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## Trade Imbalance due to Connectivity Issues between India and South East Asia

From the prehistoric days, India has had trade and cultural relations with West Asia, Rome, China and South Asia. India's size, population, educated middle class, industrial base, military strength, technical capability, ancient cultural relations with Southeast Asia, and the presence of non-resident Indians (NRIs) are factors in India's favor. New Delhi's neglect of the region from late 1960s, and the low priority accorded to it by the non-Indochinese countries of South Asia changed after the end of cold war. There are a number of infrastructure projects to connect the countries in the sub region via economic corridors. These projects have developed road and rail networks and air transport in the Great Mekong Sub-region (GMS) countries, which can be useful "ready-made" links for South-Asia connectivity.

An avenue where South Asia, in particular India, could overcome the barriers and take part in GMS development potentially rests with the Mekong-India Economic Corridor (MIEC) which is essentially a network of the four GMS countries, i.e., Myanmar, Thailand, Cambodia, and Viet Nam, and India, connecting Chennai Port in India to Bangkok by extending the link through the envisaged deep sea port at Dawei in Myanmar. India and Thailand are also involved in regional connectivity initiatives such as the India-Myanmar-Thailand Trilateral Highway, the Asian Highway Network (under UNESCAP), and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) Transport Infrastructure and Logistics Survey (BTILS). There is particular attention on completing the Trilateral Highway as it links Northeast India with Myanmar and Thailand. Another "corridor" project, the Dawei deep sea port and special economic zone to be completed in Myanmar's southern coastal province, lends an ambitious tone to the project.

When people get together they can better drive progress. An example of this is working together on a study on the "Role of Border Special Economic Zones in Regional Connectivity" with the objective of providing guidance to the Government of India in the development of border zones. In connection with the study, ESCAP's Transport Division took part in the 2014 "North-East Connectivity Summit", organized by the Federation of Indian Chambers of Commerce and Industries (FINER) in Guwahati<sup>1</sup>.

### Opportunities

BIMSTEC provides an additional stepping stone for closer ASEAN-India connectivity. Regional cooperation agreements such as BIMSTEC can be additional catalysts in energizing development in the

areas that constitute the Northeast India and Western Myanmar regions. India and Myanmar have a common interest to initiate and support BIMSTEC programs in their shared border areas, particularly for the necessary infrastructure (both hard and soft) for physical (road and rail) connectivity, and people-to-people connectivity through sustainable tourism development.

In 2001, the Asia-Pacific Ministerial Conference on Infrastructure called on the Economic and Social Commission for Asia and the Pacific (ESCAP) to formulate, develop and improve integrated/intermodal international transport.

Taking this forward, the Busan Declaration on Transport Development called, in 2006, for the development of a long-term regional vision for an international integrated intermodal transport and logistics system. In December 2012, the Asia-Pacific Ministerial Declaration on Regional Integration and Connectivity emphasized seamless regional connectivity as a priority goal, and a working group was set up to drive this process.

Moving from traditional “segmented approaches” to connectivity (anchored predominantly in transport), ESCAP has advocated a holistic, integrated and sustainable approach to ensure contiguous and seamless networks with the theme Study “Regional Connectivity for Shared Prosperity”, which focuses on these goals, and has now been endorsed by the member States.

In parallel, ESCAP has been engaged in the development of the Trans-Asian Railway and Asian Highway networks, with supportive dry ports, for which have concluded a new intergovernmental agreement. Integrated intermodal connectivity, where roads lead to railway networks, and are linked effectively to ports, offers the most cost-effective option for the long haulage of cargo for the region. Railways have an edge in preserving environment and stemming the relentless culture of motorization.

Work has also been going on the Trans-Asian Railway agreement to encourage a southern corridor serving South Asia. However, success will depend on the strong political commitment and consensus of the member States, and buy-in and the engagement of regional blocs, such as South Asian Association of Regional Cooperation (SAARC), to support robust frameworks for regional connectivity.

Progress in transportation links and trade facilitation in Asia so far has been made through several sub-regional initiatives. Although some sub regions such as the GMS have successfully implemented cross-border corridors and progressed much further in strengthening connectivity, or ECO which has introduced

regional transit arrangement, few others (such as the SAARC) have yet to make any major breakthroughs. The sub regional transport corridors like the GMS transport and trade facilitation program have created a demonstration effect in Asia and have become a role model for other sub regions in Asia (such as in CAREC).

