power Competition for Overseas Bases: The Geopolitics of Access Diplomacy* (Canada: Pergamon Press Canada Ltd, 1982), 14-43.

networks in pursuit of its national interest. As part of its strategy, China is developing roads, railways, ports and energy corridors through its western region, across South Asia and beyond.³ The idea of reviving the MSR manifests China's innovative approach and its grand strategy.

Why is strategic access or the politics of routes so important to China? The politics of routes in South and Southeast Asia has played a key role in the region's military affairs, in political development, economic growth and cultural change. It enhances an understanding of the nexus between security and development issues. Routes are "the means for the movement of ideas, the dominant culture and ideology of the political centre, to its peripheries."⁴ Routes can define the territorial reach and physical capabilities of the state, and are integral to the achievement of its political, economic and military potential.⁵ Control over and expansion of routes is important to obtain optimum economic benefits from trade with other states. To increase their economic productivity, security and market size, states may also form integrated regional groupings in which conditions of access are eased for member states relative to non-members. Such regional integration policies often involve the joint expansion of physical channels of communication and transport. Moreover, maritime access plays a significant role in the formation of strategic alliances and

security ties. The proposal to revive the MSR should be seen in this light. This initiative aims to seize the opportunity of transforming Asia and to create strategic space for China.

The MSR in its New Avatar

The idea of the MSR was outlined during Chinese President Xi Jinping's speech in the Indonesian Parliament⁶ and Premier Li Keqiang's speech at the 16th Association of Southeast Asian Nations (ASEAN)-China summit in Brunei,⁷ in October 2013. Chinese leaders underlined the need to re-establish the centuries-old seaway as the 21st Century Maritime Silk Road. The main emphasis was placed on stronger economic cooperation, closer cooperation on joint infrastructure projects, the enhancement of security cooperation, the strengthening of maritime economy, and technical and scientific cooperation on the environment. The figure below gives a glimpse of the proposed Silk Road. The MSR will begin in Fujian province and pass Guangdong, Guangxi and Hainan before heading south to the Malacca Strait. From Kuala Lumpur, the MSR heads to Kolkata and Colombo, then crosses the rest of the Indian Ocean to Nairobi. From Nairobi, it goes north around the Horn of Africa and moves through the Red Sea into the Mediterranean, with a stop in Athens before meeting the land-based Silk

3 See Rajeev Ranjan Chaturvedy and Guy M. Snodgrass, "The Geopolitics of Chinese Access Diplomacy," German Marshall Fund of the United States Policy Brief, May 29, 2012.

4 Jean Gottmann, "The Political Partitioning of Our World: An Attempt at Analysis," *World Politics* 4 (1952): 515.

5 Mahnaz Z. Ispahani, *Roads and Rivals: The Politics of Access in the Borderlands of Asia* (London: I.B. Tauris & Co. Ltd. Publishers, 1989), 2.

6 Wu Jiao, "President Xi gives speech to Indonesia's parliament," *China Daily*, October 2, 2013, http://www.chinadaily.com.cn/china/2013xiapec/2013-10/02/content_17007915.htm.

7 "Premier Li Keqiang Attends the 16th ASEAN-China Summit, Stressing to Push for Wide-ranging, In-depth, High-level, All-dimensional Cooperation between China and ASEAN and Continue to Write New Chapter of Bilateral Relations," The Embassy of the People's Republic of China in New Zealand, October 10, 2013, <http://www.chinaembassy.org.nz/eng/zgyw/t1088098.htm>.



Map III - The Proposed Route of the Belt and Road⁸

Road in Venice. In a new map, South Pacific has also been included. So, there are two directions of the MSR—one from China through the South China Sea to the Indian Ocean coastal ports, extending to Europe; the second is through the South China Sea from the Chinese coastal ports extending eastward to the South Pacific.

Aims and Objectives of Reviving the MSR

The MSR emphasises connecting the Asia-Pacific economic circle in the east and the European economic circle in the west by building a network of port cities along the Silk

Route, linking the economic hinterland in China. According to one report,⁹ the One Belt, One Road Initiative is currently the longest economic corridor with greatest potential in the world—it directly affects 4.4 billion people, around 63% of the world’s population, and deals with an economic aggregate of \$21 trillion, 29% of the global volume. Besides, it aspires to improve the Chinese geostrategic position in the world. According to the “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road”¹⁰ issued by the Chinese government, the essence of the initiative is an inclusive project open to all countries and international organisations.¹¹ The initiative features five major areas of cooperation—

8 Xinhua News, http://news.xinhuanet.com/english/2016-04/17/c_135286862.htm.

9 See “Understanding China’s Belt and Road Initiative in one minute,” *CCTV News*, September 28, 2015, <http://www.cctv-america.com/2015/09/28/understanding-chinas-belt-and-road-initiative-in-one-minute>.

10 National Development and Reform Commission, People’s Republic of China, “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road,” March 28, 2015, http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html.

11 So far, China has ignored regional associations that do not include China. This strengthens the impression of mismatch between Chinese stated and actual intentions.

policy communication, road connectivity, unimpeded trade, money circulation and cultural understanding. The Chinese Foreign Ministry spokesperson Hua Chunying outlined the aims and objectives of the MSR in the following words:

China proposed to build the Maritime Silk Road of the 21st century with the aim of realizing harmonious co-existence, mutual benefit and common development with relevant countries by carrying out practical cooperation in various fields, such as maritime connectivity, marine economy, technically advanced environmental protection, disaster prevention and reduction as well as social and cultural exchanges in the spirit of peace, friendship, cooperation and development.¹²

The Chinese leadership has promised to transform China through a national rejuvenation in order to realise the “Chinese dream.” Beijing is also responding to the region’s need for investment and development, and aims to unlock massive trade potential and bolster economic development through this initiative. It has become a defining strategy for economic outreach to China’s partners. The MSR initiative, in fact, is an attempt to create a favourable international environment conducive to China’s continuing development, and therefore it manifests an important element of Chinese grand strategy. This ambitious initiative will receive funding from seven capital pools, among which the Silk Road Fund, the Asian Infrastructure Investment Bank, BRICS New Development Bank, and the Shanghai Cooperation Organisation Development Bank are likely to play major roles. With full political and financial support from the Chinese

government, comprehensively promoting the Belt and Road Initiative has become one of the key tasks in China’s diplomacy.

The salient points of this Chinese grand strategy can be summarised as follows. First, it reflects a shift from China’s low-profile international strategy to a more proactive international strategy which can help shape a new international and regional order. Second, China seeks to reap the benefits of its growing economic power and expanding influence across the globe. Third, the initiative reflects China’s growing confidence and also a response to the American ‘pivot’ strategy. Finally, the initiative is comprehensive, focused and President Xi Jinping’s “pet project.” Through this grand vision, the ambition of China’s new leader is to significantly upgrade China’s status in the world.

Several Chinese scholars claim that the initiative is also part of the new round of China’s “opening up” strategy. China is facing challenges of overproduction and overcapacity, particularly in the steel and construction material sectors. This initiative aims to create more overseas demand, and thus could help in addressing China’s domestic economic problems. There is now a growing need for China to invest more in foreign countries. The labour market is becoming more competitive and costs are rising. Through this initiative China could aim for its economic restructuring. Moreover, the initiative is expected to drum up development initiatives in the less developed regions of China to narrow income gaps between regions. Also, the initiative could be an excellent overseas investment opportunity for the Chinese private sector.

12 Chinese Foreign Ministry Spokesperson Hua Chunying’s Regular Press Conference, February 13, 2014, <http://sc.china-embassy.org/eng/fyrth/t1128254.htm>.

Advantages of the MSR

The MSR initiative is a manifestation of China's growing significance in the global arena—economically, politically, as well as strategically. The proposal will boost trade, shipping, tourism, development of maritime infrastructure and enhance connectivity. It aims to promote better mutual understanding between and among people. By promoting such a plan, China seeks to ease its territorial disputes with the ASEAN claimant states in the South China Sea and strengthen mutual trust. The MSR proposal is likely to generate huge economic and employment opportunities. It complements and reinforces ASEAN connectivity. It can provide a channel of overseas investment for Chinese companies and capital, either in infrastructure construction or in manufacturing, and foreign commodity trade and service sectors. Thus, an active cooperation can also narrow the huge infrastructure development gap among ASEAN members. For China, such outward infrastructure investment is important for boosting its manufacturing sectors, addressing its domestic production overcapacity and stimulating domestic economic growth.¹³

Over the past few decades, China has emerged as a major maritime power and offered maritime infrastructure development to friendly countries.

India needs to make major policy changes to develop maritime infrastructure and offshore resources, and exploit these on a sustainable basis. Therefore, the MSR should be seen as a welcome opportunity for India.¹⁴ India can also harness Chinese capabilities to improve its maritime infrastructure, including the construction of high-quality ships and world-class ports. More importantly, it will also help India-ASEAN maritime connectivity that has been languishing due to the lack of infrastructure. India and China can also work together on the Humanitarian Assistance and Disaster Response (HADR), with the Indian Navy and the PLA Navy cooperating and developing best operational practices for HADR operations.¹⁵

In the case of Southeast Asian countries, the MSR initiative offers new opportunities for China and ASEAN to cooperate in many sectors, including trade, infrastructure and cultural exchange. In general, Southeast Asian states have welcomed China's initiative in building the new Maritime Silk Road. China has the experience and technology in infrastructure construction as well as the capital. The MSR could spur the economic development of ASEAN. Besides, it could also promote people-to-people contact and enhance understanding between China and ASEAN, as well as among ASEAN countries. However, there is cautious

13 Yu Hong, "China's "Maritime Silk Road of the 21st Century" Initiative," EAI Background Brief 941, July 30, 2014, <http://www.eai.nus.edu.sg/publications/files/BB941.pdf>. Also see, "ASEAN welcomes China's new Maritime Silk Road initiatives," *China Daily*, August 15, 2014, http://usa.chinadaily.com.cn/business/2014-08/15/content_18322921.htm.

14 Vijay Sakhujia, "Maritime Silk Road: Can India Leverage It?," Institute for Peace and Conflict Studies, September 1, 2014, <http://www.ipcs.org/article/navy/maritime-silk-road-can-india-leverage-it-4635.html>. Also see, Vijay Sakhujia, "The Maritime Silk Route and the Chinese Charm Offensive," in IPCS Special Focus: The Maritime Great Game India, China, US & The Indian Ocean, 6, http://www.ipcs.org/pdf_file/issue/SR150-IPCSSpecialFocus-MaritimeGreatGame.pdf.

15 Rajeev Ranjan Chaturvedy, "Xi Jinping's visit should mark new era in Indo-China relations," *The Economic Times*, September 10, 2014. Chinese state councillor Yang Jiechi proposed a dialogue between the two navies on freedom of navigation and Humanitarian Assistance and Disaster Response (HADR) at the 17th Annual Dialogue of the Special Representatives of India and China in New Delhi. See, Ministry of External Affairs, Government of India, Press Release, "17th Round of Talks between the Special Representatives of India and China on the Boundary Question," New Delhi, February 11, 2014, <http://mea.gov.in/press-releases.htm?dtl/22861/17th+Round+of+Talks+between+the+Special+Representatives+of+India+and+China+on+the+Boundary+Question>.

optimism among ASEAN countries. So far, the MSR has not kicked off in ASEAN. There is a widespread perception in the region that ‘mutually beneficial’ development projects often benefit China more than the host country. Indeed, the Chinese MSR initiative is more about deepening ties with regional governments and providing work for Chinese industrial companies. Substantial investment in port facilities and related infrastructure in various locations—including in Pakistan, Sri Lanka, Bangladesh, Indonesia, Myanmar and Malaysia—is planned or is underway. It is believed that new, expanded or more advanced capacity will improve

Enthusiasm for the projects under the MSR initiative has been limited in South Asia and Southeast Asia, except Pakistan, where projects seem to have limited economic logic.

connections between sea and land legs of trade movements, raising overall transport efficiency and reducing costs. However, enthusiasm for the projects under the MSR initiative has been limited in South Asia and Southeast Asia, except Pakistan, where projects seem to have limited economic logic.

Challenges

Despite emphasis on economic links, there is a lack of clarity on the ‘how and what’ of the Chinese proposal. Overlapping of diverse

goals (political, economic and security) and involvement of multi-level actors (central government, provincial governments, think tanks, private sector, bureaucracy) make the initiative highly attractive in China, but leaves much room for confusion among outside observers. A lingering trust deficit is another major hurdle in this initiative. There are also concerns about what the MSR implies for broader regional strategic partnerships.¹⁶ China has a very specific understanding of security—what drives it and what it aims to achieve—one that many of the countries on this proposed route would not share. Further, there is some

anxiety within ASEAN states over Chinese actions that are often in contradiction to China’s stated intentions of goodwill and peaceful cooperation. For example, China’s recent moves in the disputed territory in the South China Sea. In the aftermath of the South China

Sea arbitration case and China’s continued assertiveness in maritime Asia, the big question is: How to deal with China when it’s challenging international laws? Certainly, this episode has not only amplified the ‘trust deficit’ among China and its neighbours but it has also forced countries to reconsider their approach in handling ties with China.¹⁷ Therefore, China needs to work harder to explain its proposal if trust of countries in South and Southeast Asia is to be gained.

Governance in many countries and regions on the route of this proposed initiative is weak. There

16 Arun Sahgal, “China’s Proposed Maritime Silk Road (MSR): Impact on Indian Foreign and Security Policies,” Centre for China Analysis and Strategy, July 2014, http://ccasindia.org/issue_policy.php?ipid=21.

17 Rajeev Ranjan Chaturvedy, “Implications of the South China Sea Arbitration Case,” ISAS Insights 338, 2016, <http://www.isas.nus.edu.sg/ISAS%20Reports/ISAS%20Insights%20No%20%20338%20-%20Implications%20of%20the%20South%20China%20Sea%20Arbitration%20Case.pdf>.

could always be political and security risks in implementing the project. Change of government or domestic factors may cause significant delays and costs might overrun while implementing the various projects associated with the MSR. Sri Lanka and Myanmar are good examples of such problems. Amidst global economic pressure, low or no economic returns (in short to medium term) from projects under this initiative will put further pressure on slowing economies.

Conclusion

While the MSR proposal is an innovative idea that aims to create opportunities and bring peace and stability, it is still a nascent one. China's maritime renaissance, however, is being led by its dynamic commercial sector, with maritime business leading the way. Naval development is following merchant marine development. China's path to the sea is different, distinguished

by seaborne commerce leading the way, trailed by naval development.¹⁸ After two decades of rapid growth, Beijing is again looking beyond its borders for investment opportunities and trade. As China rises, with the sea as its main highway for incoming investment, technology and outgoing exports, it is studying the past and thinking about the future. The MSR places China in the 'middle' of the "Middle Kingdom" mindset, and is an effort in initiating a 'grand strategy' with global implications. The MSR offers several opportunities for South and Southeast Asia in its new avatar. However, there is scepticism about Chinese stated objectives and its actual intentions. China needs to convince the nations and regions that will be affected by the MSR that the proposal is one of win-win cooperation, and to do this Beijing needs to engage and listen to other countries and regional institutions to increase the initiative's inclusivity.