The improvement of the sub-regional transport corridors in the GMS has resulted in significant savings in vehicle operating costs and reduced travel time. Although several benefits are apparent from completed sub regional projects, three main issues hamper the full delivery of these benefits: first, the sub regional transport corridors (“hardware”) in Asia are not always supported by “software” (trade facilitation) except perhaps in the GMS; second, missing infrastructure links in many sub regions have reduced the effectiveness of the completed projects in sub regions; and third, lack of synergy between national and sub regional transport corridors is very common.

There is hope for change on the horizon with the signing of two agreements between the Government of Myanmar and ADB on rural poverty reduction and HIV/AIDS treatment services, financed by the Government of Japan through the Japan Fund for Poverty Reduction. The agreements emphasize a community-driven approach, targeting most vulnerable communities and areas.

To live up to its full potential and meet the region's expectations, India will have to do a more convincing job of emerging as a credible strategic partner. The country, for its part, would not only like greater economic integration with the fastest growing region in the world but would also like to challenge China on its periphery.

But India will have to do much more to emerge as a serious player. After all, China's trade with ASEAN in 2012 was a whopping \$400 billion and it remains far better integrated into the region.

The rupture in China- ASEAN ties over the last two years has provided India with a key opening to underline its credentials as a responsible regional stakeholder. On the one hand, China's aggressive pursuit of its territorial claims has aggravated regional tensions. On the other, despite the Obama administration's famous "pivot" towards the Asia-Pacific region, there are doubts over the ability of Washington to manage regional tensions effectively.

India's geographic proximity to the region and its growing capabilities makes it a natural partner of most states in Southeast Asia. But New Delhi needs to assure the regional states of its reliability not only as an economic and political partner but also as a security provider.

As the regional balance of power in Asia changes and as the very coherence of ASEAN comes under question, there will be new demands on India. While the past 20 years in India- ASEAN ties have been productive, the next 20 are bound to be more challenging. And India will have to think more creatively to enhance bilateral and multilateral ties in this rapidly evolving regional context.

The Master Plan has identified prioritized projects from the list of key actions stipulated under the various strategies, especially those, whose implementation will have high and immediate impact on ASEAN Connectivity. These include:

- Completion of the ASEAN Highway Network (AHN) missing links and upgrade of Transit Transport Routes (TTRs);
- Completion of the Singapore Kunming Rail Link (SKRL) missing links;
- Establish an ASEAN Broadband Corridor (ABC);
- Melaka-Pekan Baru Interconnection (IMT-GT: Indonesia);
- West Kalimantan-Sarawak Interconnection (BIMP-EAGA: Indonesia);
- Study on the Roll-on/roll-off (RoRo) network and short-sea shipping;
- Developing and operationalizing mutual recognition arrangements (MRAs) for prioritized and selected industries;
- Establishing common rules for standards and conformity assessment procedures;
- Operationalize all National Single Windows (NSWs) by 2012;
- Options for a framework/modality towards the phased reduction and elimination of scheduled investment restrictions/impediments;
- Operationalization of the ASEAN Agreements on transport facilitation;
- Easing visa requirements for ASEAN nationals;
- Development of ASEAN Virtual Learning Resources Centres (AVLRC);
- Develop ICT skill standards; and
- ASEAN Community building programme.

## Challenges

There are challenges in bridging the existing infrastructure gaps. Much of the region covered by the MEIC is underdeveloped. Any implementation plan for achieving the MEIC will need to prioritize connecting the missing links, as well as leveraging on existing transport connections, including the Asian Highway Network and the Trans-Asian Railway projects. The need for developing deep sea ports (e.g. Dawei in Myanmar) and improving the existing rail and road connections requires large infrastructure investments beyond the ambit of most national budgets.

The crucial region here is India's northeastern border and Bangladesh, which march along Myanmar's northwestern and western regions. Together, these are essentially the "gateway" regions for South-Asia connectivity. Low levels or lack of internal connectivity is compounded by the high transportation costs in each of these bordering regions. Political tensions along the borders between these countries, as well as communal tensions within domestic borders also hinder smooth and cost-effective trade flows between India and its South Asian neighbors.