18 *China Goes to Sea: Maritime Transformation in Comparative Historical Perspective*, eds. Andrew S. Erickson, Lyle J. Goldstein and Carnes Lord (Annapolis: Naval Institute Press, 2009), 345.

THE BCIM ECONOMIC CORRIDOR: Prospects and Challenges

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K. YHOME
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Introduction

One of the major policy initiatives among national governments in Asia in recent years is directed towards developing sub-regional, regional and trans-regional corridors with the aim of further connecting and integrating their economies. One such corridor is the proposed Bangladesh, China, India and Myanmar-Economic Corridor (BCIM-EC) that involves four nations and has generated much interest as well as concern. While the former focuses on its potentials, particularly in transforming landlocked and underdeveloped border regions of the countries involved, the latter pays more attention to the strategic implications it might have on the region. Within this context, this paper attempts to understand where this emerging trans-regional corridor stands today and discusses three key questions: What was the thinking behind the setting up of the BCIM initiative? What has been achieved so far? And

what are the prospects and challenges of the BCIM-EC? The paper argues that the BCIM initiative has surely made forward movements in recent years, breaking a long impasse, but as it makes progress there are new dilemmas and challenges on how to take it forward.

The Rationale

In the late 1990s some ideas emerged from China's Yunnan Province about a possible sub-regional cooperation involving south-western China, eastern India, and the whole of Myanmar and Bangladesh. One of the first tasks was defining this 'zone' as a sub-region. The proponents of the idea argued that this zone contains a few key essential characteristics based on which cooperation at the level of sub-region could be explored.¹ Among other features, this zone is seen as "the meeting point of the three markets of China, Southeast Asia

1 For more details see Patricia Uberoi, "The BCIM Forum: Retrospect and Prospect," Institute of Chinese Studies, Working Paper, 2013.

and South Asia” and thereby connecting “two major markets of China and India and even the whole of Asia.” Second, even as the sub-region suffers from poor infrastructure, its rich natural resources promise huge potential for large-scale development. Third, the sub-region is “isolated from global markets and is characterised by relative poverty.”² Lastly, all the four countries have actively participated in regional and sub-regional organisations with the aim to integrate into the global economy.

Having argued that this zone shares certain characteristics that could form the basis for cooperation, a few likely benefits were visualised.³ First, it was felt that if China and India could cooperate on regional affairs through such a mechanism, it would contribute to promoting peace and stability of Asia and the world. Second, such cooperation at the sub-regional level could also help in “rooting out social evils such as drug production and trafficking.” Third, it would also “assist in the alleviation of poverty and promote social development” and lastly it would “connect the unlinked markets of Asia and thus integrate” the whole continent. Five key areas were outlined—building modern communication and transportation networks to connect the sub-region by rail, road and air routes; the expansion of intra-regional trade; the development of tourism; the institution of economic and technological cooperation by leveraging ancient ties; and the promotion of cultural exchanges.⁴

Progress Made

Conceived as sub-regional economic cooperation, the above ideas formed the basis of launching the BCIM initiative in 1999 in Kunming, the capital of China’s Yunnan province. As evident from the above discussion, two prominent objectives had driven the BCIM initiative since the beginning—economic integration of the sub-region that would also enable integration of Asia, and development of the border regions. The BCIM priority agenda has evolved over time. From the 3-Ts of trade, transport and tourism, the BCIM priority agenda has moved to TTE (trade, transport and energy).⁵ Additionally, social, cultural and environmental issues were also brought on the table for discussion but the focus has increasingly favoured trade, connectivity and energy cooperation. Some proponents continue to argue for the “soft” agenda to be brought back in the BCIM dialogue as this is seen as “more feasible” in the sub-region and will have direct positive impact on “the livelihoods and aspirations of the peoples in the borderlands.”⁶ The idea of multimodal transportation was also added to the BCIM connectivity agenda with the focus on Inland Water Transportation, and the promotion of port development and coastal shipping.⁷

The year 2013 was crucial in the development of the BCIM initiative. In February 2013 a car rally from Kunming to Kolkata (K2K) was organised with great success.⁸ It took six years for the

2 Ibid.

3 Ibid., 7.

4 Ibid., 8.

5 Ibid., 14.

6 Ibid., 14.

7 Ibid., 15.

8 “Kolkata-Kunming rally begins,” *The Hindu*, February 23, 2013, <http://www.thehindu.com/news/international/kolkatakunming-rally-begins/article4446805.ece>.

rally to materialise ever since the idea was first mooted in 2006 by Prime Minister Manmohan Singh during Chinese President Hu Jintao's visit to New Delhi. This event generated renewed interest and confidence among policymakers and other stakeholders that a physical connection linking the four countries was indeed achievable. The most important indication of this confidence was reflected during Chinese Premier Li Keqiang's visit to India a couple of months after the car rally. For the first time since its existence for more than a decade, the BCIM initiative received a high-level endorsement. The joint statement issued during Premier Li's visit to India stated that both sides agreed to consult the other parties on "establishing a Joint Study Group on strengthening connectivity in the BCIM region for closer economic, trade and people-to-people linkages and initiating the development of a BCIM Economic Corridor."⁹ In October 2013, during Indian Prime Minister Manmohan Singh's visit to China, Kolkata and Kunming were unveiled as sister-cities.¹⁰ In a major development towards realising the BCIM-EC, the first meeting of the BCIM-EC joint study group was held in December 2013 in Kunming, officially setting up the mechanism to promote cooperation.¹¹ These developments have given a clear indication that India and China are prepared to work together in their common peripheries.

The BCIM initiative has indeed moved away from the stage of stalemate and uncertainties that had defined it for a long time. This is evident from the fact that the current government in New Delhi under Prime Minister Narendra Modi has continued with the same enthusiasm of the Manmohan Singh government in acknowledging the progress made in promoting cooperation under the BCIM-EC framework, and expressed a commitment to implement the understanding reached between the two sides.¹² However, as the BCIM initiative enters new ground there are issues and challenges that need to be addressed.

Future Prospects

Many observers in South Asia see the BCIM initiative as "an emerging opportunity"¹³ that could be a "game changer" for the region.¹⁴ Such assessments are clearly driven by the prospects of economic benefits at a time when bilateral trade between the BCIM countries has been growing rapidly in recent years. However, there are other issues and challenges that are still at play when the initiative is seen from a political prism. Some issues have been inherent to the BCIM initiative since the beginning. Government involvement in the BCIM initiative has been different in terms of both the attitude and level of participation.

9 See "Joint Statement on the State Visit of Chinese Premier Li Keqiang to India," Ministry of External Affairs, Government of India, May 20, 2013, <http://mea.gov.in/bilateral-documents.htm?dtl/21723/Joint+Statement+on+the+State+Visit+of+Chinese+Li+Keqiang+to+India>.

10 "Kolkata to Kunming: Indian and Chinese strategies converging to build land and trade ties in northeast," Economic Times, December 5, 2013, http://articles.economictimes.indiatimes.com/2013-12-05/news/44808300_1_bcim-bangladesh-china-india-myanmar-kunming-and-kolkata.

11 "BCIM corridor gets push after first official-level talks in China," *The Hindu*, December 21, 2013. <http://www.thehindu.com/news/international/world/bcim-corridor-gets-push-after-first-officiallevel-talks-in-china/article5483848.ece>.

12 See "Joint Statement between the India and China during Prime Minister's visit to China," Press Information Bureau, Government of India, May 15, 2015, <http://pib.nic.in/newsite/PrintRelease.aspx?relid=121755>.

13 Mustafizar Rahman, "BCIM-economic corridor: An emerging opportunity," *The Daily Star*, March 15, 2014, <http://cpd.org.bd/wp-content/uploads/2014/03/Daily-Star-Page-52-March-15-2014.pdf>.

14 Pravarakar Sahoo and Abhirup Bhunia, "BCIM Corridor a game changer for South Asian trade," East Asia Forum, July 18, 2014, <http://www.eastasiaforum.org/2014/07/18/bcim-corridor-a-game-changer-for-south-asian-trade/>.

Since the beginning, the BCIM was a track-one activity for China and Myanmar, with the Yunnan Provincial government taking the lead role. For India and Bangladesh, the BCIM began as a track-two initiative and soon Dhaka decided to move towards track-one. The BCIM remained largely a track-two activity as far as New Delhi was concerned until the India-China Joint Statement of May 2013 wherein the BCIM was officially endorsed at the highest level, thus moving towards a track-one venture. An extension of this issue has also been reflected in the level of involvement and role of government. For instance, the Yunnan province of China has

While people in border regions are more concerned about socio-economic and environmental impacts, national governments are more concerned with security and political issues.

played a leadership role in the BCIM discussions but this has not been the case with the states from eastern India.¹⁵ While some of these issues continue to create challenges, new dilemmas and questions are also emerging on how to take the BCIM initiative forward.

First, there are two views emerging on the approach itself—one group arguing for an economic-centric approach, and the other for a “more people-centric, inclusive approach mindful of local social realities.”¹⁶ The second

dilemma is the tension between centralisation and decentralisation.¹⁷ The issue is whether the increasing centralisation of the initiative is in the right direction. This tension seems to be producing differences in perceptions and approaches to the BCIM project. Some observers have rightly asked whether the BCIM-EC is “to be conceived as a transnational zone of commercial engagements, enabled by physical and soft infrastructure? Or is it merely the shortest and most economical route between two end-points?”¹⁸ For instance, while people in border regions are more concerned about socio-economic and environmental impacts,

national governments are more concerned with security and political issues. Thus, people in India’s northeast and upper Myanmar are increasingly talking about the likely impacts of the proposed corridor on society and environment.¹⁹

However, in the capitals of the four countries, the concerns are about security and geostrategic implications of the project.

The third dilemma is the tension between regionalism and sub-regionalism. Is the BCIM project a regional initiative or a sub-regional initiative? Clarity on this question is important because it has policy implications in terms of framing the overall objectives of the BCIM project. There are some who point out that the issue is “whether the aim of the BCIM project is to develop the remote areas or to link the

15 Uberoi, “The BCIM Forum,” 12.

16 Ibid., 17.

17 See “Continental and Maritime Silk Routes: Prospects for India-China Cooperation,” ORF Event Report, January 2015.

18 Uberoi, “The BCIM Forum,” 17.

19 For instance, see “BCIM-EC and trade corridor Manipur at stake,” Editorial, *The Sangai Express* (Manipur), July 22, 2014, http://e-pao.net/epSubPageExtractor.asp?src=news_section.editorial.editorial_2014.BCIM-EC_and_trade_corridor_Manipur_at_stake_TSE_20140722.

remote regions to the global supply chain.”²⁰ Where do the local governments figure in the grand scheme of things? There are concerns among the local population that in these grand strategies the remote borderlands could become mere transit routes. Hence, certain questions need to be addressed: In what way can people in the border regions be assured of “benefit sharing” and not merely “risk sharing”?²¹ Are the borderlands of India ready to play a “new role as a transnational entrepot and, if not, how can [they] be made ready through skill development and entrepreneurship training?”²² Also, will the sub-regional development ensure inclusive growth or complicate existing social tensions in a region already burdened with conflict?

A fourth dilemma is whether the BCIM project should be driven by economic logic. If we look at the ground realities, so far the BCIM project has been driven by political and strategic considerations. Take for example the route of the BCIM car rally itself. There are some who argue that the decision on the current route of the BCIM-EC is not an economic decision but a political and diplomatic decision. The route of the car rally avoided the populous and industrially developed Brahmaputra valley and altogether bypasses most of India’s Northeast.²³ Is this route economically viable? Even as the economic viability of the route is important to consider, as mentioned earlier, the question is whether the current BCIM project is too narrowly driven by an approach centred on economics. There is a

view that a holistic approach is needed for the BCIM project where community-building forms the basis of the initiative, thereby recognising social, cultural and environmental issues, and making them an integral part of the project.²⁴

Although river diversion is a controversial issue, some observers in India are of view that if China pursues river diversion and dam-building projects at the cost of environmental degradation and economic dislocation of the lower riparian countries, the BCIM corridor project may be adversely affected, as such issues could impact relations among the four nations. Hence, it is important for China to understand the concerns of its neighbouring countries. Given the rich biodiversity of the region, questions have been raised about the impact of the project on the region’s fragile ecology since the project would involve clearing of forests, land acquisition and possible eviction. Notwithstanding the benefits, what will be the impact of the BCIM-EC on culture, demographic profile, environmental pollution, social security, economic exploitation, etc.? There is a critical need for a proper study on the likely impacts of the project to avert such undesirable scenarios.

Lastly, before the announcement of the One Belt, One Road (OBOR) initiative by China, the BCIM-EC was seen in India as a single project not connected with other initiatives that could be explored for mutual benefits. With the OBOR now emerging as the main topic of debates and

20 This question was asked by Patricia Uberoi during the 1st ORF-RIIO symposium held on January 9-10, 2015 in Kunming, China.

21 Uberoi, “The BCIM Forum,” 17.

22 Ibid.

23 Ibid.

24 See Zhang Li’s remarks in “Continental and Maritime Silk Routes: Prospects for India-China Cooperation” (proceedings of the 1st ORF-RIIO Symposium, Kunming, China, January 9-10, 2015), http://www.orfonline.org/wp-content/uploads/2016/02/India-China-Cooperation_Report.pdf.

discussions, there is a sense that China's grand strategy of trans-boundary connectivity needs to be critically studied to better understand its implications on India's strategic interests. This emerging concern is casting its shadow over the BCIM-EC. Even so, New Delhi continues to support the BCIM-EC initiative as part of its Act East Policy.²⁵ There is a growing sense among individuals of the Indian strategic community that since "India lacks the resources today to set up competing networks; it may be worthwhile to participate in those components of the OBOR which might improve Indian connectivity to major markets and resources supplies."²⁶ With this logic, there is a view that "India will continue to cooperate with China where it can but India will be ready to compete when it must and [will] be watchful that China does not use the OBOR [...] to build its military capabilities to India's detriment."²⁷ Although India is committed to the BCIM, it is likely that New Delhi would want to go slow with its implementation until it develops its own internal linkages with its Northeast region. In fact, China decided to open up its Western region after fully integrating the region into mainland China.

Conclusion

The above discussion suggests that there are various political and security issues at the local, national and regional levels that need to be addressed before discussing the commercial prospects of the BCIM-EC. Trade architectures,

transit facilities and infrastructure capabilities are all important but these operational aspects of the economic corridor need to be discussed within the larger societal context. Perhaps if the BCIM-EC is seen purely from the economic perspective, the question boils down to who gets what, and at what cost. However, if the BCIM framework is expanded to the societal level there is a lot that the initiative could offer to all stakeholders. While top-down governmental initiatives are important, it is the society that determines the success or failure of any national or transnational initiative. It is important to initiate people-centric projects to ensure engagement and involvement of the society under the BCIM. The BCIM needs to be an example of sub-regionalism from below where small business houses have a role to play. An institutional issue that needs to be looked at is the question of decision making. The Joint Study Group in its first meeting agreed on the principle of consensus building. Nobody should be pushed to agree, but everybody should be taken along. It is important to identify low-hanging fruit, to set realistic targets to imbue confidence in the project and its ambition. The BCIM needs to be a confidence-building organisation not only within BCIM but also with external players and groupings, keeping it inclusive for all. The pilot projects need to be geared towards addressing some of the existing problems. It needs to be recognised that the initiative involves a conflict zone. A conflict-sensitive approach is therefore necessary.

The crucial role of people-to-people contact in

25 "Insurgency in the NE will not impact BCIM connectivity: India," *Economic Times*, June 15, 2015, <http://economictimes.indiatimes.com/news/defence/insurgency-in-ne-will-not-impact-bcim-connectivity-india/articleshow/47648667.cms>.

26 Shyam Saran, "What China's One Belt and One Road Strategy Means for India, Asia and the World," *The Wire*, October 9, 2015, <http://thewire.in/2015/10/09/what-chinas-one-belt-and-one-road-strategy-means-for-india-asia-and-the-world-12532/>.

27 Jayant Prasad, "One Belt and Many Roads: China's Initiative and India's Response," Delhi Policy Group Issue Brief, September 2014, http://www.delhipolicygroup.com/uploads/publication_file/1093_OBOR_Prasad.pdf.

fostering greater understanding, cooperation and goodwill should form the basis of the BCIM. Collaboration in education and health among the four nations, and eco-tourism hold immense potential in this biodiversity-rich sub-region. Environment-friendly parks could be explored. Skill development and capacity building for local people is a must. In the long term, the goal should be sustainable development in the sub-region. Ecology, local identities and culture are interlinked in the border areas. An

adverse impact on one aspect has implications on another. Adopting a sensitive approach with the goal of sustainable development needs to be made the basis of BCIM projects. It is important to make these concepts integral in the implementation process. In the current context of trust deficit between India and China, the inclusion of people-to-people links is important, as they could play an important role in creating a congenial political environment for sustaining this ambitious initiative.

TRANS-HIMALAYAN ECONOMIC CORRIDOR: Nepal as a Gateway

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MADHUKAR SJB RANA
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Introduction

Historically, Nepal prospered, until the advent of the East India Company into the subcontinent, as an economic corridor and a civilisational bridge between adjoining northern India and Tibet. Following the calamitous loss suffered by Nepal in the Anglo-Gurkha War of 1814-16, it was territorially reduced in size by about 33% and its prevalent national ‘geo-psychology’ was transformed from an emerging Himalayan empire aspiring to be an economic and cultural bridgehead between India and China to simply a “yam between two boulders.”¹ Subsequently, it sought to look inward and close its doors to the outside world. This paper attempts to examine the idea of a Trans-Himalayan Economic Corridor (THEC) centred on Nepal. It is based on the firm belief that a THEC can profoundly transform the entire southeastern Himalayan

sub-region and the Ganges Basin—where most of the world’s abjectly poor and deprived people now live—with benefits for all.

The southeastern Himalayan sub-region and the Ganges Basin need a big push in infrastructure investments coupled with far more robust annual economic growth rates to meet the challenges posed by its poverty, mass unemployment and massive underemployment of its human capital. Added to these are the risks arising from natural disasters, climate change, global warming, and not least, water, food, health and energy security threats. Amidst the development and security challenges faced by the Himalayan sub-region, the emergence of Asia as a world economic fulcrum, led by China—and a China that is in the throes of its ‘look west’ national strategy—offers grand opportunities to deal with these challenges.

1 See, for instance Gopal Thapa, “Yam, buffer, bridge,” *The Kathmandu Post*, November 4, 2014, <http://kathmandupost.com/news/2014-11-04/yam-buffer-bridge.html>.

The Southern Silk Road (SSR)

The SSR existed historically.² It commenced in Yunnan connecting to Myanmar, India, Nepal and Tibet with a loop back to Yunnan. It is believed that this Silk Road was at its peak in the 13th century with the Mongol Dynasty flourishing, but declined in the 14th century on account of the isolationist policies followed by the Ming Dynasty. It was also called the Tea and Horse Road. However, it has received scant attention. It was, it can be said, the predecessor to the Bangladesh-China-India-Myanmar Economic Corridor (BCIM-EC).³ Yunnan is planned as a bridgehead for inter-regional and sub-regional integration with Myanmar, Bangladesh and eastern India, just as China's Xingjiang is to Central Asia, Afghanistan and Pakistan in reviving the more popular northern Silk Road.

Imagine the prospects of extending the One Belt, One Road⁴ (OBOR) to South Asia by executing the BCIM-EC and, furthermore, reviving the SSR to connect the Tibetan Plateau to Nepal and extending it into Bihar in northern India and beyond by both road and rail and, further on, by energy grids. It is indeed a vision of grandeur where all of Asia—North, Central, South, East and West—will be connected by China to Europe and Russia by road and rail. Even so, integration possibilities with Tibet and the Sichuan Province

need to be studied and explored for Bhutan, Nepal and North India with and without the extension of the BCIM-EC to these new destinations.

The BCIM-EC could be extended to Nepal to realise the BBIN vision⁵ of Indian Prime Minister Narendra Modi. It will also permit India's Northeast to be connected to another Himalayan corridor through Nepal by land, and carry the potential of connecting the BCIM countries in the near future to the railway network of China with the Lhasa-Kathmandu-Lumbini railway. Such a rail link would make it possible for Bangladesh, Bhutan and Nepal to trade by land with Pakistan and Afghanistan, too.

Trans-Himalayan Economic Corridor

Nepal has made it clear that it wishes to act as a Himalayan land bridge between Central, South and Southeast Asia. It would welcome the 'southern OBOR' to be connected with Europe and also welcome the extension of the Chinese Railway into Kathmandu, and Lumbini, the birth place of Lord Buddha. Nepal's King Gyanendra raised the idea of Nepal as a 'transit economy' when he proposed this at the Second South-South Summit in Doha in 2005.⁶ This strategic policy was well incorporated in the country's

2 See "The Ancient Tea and Horse Caravan Road: The 'Silk Road' of Southwest China," The Silk Road Foundation Newsletter, <http://silkroadfoundation.org/newsletter/2004vol2num1/tea.htm>.

3 The BCIM-EC is a four-nation connectivity initiative involving Bangladesh, China, India and Myanmar. See for instance Patricia Uberoi, "The BCIM Economic Corridor: A Leap into the Unknown?," ICS Working Paper, November 2014, <http://www.icsin.org/uploads/2015/05/15/89cb0691df2fa541b6972080968fd6ce.pdf>.

4 In 2013 Xi Jinping announced the "One Belt, One Road" initiative to revive the ancient silk roads. See chronology of the OBOR at http://english.gov.cn/news/top_news/2015/04/20/content_281475092566326.htm.

5 The Bangladesh, Bhutan, India and Nepal or BBIN is a sub-regional vision for economic integration. The first this towards this objective was achieved when the four nations signed a motor vehicle agreement for free movement in June 201. See "Forget SAARC, if Pakistan does not cooperate, India will come up with 'BBIN'," First Post, February 26, 2015, <http://www.firstpost.com/world/forget-saarc-if-pakistan-does-not-cooperate-india-will-come-up-with-bbin-2121773.html>.

6 See full text of the address delivered at the Second South-South Summit, Doha, Qatar on June 15, 2005, http://www.satp.org/satporgtp/countries/nepal/document/papers/king_June05.htm.

Annual Budget of 2005 with this author, in his capacity as Finance Minister then. Further, the King asked the author to lead a delegation to Lhasa and Beijing to discuss matters about opening more routes on the China-Nepal border for bilateral trade as well as express Nepal's interest that it would like to see the extension of the Beijing-Lhasa train to the Nepalese border and on to Kathmandu.

Five years after the idea was first announced, Nepal's Maoist Prime Minister Pushpa Kamal Dahal (Prachanda) coined the concept "trilateral strategic relations" involving India, China and Nepal in 2010. He believed that this concept would "address concerns of all three at once." In 2012, Prachanda, in his capacity as Chairman of Nepal's Maoist Party, was reported to have signed a \$3 billion deal with the China-sponsored Asia Pacific Exchange Cooperation to develop Lumbini as a world-class cultural city and religious tourism destination.⁷ The envisaged project would enormously benefit China, India and Nepal, especially Bodhi Gaya, Sarnath and Kushinagar in Bihar. Maoist leader, Babu Ram Bhattarai, while addressing the Parliament on becoming Prime Minister in 2011 stated that, henceforth, Nepal should act as a "friendship bridge"⁸ and dispense with the notion that it is a "yam between two stones."

Arguably, India will prefer Nepal as the

Himalayan bridge economy for national security reasons, pending non-settlement of border disputes between China and India. Hence, it is of utmost importance for Nepal to take advantage of the Mid-Hill-East-West Highway and link it with Uttarakhand and Sikkim to create a Greater Himalayan Economic Corridor by extending the BCIM-EC to Bhutan and Nepal. Nepal needs to call for a revival of the SSR as a major new diplomatic thrust with China to establish a Trans-Himalayan Economic Belt. It should be underscored here that China has already urged India to join this belt.⁹ China foresees the Himalayas as the next frontier for global resource management and conservation, particularly in the wake of a) climate change and global warming and the fact that it serves as the Asian water tower for four to five billion people, and b) the yet-unknown mineral deposits in the Himalayan sub-region. It has already been reported that Afghanistan is endowed with \$1 trillion worth of newly found mineral deposits.¹⁰

It was projected that trade through Sikkim's Nathula Pass would be worth \$48 million by 2007 and will rise to \$527 million by 2010.¹¹ As it turns out, not more than \$5-6 million of border trade actually occurs. This suggests that security and defence politics take precedence over geo-economics. With such vast potential, Nepal was quick to declare in 2005 its interest to serve as a 'transit economy,' which was

7 "Nepal's Prachanda inks Lumbini deal with Chinese NGO: Report," *Global Post*, November 8, 2012, <http://www.globalpost.com/dispatches/globalpost-blogs/india/nepal-prachanda-lumbini-china>.

8 "Nepal to Act as Friendship Bridge between India, China," *Outlook India*, September 16, 2011, <http://www.outlookindia.com/newswire/story/nepal-to-act-as-friendship-bridge-between-india-china/735004>.

9 Pradumna B Rana and Binod Karmacharya, "A Connectivity Driven Development Strategy for Nepal: From a Landlocked to a Land-Linked State," ADBI Working Paper Series 498 2014, <http://www.adb.org/sites/default/files/publication/156353/adbi-wp498.pdf>.

10 "\$1 Trillion Trove of Rare Minerals Revealed under Afghanistan," *Live Science*, September 4, 2014, <http://www.livescience.com/47682-rare-earth-minerals-found-under-afghanistan.html#sthash.LFSq94IU.dpuf>.

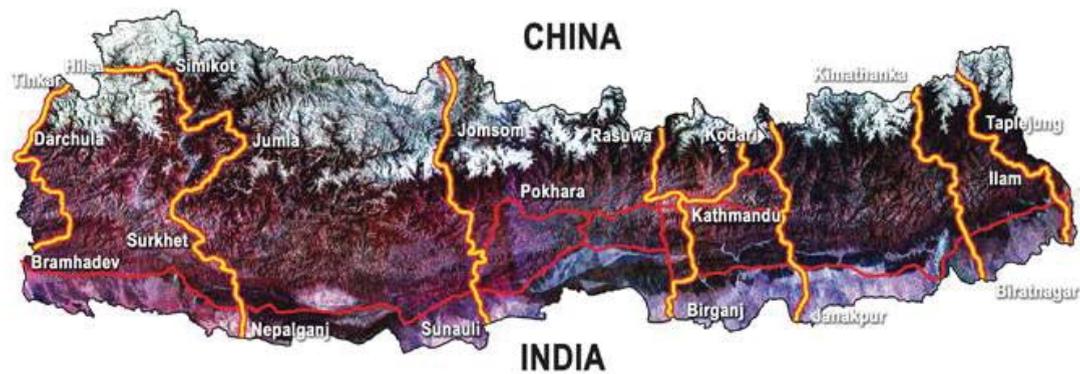
11 "Nathu La beckons," *Frontline*, July 15-28, 2006, <http://www.frontline.in/static/html/fl2314/stories/20060728002603600.htm>.

eminently possible as per the Treaty of Transit with India. Nepal's exports to Tibet rose from \$ 5.8 million in 1991 to \$33 million in 2005. 10% of the projected traffic through the Nathula Pass, diverted to Nepal, would be highly significant for Nepal's balance of trade with both China and India accruing from the transit fees.

It would also provide huge scope for the transit corridor from Birgunj on the Indian border to Tatopani on the Chinese border. There will be opportunities to invest in modern warehouses, container depots, material handling equipment, weighing bridges, inspection and testing laboratories, weighing bridges, repacking logistics centres, as well as provide modern living and eating amenities for truckers, agents and freight forwarders. Many more North-South Riverine transport corridors were planned to make it possible for traffic in transit directly

from West Bengal, Bihar and Uttar Pradesh in northern India.

China was most keen to develop outlying towns of the Tibet Autonomous Region (TAR). Beijing-Lhasa railway was extended to Shigatse in 2014,¹³ TAR's second largest city. Further, it was felt desirable that the TAR develop Zhangmu, connected to the Arniko Highway, as its premier port of entry into South Asia. The Nepali government has decided to ask China to expand the Arniko Highway as a four-lane highway connecting Tatopani to Kathmandu.¹⁴ It is the closest and fastest route to Shigatse. Additionally, seven trading points will now be opened up with Tibet—Yari, Mugu, Choser, Larke, Lamabagar, Kimathanka and Olangchula. In all, there will be a minimum of nine Trans-Himalayan trading points with China.