There are several challenges in the execution of the above-mentioned railway projects connecting India with Southeast Asia. First, is a limited skilled and technical human resource pool. Construction materials such as steel and cement are not available in far-flung areas of Northeast India and thus, needs to be procured from long distances which make the project time and money consuming. Insurgency and volatility in the region, especially in Manipur and Nagaland, which share borders with Myanmar, severely affect the execution and implementation of these projects. Due to climatic conditions in the Northeast, the working season is less than half of the year (from November to April). Lastly, infrastructural conditions of remote areas of the Northeast are terrible, which also hampers transportation of construction materials and essential machinery. India also needs to improve security in the Northeast, particularly in the states bordering Myanmar. India could take lessons from the People's Republic of China, which has used state of the art technology in building rail networks in difficult terrains such as in Tibet and Karakoram. In fact, the connectivity gaps are brought into sharp relief when compared with the PRC's initiatives for cross-border connectivity.

For Myanmar, there are a number of domestic sociopolitical and security issues and problems to tackle in the course of joining the regional connectivity experiment. These issues and problems might distract the government's attention and change its priorities, divert scarce resources away from connectivity projects, and erode the political will to enhance regional linkages. Illegal migration, human trafficking, narcotics

use, and drug trafficking are existing trans-boundary problems that could be further aggravated by greater connectivity.

However, perceptions of broken trust imply that the road to economic development in the depressed regions, and reconciliation will be a long and rather uphill journey. This is also linked to the outward migration (largely illegal) by many Myanmar citizens, mainly from the ethnic areas, to countries such as Thailand. While the Myanmar migrant workers fill gaps in the Thai labor market, this phenomenon is increasingly seen as undesirable by Myanmar authorities (Chantavanich 2012)<sup>2</sup>. The downside of improved connectivity would be the added impetus to the pull factor for potential migrants and might further facilitate human trafficking.

Although military-to-military and state-to-state relations between Myanmar and both India and Thailand have been mostly cordial under President Thein Sein's government, the existence of ethnic armed groups on both borders as well as the unsettled border demarcations with Myanmar are unsettling issues for all three states. For Myanmar, the issue of small bands of anti-India tribal insurgents has been more of an irritant in India–Myanmar relations, while the more numerous Kayin, Mon, and Shan ethnic armed groups at the Myanmar–Thai border pose a significant security threat (Xinhua 2013)<sup>3</sup>.

This is also a concern in India's corridors of power. There is some apprehension that increased influxes of illegal migrants from Bangladesh and refugees from other countries such as Rohingyas from Myanmar and Chakmas will flow to India once the railway line between India and Southeast Asia gets completed. Demographic change is one of the major polarizing issues in some states of the Northeast, particularly Assam. Another major predicament is the influx of drug peddlers from the notorious drug triangle zones of Southeast Asia. Drug addiction is already a big problem that has reached alarming proportion in India's Northeast region.

Bus services have already been inaugurated between India, Nepal and Bangladesh. Services are now available between Delhi-Kathmandu, Varanasi-Kathmandu, Kolkata-Agartala via Dhaka, and Guwahati-Dhaka and will soon become operational between Delhi-Pokhara in Nepal.

India, Myanmar and Thailand too have agreed to develop a similar pact (IMT) on the lines of the SAARC Motor Vehicle Agreement. Secretary-level talks for this were concluded in Bengaluru in June. Consensus has been reached on the text of the pact. The highway project, which is to run from Moreh in Manipur to

Mae Sot in Thailand via Mandalay in Myanmar, will ensure that India's eastern border is opened to a new bus route from Imphal to Mandalay.

In the India–Myanmar–Thailand Trilateral Highway project, Thailand has completed the Myawaddy–Thingayingyong section and a bridge over Moei River; construction for the Thingayingyong–Kawkareik will start soon. This is a strategic area where the Trilateral Highway and the East–West corridor of the GMS meet at the Myawaddy–Mae Sot permanent border crossing.

India has committed to build and rehabilitate rail links with Myanmar under the Trans Asian Railway Network Agreement. The rail links pass through Bangladesh. The new Thailand-Myanmar rail link will lead to Dawei on a new railway through Ye (in southern Myanmar). The economic feasibility of the Dawei deep-sea port and special economic zone (SEZ) depends very much on connectivity with both the Trilateral Highway.

India's Ministry of External Affairs (MEA) is funding the Kaladan Multi-modal project, which involves ports, inland waterways, and road networks. The project aims to provide alternative connectivity between India's northeastern states and the rest of India through the Kaladan River and Sittwe port in Myanmar. The Kaladan River is navigable from its confluence point with the Bay of Bengal near Sittwe up to Kaletwa, Myanmar. As part of the project, it is proposed that from Sittwe Port to Kaletwa, transportation will be through waterways, and from Kaletwa to the India–Myanmar border, road transport will be used.