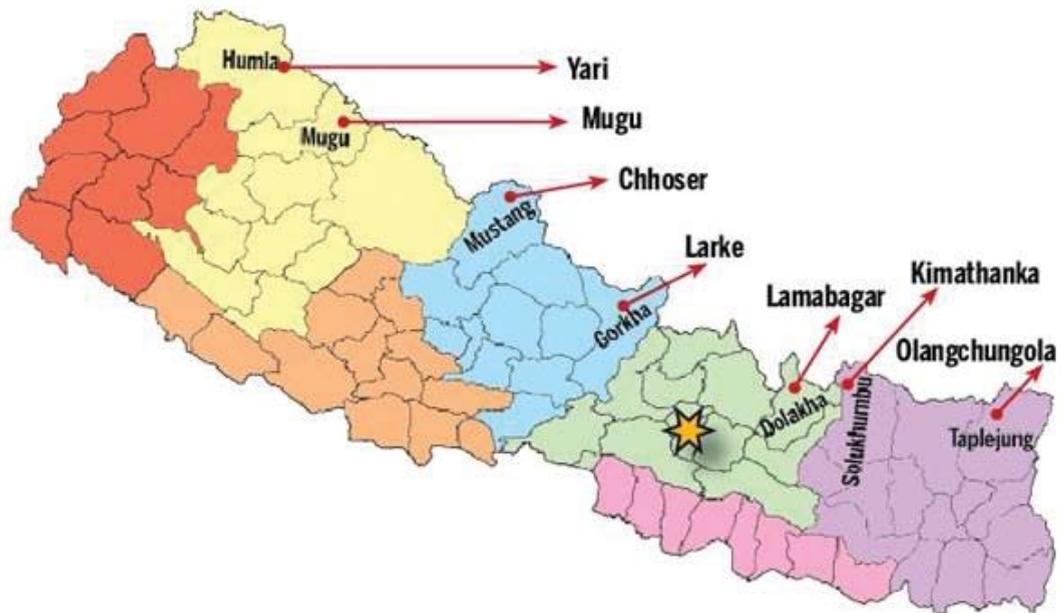


Map IV: North South Riverine Transport Corridors¹²

12 Department of Transport, Nepal Ministry of Infrastructure and Transport.

13 "Himalayan rail route endorsed," *China Daily*, August 5, 2016, http://usa.chinadaily.com.cn/business/2016-08/05/content_26361358.htm.

14 "Nepal to request China to expand Arniko Highway," *The Kathmandu Post*, November 9, 2015, <http://kathmandupost.ekantipur.com/news/2015-11-29/nepal-to-request-china-to-expand-arniko-highway.html>.



Map V: Trans-Himalayan Trading Points with China¹⁵



Map VI: China-Nepal Trade Links¹⁶

15 Department of Transport, Nepal Ministry of Infrastructure and Transport.

16 *The Hindu*, April 3, 2012, <http://www.thehindu.com/todays-paper/tp-international/china-boosts-trade-with-nepal/article3274944.ece>.

The TAR authorities were also giving priority to the development of its second-largest border entry port at Gyirong for both trade and tourism. As of 2012, it is complete, with an investment of \$190 million, establishing a 44.5 square kilometres-wide infrastructure facility with a logistic park, storage processing centre, joint customs post and a tourist centre. Transport corridors are not just confined to highways but also embrace airways, waterways, electricity grids, pipelines and gas lines, optic fibre lines and railways. Unlike transport or trans-shipment or transit corridors, economic corridors are more preferable, since more value addition takes place in the economies through production as a result of the transportation and distribution infrastructure. This happens from the backward and forward linkages created and the subsequent multiplier impacts.

Economic corridors must seek integration of sub-regions through value additions and supply chain innovations. For this to happen infrastructure in the form of highly capital-intensive SEZs, EPZs, FTZs, EPVs and industrial parks must be created. To gain maximum benefits, it would be ideal to revive the sub-regional South Asia Growth Quadrangle Framework and link it with the BCIM to integrate the eastern seaboard of the subcontinent with the Mekong region in the framework of BIMSTEC.

Five economic corridors are possible in Nepal. They are:

- Karnali Economic Corridor: Can integrate far west region of Nepal with Tibet, Kumaon, Northern Uttar Pradesh (Lucknow Growth Axis)
- Gandhak Economic Corridor: Can integrate west region of Nepal with Tibet, Northern Uttar Pradesh (Gorakhpur Axis)

- Bagmati Economic Corridors: Can integrate central region of Nepal with Tibet and Bihar (Patna Growth Axis)
- Kosi Economic Corridor: Can integrate eastern region of Nepal with Tibet, Sikkim, Darjeeling, Doars (Siliguri Growth Axis).

Another development of strategic significance for the Greater Himalayan Region is the construction of the Mid-Hill-East-West-Highway of Nepal with due emphasis on ten model town developments along the way to serve as growth centres. The new strategic highway will be 1176 kilometres long. It serves 24 districts in 215 village development committees and seven million people or 25% of the total current population. The Eastern section will traverse Chisobhanjyan-Ganeshchowk-Myaglung-Basantpur-Hile-Bhojpur-Diktel-Ghurmi-Dulikhel-Kathmandu-Pokhara, and the Western section will cover Pokhara-Baglung-Musikot Border-Rukumkot-Musikot-Chaujahari-Dailekh-Lainchaur-Saijula-Silgadi-DSatbanjh-Jhulaghat.

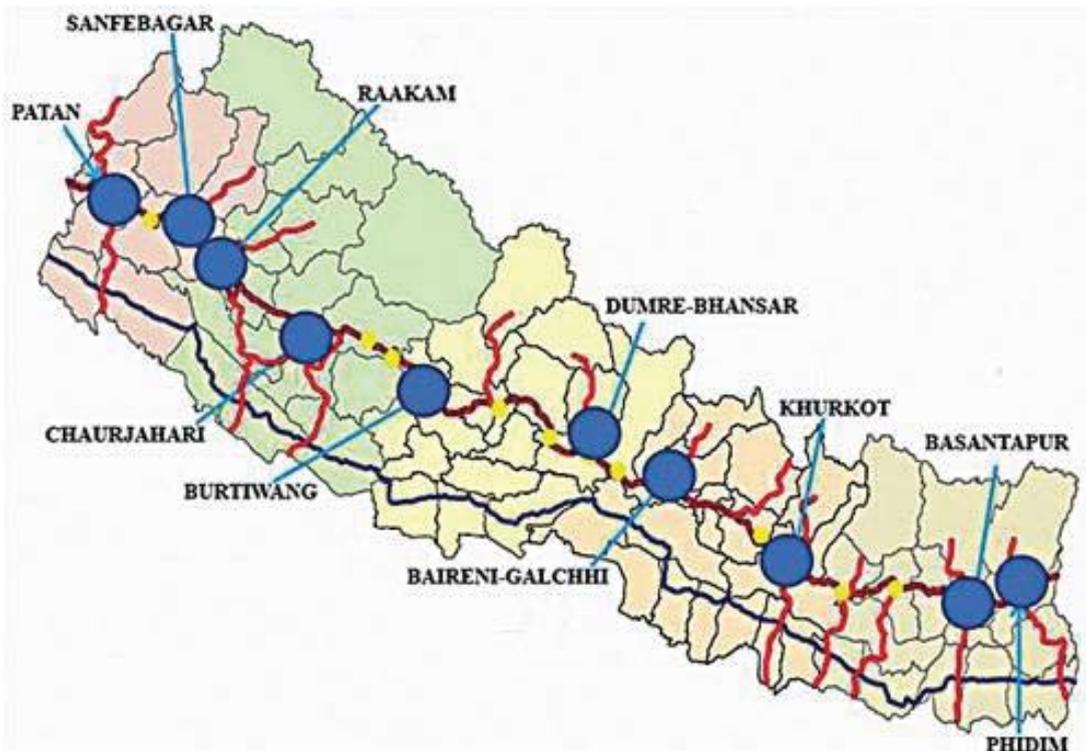
The Nepali government's plan to establish ten model cities along the mid-hill highway is observed as a special attraction. Proposed cities are Phidim (in Panchthar district), Basantapur (Terhathum), Khurkot (Sindhuli), BaireniGalchhi (Dhading), Dumre (Tanahun), Burtibang (Baglung), Chaurjahari (Rukum), Rakam (Dailekh), Sanfebagar (Achham) and Patan (Baitadi). The significance of this highway is that, other than halting migration to the plains, it will make possible 'off season' export of crops to India and China from its ecological diversity. Phidim and Baitadi are entry points to Sikkim and Uttarakhand respectively which, if connected, will open a 'new horizon' for Himalayan sub-regional cooperation extending to Himachal Pradesh for the creation of a Green

Himalayan Economy.

It is hoped that these three Himalayan entities will join hands to plan various Green Missions keeping sight of the broader Asian and world markets. Such Green Missions could concentrate on specialisations in different horticulture, floriculture and medicinal herb products and services through intensive cultivation of selected crops, and their processing, global marketing and branding. Joint efforts in development, promotion and marketing in the field of religious and adventure tourism is another potential, especially in setting up a World Spiritual City in the Kailash Mansarovar region of Tibet. Huge scope for joint venturing and creation of Himalayan MNCs exists to take full advantage of the markets in China and Northern India in the

areas of cement, pulp and paper manufacturing, medicinal herbs and pharmaceuticals, iron and steel, fertiliser and tourism resorts. The potential for development and growth that is possible from THEC is staggering when one considers that the total population of the area could be more than 200 million without including Uttar Pradesh, and nearly 400 million including it, if we can form this trilateral THEC involving China, India and Nepal. The economic corridor can also be envisaged by networks such as airways, waterways, ferry services, and energy and gas grids.

Should the BCIM-EC be extended to Bhutan and Nepal, one can expect two dynamic developments, namely (a) the Kosi River Basin Economic Corridor, Asian Development Bank's



Map VII: Model Cities along Nepal's Mid-Hill Highway¹⁷

17 Department of Transport, Nepal Ministry of Infrastructure and Transport.

SASEC sub-regional programme, in the near future and (b) a Kathmandu Haldia Transport Corridor, which if it materialises, will restore the pride of Kolkata as the grand Asian metropolis that it was during the British Raj—but this time connected by sea as well as land to the rest of the world.

As Nepal seeks to be a transit economy or a bridgehead economy, it should be clear that it wishes to serve as an agent of change to realise the once dreamt Asian Community of the late 1940s and now being revived as the ‘Chinese Dream.’ The Asian Community needs air, land, inland water and sea connectivity, as well as cyber connectivity. While such connectivity is necessary it is not sufficient. There is need for what could be called ‘Total Connectivity.’ This means markets must be connected through bilateral free trade agreements (FTAs). As we know, FTAs will need to be supported by Build-Operate-Transfer-oriented investments to create ‘production complementarities’ along with the ‘trade complementarities’ rendered by FTAs. Production complementarities may be created through creation of supply chains in select products or sub-sectors and also through relocation of the highly labour intensive industries into Nepal from China (e.g., leather and leather products, textiles and garments, locks, etc.)

Market connectivity must be supported by institutional connectivity to realign macro and mega policies. This requires connectivity between public and private sectors, and not least, municipal governments. Financial and legal connectivity is another area where we have to connect the money and exchange regimes that may have to innovate with new instrumentalities like stocks, bonds, as well as barter like trade over infrastructure, in each territory. This way

we have a trade and exchange regime that uses national currencies while developing capital and bond markets as well. Connectivity between municipalities is also important to understand local development plans and to help municipalities integrate themselves with the OBOR/BCIM or THEC. Human capital connectivity is fundamental if we are to have all this connectivity not just for growth, but also jobs. For jobs we need our human capital to be of the highest quality and in tune with the labour market demands. This calls for connectivity in the areas of science, technology education, and research and development (R&D), where we seek common standards and technical qualifications.

Conclusion

Political scientists look upon trilateralism as an impossibility where it involves triangular relations between powers that are not equal. Economists look upon it as a straight line or corridor spanning geographic borders to gain from the opportunities arising from differential resource endowments, and fiscal differentials because of comparative advantage or competitive advantage or manufacturing supply chains. How does one explain the movement of once imperialist Japan’s labour intensive manufactures—called flying geese—to Korea and Taiwan and, later, China and Southeast Asia? Also, it is misguided to think that small powers wish equal status in political terms so long as the economic benefits are mutual and, ideally, equitable.

Technology can change the face of the earth. It was so with the steamship in the medieval age. In the 21st century, it looks likely that technological determinism will be pronounced with the massive spread of high-speed railways, at least

in the Himalayan region, ushering in a new paradigm in international relations. The advent of the railway into Tibet and its borders in South Asia is a new factor, with all the force for change emanating through the so-called ‘economic pull factor’ from the Tibetan plateau on its South Asian neighbourhood that could spread into the Ganges Basin. What explains better the interest of India to now opt for the BCIM-EC despite the traditional security risks of opening up its Northeastern region to the outside world? Going further, it may be hypothesised that trilateral economic cooperation is more beneficial from a security perspective for big powers for the

It may be hypothesised that trilateral economic cooperation is more beneficial from a security perspective for big powers for the simple reason that security risks are curtailed in trilateralism when it engages strong buffer states.

simple reason that security risks are curtailed in trilateralism when it engages strong buffer states (such as Nepal and Myanmar). This is why trilateralism is preferred to bilateralism by big powers.

The above arguments also lead us to conclude that precisely owing to economic and technological determinism, it is not necessary to have a common security agreement or understanding before trilateral cooperation can ensue. Non-traditional security threats are solid causes for trilateralism. Further, security agreements or understanding curtail the manoeuvrability of

the smaller powers from reaching out to extra-regional big powers which are strategic for their survival. Economic corridors are excellent confidence-building investments to deal with the emergent mega risks from the impending water security challenge caused by climate change and global warming, and the inevitability of complex disputes over riparian rights—upper, middle and lower.

Chinese scholars admit that for Xi’s ‘China Dream,’ anchored on the Silk Road and Route strategies, to succeed, innovations in international relations are eminently needed.

So far, these ‘innovations’ are limited to creation of transport corridors and massive investments in the infrastructure necessary for the deserted corridors. This includes energy grids as well as communication networks to supplement the transport and logistics networks.

Beyond this, Chinese scholars speak of cooperation in new frontiers such as human capital development. It recognises how devolved planning and management of corridors can and should be, by calling for institutional innovations such as formation of transporters, industrialists, traders alliances, creating ‘alliances between cities’ along the corridor, and discovering networking mechanisms between these institutional platforms.¹⁸

Chinese scholars and planners must begin to visualise that at least in China’s immediate neighbourhood, what is important is not transport corridors but economic corridors leading to sub-

18 Shi Ze, “‘One Belt and One Road’ & New Thinking with regard to Concept and Practice,” New Paradigm, Schuller Institute, <http://newparadigm.schullerinstitute.com/media/one-road-and-one-belt-and-new-thinking-with-regard-to-concepts-and-practice/>.

regional integration of contiguous territories. Furthermore, for the Himalayan sub-region China must envision rivers as the bedrock of sub-regional cooperation, for harmonious development with peace and security at the helm. It is therefore suggested that harnessing the Indus, Ganges and Brahmaputra Rivers in the context of a broader, macro-level River Basin Development would be ideal for all partners for shared prosperity and sustainability. This would require that economic corridors focus on agriculture and agro-processing, forestry and forestry products, mining and mineral products, water resource engineering, construction engineering, S&T and R&D for creation of world-class intellectual capital among others as priority areas.