Zorinpui, in the Lawngtlai district, has been proposed as a Land Custom Station on the Indo-Myanmar border at Mizoram for the Kaladan Multi-modal Project. A two-lane highway of 100 km from Lawngtlai to the Indo-Myanmar border has been planned to provide road linkage to Sittwe Port in Myanmar.

According to the Mizoram Economic Survey 2012-13, “the Kaladan Transport Project within Mizoram from 100 km of Double Lane Highway to connect Kolkata port via Myanmar and sea route has been sanctioned for an amount of [Rs5756.9 million], and was recently declared as National Highway (NH)-502A. The work was physically started on February 2011 and Formation Cutting of 60 km amounting to [Rs2218.6 million] has already been completed” (Government of Mizoram 2013:72)<sup>4</sup>.

According to official estimates, transforming transport corridors into economic corridors could potentially increase intraregional trade within South Asia by almost 60 per cent and with the rest of the world by over 30 per cent.



The Trilateral Highway project has little or no public opposition, as it involves mostly expansion and upgrading of existing two-lane interprovincial roads into modern four-lane international highways. New Delhi considers the Trilateral Highway a key concrete manifestation of India's Look East policy. It will support India's new land transport link with the Lao PDR, Viet Nam, and Cambodia through the MIEC. Local governments in India's seven Northeast states support the Trilateral Highway because of potential economic benefits from the road connectivity with mainland South Asia through Myanmar, and with southern PRC through Myanmar and the Lao PDR. The highway will also facilitate greater border trade between Myanmar and India. Increased trade, tourism, foreign investments, and services brought about by the Trilateral Highway will support the rail connectivity between India's northeastern regions and Myanmar.

These emerging integration processes in the context of economic regionalization present a scenario of both gains and gaps in implementation. The location of the countries in the overlapping sub regions of both South and Southeast Asia highlight the strategic importance of their location at the crossroads of major trade routes that will ultimately link Asia and the Pacific with international trade hubs in the West. Southeast Asia is uniquely located at the junction between Northeast Asia and South Asia on the international container route. The composition of Southeast Asia with its mainland and maritime components also finds some similarities with South Asia's mix of maritime and land routes. The east-west connections are complemented by the north-south connectivity with countries along the different routes. Myanmar's President Thein Sein has advocated poverty alleviation initiatives in the border regions as a means of building peace and effecting reconciliation.

India's "Look East" policy, which originally was primarily focused on trade and economics, has now attained a distinct security dimension.

As India's economic linkages with various countries in the region have become more extensive, demands have grown for a gradual strengthening of security ties at a time of China's rapid ascendance in the global hierarchy.

China is clearly too big and too powerful to be ignored by the regional states. But the states in China's vicinity are now seeking to expand their strategic space by reaching out to other regional and global powers.

Smaller states in the region are now looking to India to act as a balancer in view of China's growing influence amid a broader leadership vacuum in the region. Larger states, meanwhile, see India as an attractive engine for regional growth.

“Regional Connectivity for Shared Prosperity” focuses and also calls for the establishment of new corridors and hubs, based on an integrated model of regional connectivity that recognizes the shared challenges of:

- Growing demographic pressures;
- The need to more effectively exploit comparative advantages and develop a public-good approach;
- Promoting sustainable development of connectivity;
- Becoming more multi-modal in approach, exploiting the innovations of ICT, to enhance efficiency of connectivity across continents and oceans; and
- Dismantling “behind-the-border” barriers that have generated economic costs far exceeding tariff barriers. Evidence suggests that trade facilitation, supported by improvement in customs and port efficiencies, and could enhance regional trade by \$250 billion, in addition to reducing costs and time required.

### **North-East and ASEAN**

Various externalities arising from agglomeration (supply of industry-specific labor, parts and knowledge, etc.) boost economic growth. Agglomeration also makes the supply of public goods (infrastructure, financial market, etc.) easier especially in low-income countries or regions. At present, there is no agglomeration that is emerging from the present level of trade between India’s Northeast region and Myanmar. The Northeast and Myanmar are yet to have a full-scale exchange of goods and services through the land border. Today’s production networks between India and Bangladesh are outcomes of a relatively open trade arrangement between the two countries that has been continuing for decades. In sharp contrast, formal trade at the land border between the Northeast and Majumdar 2014). Myanmar has been conducted for limited items on a positive list basis, which are purely limited trade items at both sides of the border. It might be possible to build cross-border networks in the industries in which the Northeast has manufacturing capacities and competitiveness that match with the demand or supply capacity of Myanmar and vice versa (De and Majumdar 2014)<sup>5</sup>.

## Recommendations

To realize the benefits of regional connectivity and trade liberalization, South Asian countries have to follow policies that help them to reduce the costs of trade at border, in one hand, and to absorb new transportation technologies, improve productivity, and increase their labor force's knowledge and skills, on the other. Since countries in South Asia do not start with the same endowments, there will be both winners and losers. Countries those are not having adequate capacity to entangle with the integration process may lose, while winners will be those which are better endowed with higher infrastructure stocks. The shared objective of the regional cooperation should be then to eliminate this asymmetry between countries in South Asia and help the laggards to move ahead through a deeper cooperation.

Present level of connectivity reflects restrictive policy regime. South Asia suffers from excessive direct costs and time taken to cross borders and from inefficiency in cross-border transactions, which ultimately affect trade negatively. State of air connectivity among the countries of South Asia is characterized by restrictive aviation policies resulting in limited number of economically viable routes. Differences in rail connection, i.e. broad gauge and meter gauge remain a major stumbling block in realizing physical connectivity among SAARC member countries. Trade in the region is constrained by poor condition of infrastructure, congestion, high costs, and lengthy delays. These problems are particularly severe at border crossings, many of which pose significant barriers to trade.

Indian diplomacy in the region should make greater use of business and strategic expertise. It would be useful to utilize resources from the Indian diaspora in this regard by making them parts of diplomatic missions and initiatives. Have extensive consultations with domestic industry for convincing them about the benefits of the Free Trade Agreements. Have annual meetings of the SA-India Business Council. The Council can have thematic subgroups that can meet more frequently. Expedite signing of a Trilateral Transport Transit Agreement between India, Myanmar and Thailand. Work on obtaining dual transport licenses enabling cargo-carrying vehicles to cross over from India, Myanmar and Thailand into each other's territories. Sign border trade agreements with Myanmar, Thailand for fixing designated entry and exit points for vehicles. An important aspect of the commercial focus entails closer look at the effectiveness of some of the current dialogue mechanisms. While dialogue has increased manifold between governments, agencies and institutes the question is whether such dialogue is becoming increasingly repetitive and fruitless over time. Develop public messaging on the benefits of connectivity to complement regional (local) development projects. Align national priorities with regional and bilateral undertakings.

There are many possible areas of cooperation in South Asia for raising the lower regional trade to higher level. Undoubtedly, better market access, improved physical connectivity and regional transit, FDI and energy trade are important factors in unlocking regional trade potential. Besides, greater engagement in these areas would generate employment opportunities and other economic and social activities, which in turn would help reduce poverty (particularly in the bordering areas), enhance foreign direct investment flows, and generate new business opportunities for the private sector. At the same time, a regional transit arrangement would help South Asia to better integrate the region and also to strengthen the globalization process. Use of improved technology to manage the transportation and security would help reduce trade costs through higher efficiency and take care additional traffic. A stronger regional cooperation with other regions and countries is thus imminent in order to secure the technology to manage the transportation corridors, trade and security.

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**Disclaimer:**

All views expressed in this paper are personal.

**Endnotes**

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<sup>1</sup> *Federation of Indian Chambers of Commerce and Industries*, New Delhi A ... organized the North East Connectivity Summit on 27-28 November 2014 in Guwahati.

<sup>2</sup> Chantavanich, S. and Vungsiriphisal, P., 2012. "Myanmar Migrants to Thailand: Economic Analysis and Implications to Myanmar Development." In *Economic Reforms in Myanmar: Pathways and Prospects*, edited by Hank Lim and Yasuhiro Yamada, BRC Research Report No. 10, Bangkok Research Center, IDE-JETRO, Bangkok, Thailand

<sup>3</sup> *Xinhua*. 2013. Myanmar, India Reach MoU on Cooperation in Border Security. 21 January. <http://english.peopledaily.com.cn/90777/7711801.html>

<sup>4</sup> For details on NH-502A, see [http://www.nhai.org/doc/23june12/nh\\_nh%20wise.pdf](http://www.nhai.org/doc/23june12/nh_nh%20wise.pdf) (accessed on 18 August 2014).

<sup>5</sup> The study was conducted by Dr. Prabir De, Research and Information System for Developing

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Countries (RIS) and Coordinator, ASEAN-India Centre (AIC), New Delhi jointly with Mr. Manab Majumdar of FICCI as an extension of earlier study which presented the opportunities in cross-border production networks between NER, Bangladesh and Myanmar.