To underscore the above argument, economic corridors are perfect tools for sub-regional cooperation through devolution of responsibility and authority to local bodies and communities. They need seamless connectivity by road, rail, waterway, rope way, grids, etc. Importantly, however, the markets must be integrated and

supported by financial cooperation from local governments and banks, with risks judicially shared by all the central governments.

Japan Rising 1950's vision of an Asian Highway Network is being revived as it, too, wishes to promote its technology, know-how and surplus dollars, and invest in Asian infrastructure—perhaps in competition with China. This will be a welcome development for South Asia as the region will have greater choice over sources and projects. It also promises to benefit South Asia in another direction, namely the possible development of Asian MNCs that combine East Asian finance, technology and know-how with South Asian labour for the construction of the mega infrastructure trans-Himalayan projects to build connectivity, and harness its vast water resources for water security, energy security, food security and riverine transportation. It must be noted that the momentum with which THEC assumes shape and form will depend critically on the settlement of all bilateral boundary issues between neighbours.



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ECONOMIC AND SECURITY IMPERATIVES



THE MSR ECONOMIC CORRIDOR: Character and Implications*

AMITENDU PALIT

Regional connectivity initiatives in Asia have received a great boost from China's ambitious connectivity plan of linking the continents of Asia and Europe through an integrated network of land and sea routes. The network is being referred to as the One Belt, One Road (OBOR) and the Maritime Silk Road initiative (MSR) is a part of this integrated framework. This paper focuses on some of the key issues connected with the evolution of the MSR. These include the conceptualisation of the MSR as an economic corridor, implications of the new connectivity framework for regional trade and businesses, and the possible impact of the MSR on China-India economic relations.

Maritime Regional Economic Corridor

Geographically, the MSR connects East Asia and the Chinese coast through the South China Sea, Indian Ocean and the Bay of Bengal to Southeast Asia and South Asia, and further to West Asia and Europe through the Persian Gulf and Mediterranean Sea. The objective of the initiative is to build transport linkages across this vast stretch of maritime terrain through new seaports and their integration with existing (possibly some new) sea-lanes and land routes that are part of the New Silk Road Economic Belt¹—the land component of the OBOR. The unique aspect

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1 National Development and Reform Commission (NDRC), People's Republic of China, "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road," National Development Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce of the People's Republic of China, issued with State Council Authorisation, March 28, 2015, http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html.

of the initiative is not only in the simultaneous integration of land and sea networks, but also the visualisation of the networks as economic corridors. The conceptualisation of the MSR as a sea-route corridor by China, as part of the grand OBOR fanning out connectivity frameworks across the land and sea, is not surprising given China's proclivity in building corridors. What is notable, though, is the development of MSR as a maritime economic corridor, given that these are usually posited for land routes.

A corridor like the MSR spanning vast terrains and stretching across countries, regions and even continents would inevitably cover areas that are disparate in economic conditions, capacities and circumstances. Regions and sub-regions within Asia themselves differ widely in their capacities to trade and quality of infrastructure facilities. In this regard, East Asia and Southeast Asia are far more economically integrated than West Asia, Central Asia and South Asia. Robust intra and inter-regional trade in East and Southeast Asia reflect the significant intra-industry trade between countries of these regions and the extensive presence of regional firms in global value chains (GVCs). Such trade and presence of firms in GVCs is much less in other parts of Asia that feature in the MSR. Along with the intensities and abilities to trade, logistic capabilities also vary widely among countries in the MSR, with Europe, East Asia and Southeast Asia leading the other regions and countries by fairly large margins. The inevitable implication of these variations in economic conditions and capacities is the differentiated abilities of regions and countries to exploit the advantages of economic corridors. Countries with larger and more efficient ports and better logistic capacities will be relatively better placed to exploit the new facilities of the MSR. India is likely to be among those which would not be well placed to reap the

maximum benefits of new infrastructure until it is able to upgrade its own capacities. This would be in contrast to more exciting prospects of the MSR visualised by businesses from China, Southeast Asia and Europe, understandably due to their better capacities.

Regional Implications

Regional variations in extant economic capacities and conditions across the MSR geography become particularly distinct if analysed from the vantage point of regional trade architectures. The MSR will have implications for these architectures, as business perceptions of regional trade and investment, that are shaped by rules and standards of different regional and bilateral free trade agreements (RTAs and FTAs), might alter significantly with new connectivity links produced by the MSR. The relationship and complementarity between the MSR and the various RTAs and FTAs will also influence various economic relationships in the region.

The MSR's relationship with regional agreements will depend significantly upon how closely it aims to work with various existing regional forums and frameworks. Enhancing regional cooperation is a stated objective of the MSR. The initiative notes various existing regional and multilateral mechanisms that can be useful for expanding regional cooperation. These include the Shanghai Cooperation Organisation (SCO), ASEAN+1 (China), Asia-Europe Meeting (ASEM), Asia-Cooperation Dialogue (ACD), Asia-Pacific Economic Cooperation (APEC), Central Asia Regional Economic Cooperation (CAREC), Conference on Interaction and Confidence-Building Measures in Asia (CICA), China-Arab States Cooperation Programme and the Greater Mekong Sub-Region Economic

Cooperation (GMS-EC).² It is important to note that all these forums include China. The MSR vision document avoids mentioning other important non-Chinese regional frameworks such as the South Asian Association for Regional Cooperation. This can send counterproductive signals to other countries, implying a perceived reluctance on the part of China to work with other major non-Chinese regional forums. The impression could colour the MSR network as largely being an effort for fulfilling China's national interests, aimed to be served by working with regional groups that include China.

Users of existing RTAs and FTAs will be judging the benefits of MSR in the backdrop of the trade rules institutionalised by these agreements. Indian businesses, for example, will be considering India's existing FTAs, such as the one with ASEAN, in this regard. The India-ASEAN FTA requires goods to be shipped 'directly' between parties to the FTA, i.e. from India to any of the ten ASEAN countries, and vice-versa, for availing preferential tariffs. Shipments through third country ports under the FTA are allowed only under specific circumstances. It is important for new facilities on the MSR to note this condition along with similar conditions in other regional FTAs. Not all new maritime facilities along the MSR will be trans-shipment hubs, as they will lack the ability to handle giant containers with large cargoes. The MSR may lose much of its commercial appeal unless it is able to feed into the trade rules architecture of the region and mature in a

way that is complementary to these rules.

The MSR and OBOR envisage providing seamless linkages to land and maritime cargo. To a very large extent, the MSR's eventual effectiveness as an economic corridor capable of significantly reducing transport costs will depend on the matching support it obtains from its 'land' counterpart. Challenges are particularly significant in this regard, as cross-border transport movements of vehicles will require reaching political agreements among various countries. Despite years of discussions, countries within South Asia have not been able to agree on common transit facilities across the region. It is only recently that Bangladesh, Bhutan, India and Nepal (BBIN) have signed a Motor Vehicles Agreement for facilitating movement of vehicles across each other's territories.³ A similar transport transit agreement between India and Southeast Asia⁴ is essential for ensuring greater pan-regional connectivity across the OBOR and for greater effectiveness of the MSR.

Back-end land connectivity across neighbouring geographies is vital for making the new maritime infrastructure facilities of the MSR efficient and attractive to businesses. From a business perspective, however, the commercial prospects come up against political hurdles, evident from the difficulties faced in constructing land links through the Northeast Indian state of Arunachal Pradesh over which China and India have a territorial dispute.⁵ These hurdles

2 Ibid.

3 "Full Text of BBIN Agreement on Motor Vehicles," <http://nepalforeignaffairs.com/bbin-agreement-on-motor-vehicles-agreement/>.

4 "India for Greater Transport Connectivity with ASEAN," *The New Indian Express*, August 25, 2014, <http://www.newindianexpress.com/nation/India-for-Greater-Transport-Connectivity-with-ASEAN-Sushma/2014/08/25/article2397830.ece>.

5 "China-India fast-track BCIM Corridor Project," *The Hindu*, June 26, 2015, <http://www.thehindu.com/news/national/china-india-fasttrack-bcim-economic-corridor-project/article7355496.ece>

complicate prospects of exhaustive cross-border transit facilities, not only between India and China, but also between India, Myanmar and Thailand because of security concerns arising from movement of insurgents across porous borders. With security concerns looming large in the decision-making space, multi-country coordination between various national agencies for issuing licenses and permits for transport movements will be difficult to achieve.

Economic Implications for India

China is currently India's largest trade partner with a share of 9.5% in its total merchandise trade of 758 billion in 2014-15.⁶ Sino-Indian bilateral trade has grown rapidly from around 1 billion at the beginning of the century. The fast growth has been accompanied by a conspicuous imbalance with China enjoying a sizeable surplus of around 67% of the total trade. Along with trade, cross-border investments have also been increasing between the two countries, though inward foreign direct investment (FDI) from China into India remains much lower than from other countries. This is in sharp contrast to the high stock of outward Chinese FDI in Asia, reflecting China's high trade and investment links with the continent, particularly Hong Kong.⁷

From the Indian perspective, Chinese FDI is welcome as an effective means for addressing the large bilateral trade deficit through its role in expanding export-oriented production capacities in India.⁸ In terms of the larger macroeconomic policy perspective, Chinese investments are particularly welcome in the signature 'Make in India' programme aiming to develop India into a global manufacturing hub. Most Chinese investments in India, up until now, have been focused towards the domestic market and domestic consumers. They are spread across a diverse variety of sectors. Renewable and solar energy has been an important sector attracting Chinese firms, along with real estate.⁹ Greater involvement in technological upgradation of railway infrastructure in India has attracted considerable Chinese financial investments and technology.¹⁰ Chinese firms (Xiaomi, Gionee, Lenovo and Motorola¹¹) find India an attractive location for making cheap smartphones for domestic consumers, and also for exporting to third country markets in South Asia and Africa. Some of these firms (e.g., Xiaomi, Oneplus) have tied up with the Taiwanese contract-manufacturing firm Foxconn, which assembles products for both Apple and Samsung, to make smartphones in India. With China becoming a net capital exporter and its outward FDI exceeding inward FDI, Chinese FDI in India is expected to increase given India's large market, bright

6 Export Import Data Bank, Department of Commerce, Government of India, <http://commerce.nic.in/eidb/iecnttopn.asp>.

7 Alicia Garcia Herrero, "China's Outward Foreign Direct Investment," *Bruegel*, 28 June 28, 2015, <http://bruegel.org/2015/06/chinas-outward-foreign-direct-investment/>.

8 "Investment the Way to Reduce the India-China Trust Deficit," *The Wire*, May 16, 2015, <http://thewire.in/2015/05/16/investment-the-way-forward-to-reduce-india-china-trust-deficit-1871/>.

9 The Samy Group and Clint Group from China have invested in manufacturing renewable energy and solar power equipment in India, while the real estate group Dalian Wanda plans to expand beyond its current investment in Navi Mumbai in India's Western state of Maharashtra to industrial townships and real estate projects in other major states of India such as Haryana, Andhra Pradesh, Gujarat and Delhi.

10 "China has a lot to offer to Indian Railways: Suresh Prabhu, Railway Minister," *The Indian Express*, May 17, 2015, <http://indianexpress.com/article/cities/ahmedabad/china-has-a-lot-to-offer-to-indian-railways-suresh-prabhu-railway-minister/>.

11 "Chinese Smartphone makers fall in love with PM Modi's 'Make in India'," *Sify News*, October 12, 2015, <http://www.sify.com/news/chinese-smartphone-makers-fall-in-love-with-pm-modis-make-in-india--news-business-pkmqnMiigdehd.html>.

economic outlook and lower cost of labour-intensive operations. This is where the OBOR and the MSR, initiatives expected to draw considerable Chinese FDI, have implications for India too.

Greater Chinese investments in India would induce more trade, as Chinese firms typically import extensive parts and components from mainland China and other parts of the Asia-Pacific region for assembling in India, and export assembled final products to third

If the MSR is successful in decongesting traffic on the Malacca Strait, shipping time will reduce considerably between China and India. Faster traffic and greater trade would, however, imply more pressure on Indian ports, particularly on the east coast.

country markets from India. The trade-inducing investments can also facilitate greater integration of India in GVCs featuring Chinese producers. The prospect becomes particularly encouraging given that China and India feature in the Regional Comprehensive Economic Partnership,¹² and its rules of origin can activate GVCs connecting both countries. Enmeshing with the OBOR, both through the maritime route of the MSR, as well as the land connections of the Silk Road Economic Belt, would facilitate these GVCs. India's successful integration in the OBOR requires creating new maritime capacities, particularly on its east coast, for plugging into the MSR

routes; developing seamless land transits with China, Pakistan, Bangladesh, Bhutan, Nepal and Myanmar; and building internal infrastructure connecting its seaports on the east and west coasts to the hinterland and land borders with other neighbours. These steps however, involve formidable challenges.

As pointed out earlier, several ports from East Asia, Southeast Asia and Europe figure among the busiest ports of the world, underpinning the importance of maritime trade between China and

Europe¹³—a vital commercial exchange relation that the MSR aims to consolidate. Most Chinese ports are relatively more efficient than Indian ports with far greater capabilities of handling mega-ships and large cargo, and enabling quick berthing and turnaround time for them. The situation is different in Indian ports. Major ports on

India's east coast (e.g., Kolkata, Visakhapatnam and Chennai) and west coast (e.g., Kochi, Kandla, Mumbai and Jawaharlal Nehru Port Trust) are on the Indo-China trade route. The average travel time for container cargo from China to India's east coast is 15-20 days and can extend to three weeks for the west coast. If the MSR is successful in decongesting traffic on the Malacca Strait, shipping time will reduce considerably between China and India.

Faster traffic and greater trade would, however, imply more pressure on Indian ports, particularly on the east coast. Better capacities of Indian

12 The Regional Comprehensive Economic Partnership (RCEP) is a mega Regional Trade Agreement (RTA) being negotiated by ten economies of the ASEAN, Australia, China, India, Japan, New Zealand and South Korea.

13 Asia-North Europe and Asia-Mediterranean were the second and third busiest maritime routes, after Asia-North America, in 2013, according to statistics prepared by the World Shipping Council, <http://www.worldshipping.org/about-the-industry/global-trade/trade-routes>.

ports are imperative in this respect. Of particular significance in this regard is the Kolkata port, which features in the official map of the MSR released by China,¹⁴ and is vital in connecting the Bangladesh-China-India-Myanmar economic corridor project to the MSR. The port can be an important conduit in the flourishing of value chains connecting Chinese and Indian firms. This cannot happen unless the Kolkata port is able to overcome structural problems arising from it being a riverine port and being subject to heavy silting as well as low depth. It is encouraging to note that modernisation efforts in Kolkata port are producing results with the port being awarded ‘Major Port of the Year’ among major ports in 2014-15.¹⁵ The port needs to develop keeping in mind the long-term objective of developing into a trans-shipment hub in the Bay of Bengal and achieve the efficiency levels of the Colombo port, which is a Sino-Sri Lankan joint venture.¹⁶

The success of GVCs connecting Chinese production facilities located in India to various parts of the economic region covered by the MSR depend significantly on the ease with which goods can travel from within India to various seaports on both of its coasts. Land connections become particularly important in this regard, particularly road connections to Kolkata port, along with links connecting various other ports on both coasts. While connections to the Kolkata port across its hinterland have improved significantly

in recent years due to the construction of national highways and upgrading of state highways, movement of road transport continues to suffer from delays because of multiple inefficiencies. These include a large number of inter-state check posts affecting traffic and toll plazas across national highways. Indeed, delays faced in road transport, along with delays encountered at major ports due to inefficiencies like higher turnaround times, are major reasons contributing to higher container costs from India compared with China and Singapore.¹⁷ These costs make it easier to export from China to India, as opposed to the other way around, and are important in explaining the much larger volumes of Chinese exports to India. Unless these operational costs reduce, greater connections to seaports and land borders will still leave exports from India uncompetitive.

It is therefore clear that the eventual success of the MSR as an economic corridor will depend significantly upon how its constituent regions and countries, including India, are able to develop their own infrastructure capabilities for taking advantage of the new cross-continental sea route. The challenge is substantial, given that it not only involves extensive commitments from national country authorities and agencies, but also considerable political accommodation and agreement. The challenges might limit the initial benefits of the corridor to only those economic actors that are ahead of their counterparts in

14 Xinhua’s map of the New Silk Road outlines its clearest geography till now. See “New Silk Road Project,” Great Silk Road, October 5, 2015, <http://greatsilkroad.com/new-silk-road/new-silk-road-project/>.

15 “Kolkata Port Adjudged Major Port of the Year,” *The Times of India*, August 26, 2015, <http://timesofindia.indiatimes.com/city/kolkata/Kolkata-Port-adjudged-Major-Port-of-the-Year/articleshow/48687327.cms>.

16 “Colombo breaks through as South Asia’s next big trans-shipment port,” *Joc.com*, October 20, 2015, http://www.joc.com/port-news/asian-ports/port-colombo/colombo-breaks-through-south-asia-s-next-big-transshipment-port_20151020.html.

17 The Associated Chambers of Commerce in India (ASSOCHAM) estimates container costs from India to be double of those in China and thrice of those in Singapore. The ASSOCHAM study estimates the cost of shipping a container from India at around US\$1200 compared with US\$600 from China and US\$400 from Singapore. See “WTO pact or not; India has to catch up fast on trade facilitation; costs are prohibitive: ASSOCHAM,” ASSOCHAM, August 26, 2014, <http://assochem.org/newsdetail.php?id=4657>. The ASSOCHAM study vindicates similar conclusions by other agencies (OECD 2005).

abilities and capacities, and may therefore end up producing mixed results.

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CHINA'S MSR:

A Strategic View from India

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Chinese President Xi Jinping rolled out the ambitious Maritime Silk Road (MSR) plan in late 2013. The project, which aims to connect Southeast Asia with Europe through the Western Pacific and the Indian Oceans, is being founded on economic benefits for the entire region. There is no doubt that such a plan would strengthen the region's connectivity and bolster Asia's economic integration. However, the road map to realising this project has serious underlying strategic implications for India, which cannot be ignored.

The Strategic Lens

Looking at the MSR against the backdrop of recent regional developments, it becomes difficult to ignore the strategic and security undertones of the project. President Xi announced the

initiative during his visit to Indonesia in 2013, at a time when China's neighbours were beginning to voice their concerns over the developments in the South China Sea. The Scarborough Shoal incident in 2012 had garnered international attention on the disputes, and with the change in Chinese leadership in 2013 there was a new sense of nationalism in defending what China considered its own. If Deng Xiaoping advocated "hide your strength and bide your time,"¹ the current leadership is advocating a stronger foreign policy to achieve the great "Chinese dream."² To achieve this dream, China will have to emerge as a strong leader, be a responsible security provider, and influence the security and economic environment globally. Establishing a favourable status quo in the South China Sea was only a natural choice.

Chinese assertiveness in fortifying its claims

1 For an analysis of China's changing foreign policy, see "Less biding and hiding," *The Economist*, December 2, 2010, <http://www.economist.com/node/17601475>.
2 See President Xi Jinping's speech at the 12th meeting of the National People's Congress, March 2013, http://news.xinhuanet.com/english/china/2013-03/17/c_132240367.htm.

in the South China Sea flows naturally from Beijing's maritime outlook linked to its path to becoming a great power. This vision has caused tensions in Southeast Asia, with the Philippines and Vietnam defending their claims with equal vigour and protesting Chinese actions on the matter. Soon, China's immediate neighbours were alleging intimidation and bullying on the part of Beijing, leading to souring of ties with some Southeast Asian countries. The South China Sea also put the Association of Southeast Asian Nations (ASEAN) to test as a regional institution and brought forward its weaknesses and challenges. As China's relationship with ASEAN members entered troubled grounds, other disputing nations turned to extra-regional powers for support and to stabilise the situation. China opposed international engagement on the issue and continues to warn the United States and other nations to not aggravate the situation.

However, one cannot aim to be a great power with poor relations with its own neighbours. In September and October 2013, Chinese President Xi Jinping and Premier Li Keqiang ventured on a "charm offensive,"³ visiting Malaysia, Indonesia, Thailand, Brunei, and Vietnam as well as attending the Asia-Pacific Economic Cooperation (APEC) and the East Asia Summit (EAS) in an effort to mend ties and foster better relations. China's 'charm offensive' incidentally coincided with Washington's government shutdown at home, leading to an American

absence at regional platforms during the time. As the international community began to debate a weakening American influence in the region—due to Washington's commitments in other parts of the world—China took the opportunity to present itself as a regional leader both in the economic and security spaces. At APEC and EAS, China emphasised regional connectivity and cooperation, presenting itself as a credible alternative to lead and manage issues in Asia, to begin with. It was also at this point that China advocated the mantra of 'Asia for Asians,'⁴ which essentially implies that there is now a time to create a structure and security framework that can be conceived, run, and sustained by Asia, perhaps led by Beijing. China adopted the policy of 'win-win'⁵ cooperation, where it will help its regional partners develop as it marches down the path of growth and development itself.

Xi Jinping announced the launch of the MSR during his trip to Indonesia,⁶ capitalising on the need for better regional connectivity and infrastructure development. Whether it is viewed from the economic lens or the security lens, there is no denying Asia's need for connectivity corridors and the market available for it. The rise of China and its ambitions to realise the great Chinese dream, too, rely heavily on better connectivity within the region and beyond.

If China was being assertive in the South China Sea, it was also being a leader in presenting

3 Phuong Nguyen, "China's Charm Offensive Signals a New Strategic Era in Southeast Asia," CSIS, October 17, 2013, <http://csis.org/publication/chinas-charm-offensive-signals-new-strategic-era-southeast-asia>.

4 See Xi Jinping's speech, "New Asian Security Concept for New Progress in Security Cooperation," May 21, 2014, http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1159951.shtml.

5 Chinese leaders have been using the term 'win-win' in most of their bilateral and multilateral engagements. For one example, see, Speech by Foreign Minister Wang Yi at Luncheon of the China Development Forum on "Toward a New Type of International Relations of Win-Win Cooperation," March 23, 2015, http://www.fmprc.gov.cn/mfa_eng/wjb_663304/wjbz_663308/2461_663310/t1248487.shtml.

6 See speech by President Xi Jinping to the Indonesian Parliament in October 2013, http://www.asean-china-center.org/english/2013-10/03/c_133062675.htm.

alternatives to address the economic needs of the region. Whether it is Vietnam or the Philippines in Southeast Asia or India on the west of Malacca, Chinese economic opportunities are as difficult to ignore as their underlying strategic implications.

Sino-Indian Competition/Great Power Rivalry

China and India are both rising powers and considered to be two giants of Asia. However, India's lack of a leadership directive for the region has placed China ahead of the game in some sections. Beijing's growing economic weight and its domestic reforms have allowed China to project its influence in regions far from its shores. China's slow and steadily increasing presence in the Indian Ocean has forced India

China is not looking to overthrow American dominance in the world, at least not yet. It has benefitted immensely from the current security order and is only looking to present itself as a parallel leader.

to re-evaluate its own maritime policies. The MSR connects the Western Pacific to Europe through the Indian Ocean, an area of primary interest to India and the Indian Navy. It is in fact a theatre of geopolitics where India considers itself an eminent power. In the Indian Ocean, it gives China leverage in regional politics in an area which is otherwise considered to be India's

sphere of strategic influence. It presents Beijing as a credible regional leader, willing to address challenges through cooperation, something which India is struggling to articulate at this point in time. More so, it brings China in the proximity of Indian interests, challenging New Delhi's way of engagement with its neighbourhood.

However, for China's dreams to materialise, it will have to increase its presence in other parts of the world. If China is no match to the United States militarily, the latter is also no match to China's economic initiatives supported by a credible investment framework. China's connectivity map for the world could place Beijing at the great powers table, increasing its influence and stake in world politics.

It is important to note at this point that great power rivalry of the 21st century appears to be different from what history suggests. China is not looking to overthrow American dominance in the world, at least not yet. It has benefitted immensely from the current security order and is only looking to present itself as a parallel leader. Instead of a bipolar world, China is looking to create a multipolar world⁷ where it can be a strong leader with great power abilities. Establishments such as the Asian Infrastructure Investment Bank (AIIB) are an example of Chinese leadership without breaking down existing mechanisms. Much to Washington's disappointment, the AIIB presents China as a credible actor in addressing Asia's economic concerns. The example of AIIB is

7 People's Republic of China, "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road," National Development and Reform Commission, March 28, 2015, http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html.

also suggestive of what China can accomplish through economic initiatives. Despite strong opposition from the United States, traditional American allies such as the United Kingdom and Australia signed up for the initiative. It is also indicative of a changing geopolitical trend towards a multipolar world and more so, a shift from the post-Cold War order as far as security and strategic initiatives go.

For the smaller island nations of the Indian Ocean Region (IOR), Chinese investments mean an alternative to a space traditionally dominated by one player—India. Where India lacked a vision, China rolled out a structured framework in achieving its foreign policy goals. New Delhi had little choice but to join the AIIB, given its economic benefits and India's own need for capital to boost its infrastructure gap. However, India's decision to join the MSR has not been that easy, even though it compliments New Delhi's own connectivity and infrastructure development plans. Whether the MSR was an intentional strategic initiative or not, it does not rule out the fact that it is yielding benefits toward Chinese ambitions of becoming a global power.

Security Concerns

The security concerns in the maritime space at large can be summed up in the words of Admiral Scott H. Swift, Commander, US Pacific Fleet. Addressing a conference on maritime security in Canberra, Admiral Swift noted, "On one side is a potential return of might makes right after more than seventy years of stability. On the

other is a continuum of the international rules based system that has served us all so well..."⁸ Which one do we choose? Arguably the region is involuntarily turning towards adopting new security architecture as an effect of current geopolitical shifts. As new powers continue to rise and claim a stake in security frameworks, established rules and norms are bound to be challenged. It is this change which is so uncertain, and is creating concerns and strategic suspicion regarding new developments in the region.

India and China have interacted with each other since ancient times. However, the two Asian giants are only starting to communicate in the maritime space now, unfortunately in a hostile environment. How the rising powers of the region manage this new relationship with overlapping strategic interests will shape the new security order in the region. The issue is not about rising powers; it is an accepted custom that every developing nation with great power ambitions will question and contest established norms. What is at stake are the rules and norms that follow this rise, and whether the global community accepts them. The issue for India is how the new norms affect New Delhi's strategic and economic interests. At this point, China has more economic and strategic clout than India on the global stage. India is no match to China's ambitious connectivity plans and is forced to open its own projects to Chinese investments. While opening up to Chinese investments can be credited to the new government with its pragmatic China policy,⁹ New Delhi has to balance between infrastructure needs and strategic interests. A serious security concern

8 Please see Commander Swift's speech at "Indo-Pacific Maritime Security Conference," March 16, 2016, <http://www.cpf.navy.mil/leaders/scott-swift/speeches/2016/03/maritime-security-anu.pdf>.

9 C. Raja Mohan, "Delhi seems ready to compete with Beijing where it must and cooperate where it can," *The Indian Express*, April 16, 2016, <http://indianexpress.com/article/opinion/columns/india-china-dialogue-towards-new-realism-2755457/>.

with China's connectivity plan is the growing relationship between Beijing and Islamabad. Gwadar is not a stop on the MSR map and Beijing has a bilateral economic corridor with Pakistan—the China-Pakistan Economic Corridor—instead of Pakistan being a part of the MSR initiative. Regardless of Pakistan's absence from the MSR map, Chinese engagements with it would ultimately merge with the MSR, creating a serious security concern for India.

The current government in New Delhi is conscious of India's dire need to improve connectivity at home and beyond, especially in the border areas. If Prime Minister Modi's government is pragmatic enough to identify the economic benefits of China's infrastructure initiatives, it is also conscious of undermining New Delhi's strategic outreach. Speaking at a conference on "Asian Connectivity," India's Foreign Secretary warned against the "reality that others may see connectivity as an exercise in hardwiring that influences choices."¹⁰ The other issue with China's connectivity projects, in particular the MSR, is the lack of clarity in the structure and roadmap for realising the initiative. Where there has been a clear mandate on how the project will be achieved and what are the stakes involved, India has responded positively, regardless of strategic concerns. A case in point is the Asian Infrastructure Investment Bank (AIIB), where India is the second-highest stakeholder in a Chinese initiative, competing with established mechanisms to fund and address regional economic needs. China's MSR is rather a work in progress, where Beijing is gauging reactions before it unveils a fully developed plan, if there is one. For a nation which always

defines a clear plan, method, and process to its economic initiatives, the MSR is rather weak in its structural layout. It took Beijing almost 18 months to issue an official document on the MSR's road map.¹¹

When compared with active Chinese engagement in the IOR, the MSR unfortunately leans heavy on strategic implications. Chinese presence in the Indian Ocean is no longer a possibility, but a reality. Although at this point it is not easy for China to project power militarily in the IOR, investments in the island nations of the region through the MSR or at a bilateral level would give Beijing a legitimate foothold into the affairs of the IOR. A significant economic investment would invariably increase China's stakes in the region, laying the foundation for its military interests which naturally follow economic interests. China's growing engagement with Myanmar, Sri Lanka, the Maldives, the docking of submarines in Sri Lanka, the Gwadar port, and China-Pakistan Economic Corridor only add to India's suspicions regarding the MSR. Beijing is making headway in port development in the region, providing an insight into Chinese ownership of these ports in other territories. While the debate about turning these ports into bases could be regarded as hawkish, the possibility of an increase in Beijing's military facilities in the region is not far from reality. It is true that a military base does not serve the same purpose as a military facility, especially during times of war; however these facilities can serve immense strategic leverage in a world where nations are looking to project influence while avoiding armed conflicts. It would be naive to consider that Beijing has not calculated the

10 Speech by Foreign Secretary at Raisina Dialogue on March 2, 2015, http://www.mea.gov.in/Speeches-Statements.htm?dtl/26433/Speech_by_Foreign_Secretary_at_Raisina_Dialogue_in_New_Delhi_March_2_2015.

11 PRC, "Vision and Actions on Jointly."

strategic leverage the MSR would provide, if it materialises. It would be more so to think China is wrong in its ambitions; every rising power has the right to expand its presence and India would do it, too, if it could. It is India's own great power ambitions that make it necessary to weigh Chinese strategic imperatives of the MSR.

The Road Ahead

The above discussion has highlighted that there are serious security concerns regarding China's MSR. These concerns mostly surround India's own strategic influence in the region, rather than a worry about China dominating the connectivity game or getting ahead of India. What then, is the best way to respond to MSR such that India can address its infrastructure needs without compromising New Delhi's strategic interests? Unfortunately, there is no one answer to that question. India will have to pick and choose invitations to different initiatives based on its interests and weigh its advantages and disadvantages, if any. Where India sees opportunity, it supports corridors which are a part of the larger One Belt, One Road initiative, such as the Bangladesh-China-India-Myanmar (BCIM) economic corridor.

The point worth noting is that China is not the only option India has to bridge its infrastructure needs, although it may have the most capital to invest. Japan and the United States are quickly emerging as good alternatives for India, and Tokyo

is competing with Beijing in its infrastructure diplomacy. While India continues to weigh the strategic pros and cons of joining the MSR, it can expand collaborations with Japan to boost its connectivity corridors. New Delhi is already opening its doors to Japan in areas which have traditionally been closed to foreign investments. The Modi government has welcomed Japanese investments in India's Northeastern region¹² and the Andaman and Nicobar Islands,¹³ areas with incredible geopolitical advantage.

The Indo-Japanese relationship enjoys more trust than the Sino-Indian relationship. If the new geopolitical shift in Asia is deepening competition and rivalry, it is also opening up avenues for cooperation between nations in the region. If China is being vague in laying out its MSR policy, then New Delhi should take advantage of the current space to collaborate with other nations. Japan is enthusiastic with its launch of 'Partnership for Quality Infrastructure' (PQI) which coincides with India's now 'Act East policy.'¹⁴ Tokyo's PQI appears modest in its scale and scope but it compliments India's situation. China's rise and its consequent effect on regional security have put India on a pedestal at the regional level, opening up areas of cooperation. This of course could not have been achieved without New Delhi's shift in its policies to step away from its isolationism and engage better with friends and partners, old and new. India's initiatives such as 'Make in India' which has a certain focus on port development, is being supported by Japan. In 2015, Japan

12 Devirupa Mitra, "69 Years since WWII, Japan to Re-enter Northeast India," *The Indian Express*, September 2, 2014, <http://www.newindianexpress.com/nation/69-Years-Since-WWII-Japan-to-Re-enter-Northeast-India/2014/09/02/article2410655.ece>.

13 Ellen Barry, "As India Collaborates with Japan on Islands, It Looks to Check China," *New York Times*, March 11, 2016, <http://www.nytimes.com/2016/03/12/world/asia/india-japan-china-andaman-nicobar-islands.html>.

14 C. Raja Mohan, "Raja-Mandala: A new way to Act East," *The Indian Express*, December 15, 2015, <http://indianexpress.com/article/opinion/columns/a-new-way-to-act-east/>.

committed \$12 billion¹⁵ to India's 'Make in India' programme and the Asian Development Bank announced an increase in loans to India's initiatives.¹⁶ The positive outcome is that India has choices to take forward its ideas and it is willing to take a decision on these choices. The political will to take a new look at the region, re-evaluating India's international engagement policies, and considering the ongoing geopolitical shifts is a trademark of the current government. It is time for India to take a realistic approach to issues surrounding its interests. India's policy on economic and security collaborations may have served New Delhi's interests in the Cold War and its immediate era, but the current security environment demands a fresh outlook if India wants to remain relevant in the geopolitical environment. While the pace of this shift may be slow compared to regional expectations, it is a significant development and needs to be recognised.

As far as China is concerned, India is engaging with Beijing in building a more robust economic corridor through BCIM and is participating in AIIB, shaping the discourse on connectivity corridors. If the MSR does not address India's security concerns, India should turn to its next best alternative to achieve its development goals.

If the MSR truly comes to life, it can only benefit India while giving New Delhi the time to scope out its strategy to deal with the security concerns. China is looking to be a responsible

leader breaking free from the notion of a 'free loader' riding on the current order. In laying out a vision to integrate Asia economically, Beijing is displaying its leadership qualities. It is unlikely that China will restrict India's use of the ports and corridors built through the MSR, simply because India was not a member of the initiative. There may be limitations on concessions and privileges for not being a member, but Beijing has failed to formulate a clear plan on the structure of membership, its rights, stakes, and responsibilities. As of now, the MSR appears to be more at a bilateral level, which can later be connected into a bigger project.

Any development that has taken place in port infrastructure in the IOR is the result of bilateral agreement between nations rather than the outcome of a grand strategic plan to integrate the region. India has laid out its own plan to boost its port facilities and increase its maritime trade capacities.

In April 2016, India launched the inaugural Maritime India Summit—a "global platform for investors to explore potential business opportunities in the Indian Maritime Sector".¹⁷ There is recognition within India's new leadership that New Delhi has long ignored its maritime frontier and the economic opportunities from a strong maritime industry. Modi also unveiled the plan for 'Sagarmala,' reported to "boost India's merchandise exports to \$110 billion by 2025" while creating an impressive employment record.¹⁸ There has, of course, been a shift in

15 Dipanjan Roy Chaudhury, "Japan's \$12 billion 'Make in India' fund to push investments," *The Economic Times*, December 13, 2015, http://articles.economicstimes.indiatimes.com/2015-12-13/news/69006246_1_pm-shinzo-abe-india-fund-oda.

16 Asian Development Bank, "ADB to Increase Lending to Support India's New Initiatives," June 16, 2015, <http://www.adb.org/news/adb-increase-lending-support-india-s-new-initiatives>.

17 Please see Maritime India Summit 2016, <http://www.maritimeinvest.in/>.

18 Press Release, "Sagarmala National Perspective Plan Released," PIIB, <http://pib.nic.in/newsite/PrintRelease.aspx?relid=138881>.

India's maritime policies,¹⁹ which are now slowly being reflected in building stronger naval capabilities supported by an efficient Indian maritime industry. Encouraging investments to build India's maritime infrastructure, Prime Minister Narendra Modi recently concluded an enthusiastic speech noting, "[t]his is the right time to come to India, it is even better to come through the sea."²⁰

If India cannot convince itself to join the MSR at this point, it must bide its time and use the space to leverage its negotiating cards, should the time come for such an approach. India's current approach on maritime issues is a positive step and is being supported by many regional powers. However, India must not lose its momentum or its vision in building up its maritime capabilities. If New Delhi falls short on the promises it currently shows, it will take

much longer to gain the region's confidence next time it decides to pick up its great power ambitions. A rule-based order is in India's interest and if the rules are being debated for the next generation, India must lend its voice and shape the discourse. To be a significant voice, New Delhi simultaneously will have to emerge as a serious power willing to share regional responsibilities. To be a credible actor, India must learn to respect its own policies supported by its friends and carry forward its agenda and goals for a secure regional environment. India should sustain the momentum it has created in the maritime domain, for however small it may seem, it is significant. The debate now is going to be placed around the pace of New Delhi's foreign policy shifts and whether they meet regional expectations as far as Asia's geopolitical shift is concerned.

19 See India's new maritime strategy "Ensuring Secure Seas: India's maritime security strategy," http://indiannavy.nic.in/sites/default/files/Indian_Maritime_Security_Strategy_Document_25Jan16.pdf and analysis on the new strategy: Darshana M. Baruah, "India's evolving maritime strategy," *The Diplomat*, December 3, 2015, <http://thediplomat.com/2015/12/indias-evolving-maritime-strategy/>.

20 See PM Narendra Modi's inaugural speech at the Maritime India Summit, 2016, <http://pib.nic.in/newsite/PrintRelease.aspx?relid=138867>.

CHINA, ASEAN AND THE MSR: A Southeast Asian Perspective

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Introduction

The One Belt, One Road (OBOR) initiative was mooted by Chinese president Xi Jinping in 2013 to jointly build the Silk Road Economic Belt (SREB) and the 21st century Maritime Silk Road (MSR). The SREB links China and Europe through Central Asia and the Middle East, while the MSR links the Pacific, Southeast Asia, South Asia and Africa through the South China Sea and the Indian Ocean. The MSR begins from China's eastern coast and heads south to the Malacca Straits to Kuala Lumpur. From there it heads to Kolkata and crosses the Indian Ocean to Nairobi, Kenya. From Nairobi, it goes north to the horn of Africa and moves through the Red Sea into the Mediterranean with a stop in Athens before meeting the land-based Silk Road in Venice.

The main aim of this broader OBOR initiative is for China to develop its landlocked western

provinces and enable them to access the markets of Southeast Asia and the Middle East. The MSR is said to promote economic cooperation and connectivity by reviving the ancient maritime Silk Road trading route. \$40 billion has been pledged to the Silk Road Fund and China has established the Asian Infrastructure Investment Bank to develop infrastructure along the route.¹ Chinese analysts have opined that the best way for China to build its international reputation is by taking on more responsibilities in international security, which means providing the entire world and all regions with more public security goods. Statistics will show the phenomenal growth in Chinese economic engagements with Southeast Asian nations, but statistics and foreign policy announcements alone are not enough to change China from a repressive to a responsible leader. It would take more confidence building than just 'charm offensives.' Beijing hopes that policies such as the MSR will mend and improve its security relations with Southeast Asian countries.

¹ Zhao Hong, "The Maritime Silk Road And China-Southeast Asia Relations," Institute of Southeast Asian Studies, July, 2015.

However, in light of China's past unfulfilled promises, such as the Declaration of the Conduct of Parties and Beijing's Maritime Cooperation Fund to foster maritime collaboration between China and the Association of Southeast Asian Nations (ASEAN), China's charm offensive will require pragmatism. With the challenges China is facing globally and in the region, especially the current maritime dispute in the South China Sea, the majority of ASEAN members—most being maritime countries—want to see more concrete actions. President Xi Jinping's wish to vigorously develop maritime partnership with ASEAN in a joint effort to build the MSR may be problematic if considered from a security perspective. The security imperatives of the MSR are discussed here in the backdrop of Chinese assertive actions which affect regional maritime security and resource security. Before we delve further into the MSR, it is useful to discuss China-Southeast Asia ties in maritime trade.

Controlling Maritime Trade

Historically, despite the huge influence over Southeast Asia, China never colonised the region. As early as the 3rd century, Southeast Asia was the bridge for trade between two great kingdoms, China and India. Trade winds brought about trade that was so rife that it intermingled with religion and power. Southeast Asia's agrarian and maritime kingdoms were influenced by successful Tamil kingdoms from South India. The Pandyas of Madurai, Pallavas of Kanchipuram, and the Cholas of Tanjore had

strong influence in the Indianisation of Southeast Asia.² East-West trade was controlled by the silk, spice, and cotton routes traversing land and sea.

The Kingdom of Srivijaya (see Figure 1) thrived because of its location, with waterways relatively free from extreme weather and a Buddhist centre of learning that drew monks from China. Whilst through the centuries, trade brought about good diplomacy and the spread of religion, Srivijaya was eventually attacked by the Imperial Cholas from India in 1025³ due to trade rivalry. Sumatra and the Malay Peninsula were a maritime federation based on thalassocracy.⁴ Maritime trade stopped at Srivijayan⁵ vassal ports for trade, repairs and relaxation. In the north, Angkor was ruled by the agrarian Kamboja Kingdom and in the south, Java was ruled by the Sailendras of Mataram. Though Srivijaya was an important guardian of the trade route of that time, it was also a thriving empire in size, economy, and a renowned Buddhist centre of learning, rivalling China. It has been largely suspected that China had a hand in influencing Chola to attack Srivijaya for fear of land and sea routes being controlled by Srivijayan vassals in the Malay Peninsula. The changing trade policy of the Sung dynasty in China reduced port visits to Srivijayan vassal states in the peninsula, thus prompting these vassals to raise taxes on Indian seafarers. The growing strength of Srivijaya brought fear to the Chola ally, Angkor, as Angkor's King Suryavarman was a rival to Jayavarman in the south, ally to Srivijaya.

The Srivijayan Kingdom never regained its

2 I. W. Mabbett, "The 'Indianization' of Southeast Asia: Reflections on the Historical Sources," *Journal of Southeast Asian Studies* 8, no. 2 (1977).

3 O.W. Wolters, *The Fall of Srivijaya in Malay History* (Ithaca: Cornell University Press, 1970).

4 The term thalassocracy (from Greek language *thalassa*, meaning 'sea,' and *kratein*, meaning 'to rule,' giving *thalassokratia*, 'rule of the sea') refers to a state with primarily maritime realms—an empire at sea, such as the Srivijayan Empire.

5 George Coedes, "Le Royaume de Srivijaya," *BEFEO*, 1918.



Map VIII: The Srivijayan Empire⁶

glorious past after the attack and was later subdivided among the neighbouring kingdoms. The Srivijayan prince Parameswara established the Malacca Kingdom in the 1400s and China played its role again in controlling the Straits of Malacca through marriage alliances and trade with Malacca. Ironically, through the centuries, although Southeast Asia was politically influenced by Indian kingdoms, the kingdoms

of Southeast Asia had a tributary system which paid tribute to China and not India. This goes to show that China had an economic stronghold in Southeast Asia, though it did not politically or physically colonise the region. Trade played an important part before, and it will continue to play a part in diplomatic and economic engagements in Southeast Asia.

6 <http://freestockphotos1.blogspot.in/2009/03/srivijaya.html>.

ASEAN and China's 'Charm Offensives'

In January 1974, China seized the Paracel Islands after the United States pulled out of South Vietnam. 50 Vietnamese sailors lost their lives. In 1988, China overran Vietnamese-occupied Johnson Reef where 70 Vietnamese military personnel were killed. In light of the backlash by ASEAN, China proposed a Free Trade Area with the grouping in 2000. In 2002, the Declaration of the Conduct of Parties (DOC) was signed between China and ASEAN. ASEAN's first declaration on the South China Sea was issued in 1992, but it was not until ASEAN and Chinese officials met in Cambodia in November 2002 that an agreement was reached on the need for guidance on implementing the DOC in the South China Sea. The DOC was essentially a compromise between the two positions of doing nothing and having a legally binding agreement. The text of the DOC clearly reveals three purposes: promoting confidence-building measures, engaging in practical maritime cooperation, and setting the stage for the discussion and conclusion of a formal and binding Code of Conduct. However, the DOC did not fully implement all three purposes. Not a single claimant state strictly abided by the DOC, though violations of the clauses in the DOC varied from country to country. After the conclusion of the DOC, only very few instances of bilateral or multilateral cooperative projects took place in the South China Sea. The DOC itself was intrinsically flawed because it did not have the legal power to restrain any claimant party's behaviour in the South China Sea. The DOC lacked the mechanism to monitor, let

alone enforce, compliance. China was intent on ensuring that other ASEAN members stall reclamation work while China went ahead with massive reconstruction projects and further securitisation in the South China Sea. China clearly did not have much interest in the DOC process and did not intend to implement the DOC lest it jeopardise its sovereignty claims in the body of water in question. China took nine years to issue guidelines on the DOC, which finally came out in 2011.

Throughout the 2000s, China became more assertive in the South China Sea, including increasing its military and law enforcement capabilities. For instance, in 2007, China asked a number of foreign oil and gas exploration companies to stop joint exploration in Vietnamese waters. Beijing threatened these companies with adverse consequences if they did business in China. The following year, China Maritime Surveillance conducted regular patrols in the South China Sea, telling the world that it was only 'policing' the waters all the while building airstrips and offshore stations in the area marked by its 'nine-dash line.' In 2010, China placed a sovereignty marker on James Shoal, the southernmost point of China's claim, off the shore of Sarawak in Malaysia.

In 2011, during the ASEAN-China Summit in Bali, Indonesia, China proposed the setting up of the RMB 3 billion (or \$484 million) China-ASEAN Maritime Cooperation Fund.⁷ The fund was aimed at promoting cooperation between China and ASEAN in maritime technology and environmental protection, connectivity, navigation safety and rescue, as

7 Cai Penghong, "China-ASEAN Maritime Cooperation: Process, Motivation, and Prospects," China Institute of International Studies, September 25, 2015, http://www.ciis.org.cn/english/2015-09/25/content_8265850.htm.



Map IX: Sansha Prefecture⁸

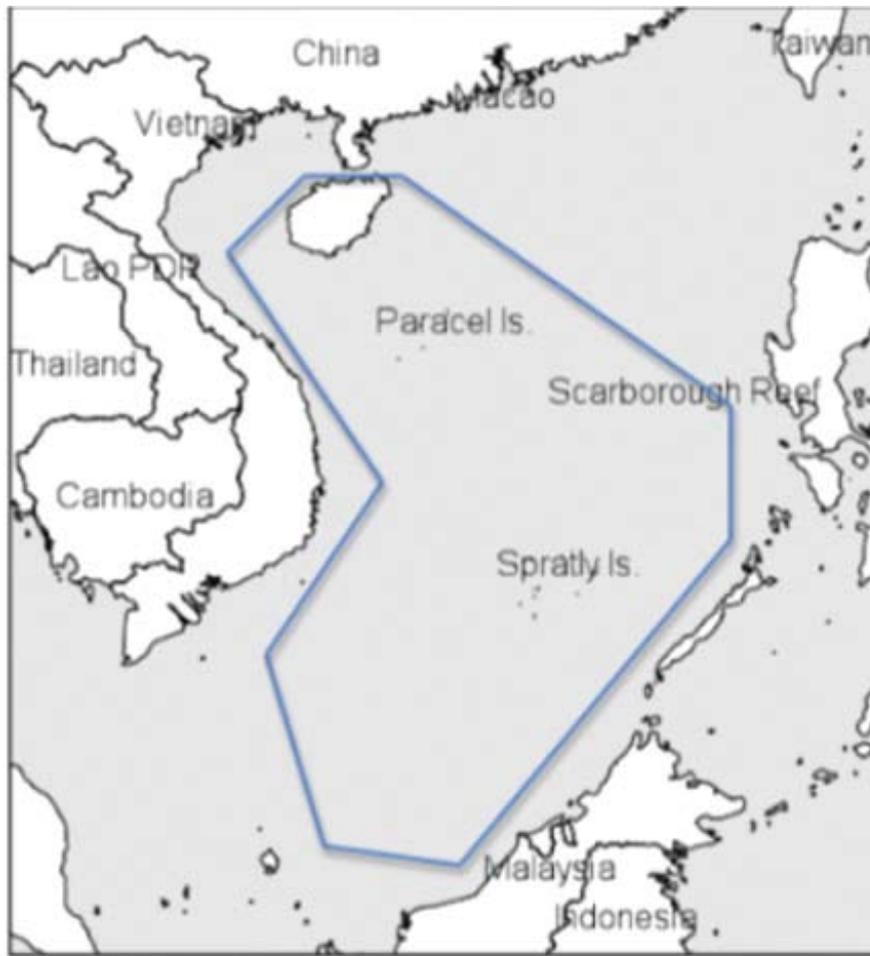
well as combating transnational crime. To date, no guideline has been issued on the fund nor has there been any news on it being used for its intended purposes.

In 2012, China seized Scarborough shoal off the Philippines and in the same year, established the Sansha Prefecture on Woody Island as a response to Vietnamese National Maritime Law. Sansha (or “Three Sands”) refers to the three most important disputed geographic features of the South China Sea—the Paracels and Spratlys island groups,

and the completely submerged Macclesfield Bank, that China calls the Xisha, Nansha and Zhongsha islands, respectively. Sansha is to assume nominal administrative control over the former county-level administrative office based on Hainan Island, its southernmost province.

In 2013, China announced the establishment of the Air Defence Identification Zone (ADIZ) in the East China Sea and declared the Hainan Fishing Zone (HFZ).

8 *Global Times*, <http://www.globaltimes.cn/content/717193.shtml>.



Map X: The Hainan Fishing Zone⁹

Both the ADIZ and the HFZ were unilateral, and aimed at extending the legal basis for China's claim to land features and maritime zones in the East and South China Seas. Hainan province's new fishing regulations required all foreign vessels that seek to fish or conduct surveys in waters claimed by China to obtain advance approval from the "relevant and responsible department" under the Cabinet. Hainan province claims administrative responsibility over Hainan Island, the Xisha (Paracel) archipelago, Zhongsha (Macclesfield Bank) archipelago,

the Nansha (Spratly) archipelago "and their dependent waters." These dependent waters stretch approximately two million square kilometres or roughly 57% of the 3.6 million square kilometres enclosed in China's nine-dash line claim over the South China Sea. Foreign fishing boats and survey vessels that refuse to comply would be either forced out of the area or boarded, impounded and subject to a fine of up to \$83,000. Hainan province authorities also assert the right to confiscate the fish catches they find on the boats seized.

⁹ Free Beacon, <http://freebeacon.com/national-security/china-orders-foreign-fishing-vessels-out-of-most-of-the-south-china-sea/>.

In 2014, China deployed the super oil rig HYSY-981 off Vietnam. China declared a three nautical mile security radius around the oil rig, far exceeding the 500 metre safety zone state parties to the United Nations Convention on the Law of the Sea are entitled to under that treaty. China deployed maritime militias, coast guard ships, and a limited number of People's Liberation Army Navy assets to protect the waters around HD-981. In an incident, a Vietnamese fishing boat capsized after colliding with a Chinese fishing boat.

In 2015, satellite pictures emerged depicting the extent of Chinese reclamation works in the South China Sea. Massive areas were reclaimed and airstrips built on many offshore stations. China's actions divided ASEAN even further. The United States, in its pursuance of Freedom of Navigation and Overflight, continued to put pressure on China's assertiveness in South China Sea. Seen as a means to create wedge between China and ASEAN, China has undertaken new charm offensives to implement its grand design to safeguard its claims and ensure the United States is kept out of the ASEAN-China game.

China—Maintaining Strategic Intent

In the 1990s after the Tiananmen Square massacre, China faced a number of economic and arms sanctions. China came to realise that for it to be a legitimate power, it has to re-establish itself in the international arena and that political issues, like civil liberty movements, the restive Xinjiang Muslim province, and the democratic overtures in Taiwan, may bring more

humiliation to China in the coming years. China was poised to regain Hong Kong in 1997 after 156 years of British rule, and Macau in 1999 reverted to Chinese sovereignty after 442 years of Portuguese rule, ending the last remaining dependent state in Asia and the final vestige of European colonialism. China needs fossil fuel and gas to power its massive industries. New areas need to be explored and sea lanes need to be safeguarded. China cannot remain in a state of conundrum politically and diplomatically, and cannot relive another century of humiliation brought about during the Opium Wars. China has had to find ways and means to continue to stay relevant as a growing economic superpower; for this, the nine-dash line was a priority.

In 2002, at the 16th Party Congress, the Chinese Communist Party adopted a hierarchy for the four elements of diplomacy, later summarised as follows: 'big powers as the key, the surrounding region as the priority, developing countries as foundation, and multilaterals as an important platform.'¹⁰ Deng Xiaoping's maxim on maintaining sovereignty and fostering joint development was taken a step further to ensure China engages with the region to stay relevant.

Chinese Premier Li Keqiang has made six proposals for the future development of ASEAN-China relations. The first proposal seeks to develop a grand strategy for the growth of ASEAN-China relations. Both sides should start formulating the third plan of action (2016-2020) of the ASEAN-China Joint Declaration on Strategic Partnership for Peace and Prosperity as early as possible. China is willing to negotiate and conclude with ASEAN a treaty of good-neighbourliness, friendship, and cooperation

10 "China's Regional Grand Strategy Paves the Way for Realising the China Dream," Asia Pacific Regional Security Assessment 2015, International Institute for Strategic Studies, 77-90.

between China and ASEAN countries. The second proposal, to build an upgraded China-ASEAN Free Trade Area, was taken up and the deal sealed in November 2015. In the coming three years, China will set aside RMB 30 million (\$4.9 million) in support of economic and technical cooperation under the FTA framework. The third proposal is to speed up construction of the basic connectivity network.

China is ASEAN's largest trade partner, and ASEAN is China's third-largest trade partner. ASEAN and China are determined to push their trade volume to \$1 trillion by 2020.

The two sides may continue to jointly promote the early operation of the Asian Infrastructure Investment Bank to provide financial support to infrastructure development in the region. The fourth proposal is to foster maritime cooperation. China proposed 2015 be designated as the year of China-ASEAN maritime cooperation. The fifth proposal is to ensure security in traditional and non-traditional areas. The sixth proposal is to actively explore new areas of cooperation in people-to-people exchanges, science and technology, and environmental protection.¹¹

According to statistics from the General Administration of Customs of China, ASEAN-China two-way trade grew by 8.3% to \$480.4 billion in 2014. China's exports to ASEAN

reached \$272.1 billion, while ASEAN's exports to China reached \$208.3 billion. China is ASEAN's largest trade partner, and ASEAN is China's third-largest trade partner. ASEAN and China are determined to push their trade volume to \$1 trillion by 2020. According to statistics from the Ministry of Commerce of China, ASEAN-China two-way investment totalled \$12.18 billion from January to December 2014,

in which China's investments in ASEAN reached \$5.88 billion, growing by 2.5% over the same period the previous year, and ASEAN's investments in China reached \$6.3 billion, decreasing by 24.53%. By December 2014, ASEAN-China mutual investment totalled \$126.95

billion, in which China's investments reached \$35.21 billion and those of ASEAN reached \$91.74 billion. In 2014, tourist visits between ASEAN and mainland China numbered 17.6 million, in which mainland Chinese visiting ASEAN stood at 11.4 million people and tourists from ASEAN visiting mainland China stood at 6.2 million people. According to statistics from the Ministry of Education of China, in 2014, 377,054 foreign students were studying in China. The top four ASEAN countries with largest number of students in China were Thailand (21,296), Indonesia (13,689), Vietnam (10,658), and Malaysia (6,645). Both sides set a two-way investment goal of \$150 billion for the period 2013 to 2020.¹²

11 Ibid.

12 ASEAN-China Relations, ASEAN-China Centre (ACC). ACC is supervised and advised by the Joint Executive Board (JEB). The JEB comprises the ASEAN Committee in Beijing (ACB), which is composed of 10 ASEAN Ambassadors to China, and representatives from related Chinese agencies.

Conclusion

In the final analysis, as China pushes with its MSR initiative, it will balance geopolitics and geo-economics to ensure it is not out-manoeuvred by the United States. Many ASEAN nations see the need to balance China economically with the security might of the United States. The Chinese intent, through the MSR, is to protect its interests in safeguarding the sea lanes and resources. Though the ASEAN acknowledges China's might in the traditional security sphere and the need to counter balance it with the United States,

it also acknowledges China's ability to deploy humanitarian aid and disaster relief during the recent MH370 incidents, Typhoon Haiyan, the earthquake in Nepal, and the floods in Malaysia. All these are testimony to China's commitment in the non-traditional security sphere. The MSR, though seen as a charm offensive, has huge strategic implications. Nations should be cognisant of their individual strategic interests, and avoid finding themselves compromising them as they embrace the economic benefits of China's MSR.

A broadly interconnected Asia sees the simultaneous rise of India and China as strong states and even stronger markets. New ideas and initiatives of trans-regional economic corridors to further link regions of Asia and beyond have been emerging in recent years. China has initiated the Silk Road Economic Belt and Maritime Silk Road (together the One Belt, One Road or OBOR) with the aim to link the country with and those of Central and Southeast Asia, the Indian Ocean region, the Middle East, Africa and Europe. Japan has been involved in developing strategic corridors in South and Southeast Asia. India has been pushing for strengthening its linkages with Southeast Asia and Central Asia. Similarly, the United States has envisioned an Indo-Pacific Economic Corridor to bridge South and Southeast Asia. Within this context, this volume attempts to capture the rationales behind the various initiatives with a specific focus on linking South and Southeast Asia. The papers in the volume assess the economic and strategic implications of the trans-regional economic corridors in South and Southeast Asia.
