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India's Recent Infrastructure Development Initiatives: A Comparative Analysis of South and Southeast Asia¹

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Abstract

Since the early 1990s, the number of Regional Trade Agreements has increased considerably across continents. This is resulting into increasing regional integration with substantial importance being given to cross-border connectivity development. India, a late subscriber of active RTA strategy, is enthusiastically venturing into cross-border connectivity exercises to enhance its trade integration with the neighbouring countries in recent period. Developing cross-border connectivity is currently receiving salience in the regional forums like SAARC, though limited progress has been made so far. In contrast, ASEAN is the only forum in Asia where substantial progress in integration through cross-border infrastructure augmentation has been witnessed. India has recently entered into FTA with ASEAN and is involved in several infrastructure augmentation projects in several ASEAN member countries. Given this background, the current paper seeks to analyze the Indian infrastructure development initiatives in the immediate and Southeastern neighborhood. The discussion covers the SAARC and ASEAN initiatives towards building physical infrastructure, as well as the recent aid for trade initiatives being undertaken in South and Southeast Asia. The paper concludes by drawing the lessons for SAARC members from the ASEAN experience.

Key words: Economic Integration, Infrastructure

JEL Classifications: F15, H54

¹ The views expressed in this article are personal.

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1. Introduction

Infrastructure augmentation plays an indispensable role in a country's march towards socio-economic prosperity, especially for a developing country. India is no exception to this phenomenon. In order to maintain the GDP growth rate of around 8 per cent, and a consistent level of investment inflow, India is trying hard to augment its infrastructure level, in the areas like telecoms, roads, ports, civil aviation etc., as reflected through the recent measures.⁴ Apart from the central government initiatives, the state governments at their level also contribute in this regard.⁵

In addition to the ongoing task at home, India is currently undertaking several cross-border infrastructure development initiatives in the neighbouring countries. This is partly in view of India's emerging global stature, requiring a proactive foreign policy in the neighbourhood. This brings South and Southeast Asia, i.e., India's immediate and extended neighbourhood, into focus. To retain its rising geopolitical power status and spectacular growth performance, India requires a friendly neighbourhood. Hence, New Delhi is keenly crafting its foreign policy towards substantial engagement on the basis of mutual benefits. In addition, the created infrastructure can be utilized for booting both-way trade, which in long run would fulfill the economic objectives. In addition, the economic integration through seamless transport linkage is expected to facilitate FDI inflow in the region, in line with the experience of other blocs (World Bank, 2000).

South Asia with a population of around 1.5 billion is known for instability and consequently less than satisfactory performance on development front. However, despite the war on terror and other ethnic and religious strife, the region has witnessed average annual growth of around 6 per cent since 2001. On the other hand, Southeast Asia's stable and consistent internal development placed the region among the major growth poles of the world economy, though Southeast Asian economic crisis of late nineties and the recent economic recession limited the process to some extent. Like SAFTA, ASEAN also moved towards establishment of a Free Trade Area (FTA) with community-building at its core. Both the regions are currently looking towards deeper integration, although with differing experiences.

The integration in South Asia was initiated with establishment of South Asian Association for Regional Cooperation (SAARC) in 1985, which entered SAARC Preferential Trading Arrangement (SAPTA) regime in 1995 and finally resulted South Asian Free Trade Area (SAFTA) from 2006 onwards as a culmination of the earlier efforts. However, limitations

⁴ "To stimulate public investment in infrastructure, we had set up the India Infrastructure Finance Company Limited (IIFCL) as a special purpose vehicle for providing long term financial assistance to infrastructure projects.", Budget Speech of the Finance Minister, GOI (2009-10 Budget).

⁵ However there is a considerable cross-state variation in terms of budgetary allocation towards infrastructure development, which could be measured by percentage of total expenditure on transport and communication (Chakraborty and Guha, 2009).

in the operation of SAFTA as a trade bloc still remain.⁶ ASEAN on the other hand was created in 1967, and ASEAN Free Trade Area (AFTA) was signed in 1992⁷. The difference in terms of level of integration between SAFTA and ASEAN becomes clear from the fact that while the latter has jointly negotiated for entering into FTAs with several countries (e.g. Australia, China, India), till date no such initiative has been adopted by the former.

How wide is India's trade integration with South and Southeast Asia? First, India has been a key Member of SAARC and hence SAFTA since inception. Second the India-ASEAN FTA has come into operation since January 2010. Third, India signed a bilateral FTA with Sri Lanka in 1998, which entered into force in 2000. Fourth, it is currently negotiating BIMSTEC FTA with several neighbouring countries, which includes most of the SAARC members and Myanmar and Thailand from ASEAN (Chakraborty, 2008). Finally, the reform process as a part of the Indo-Thai FTA and Indo-Singapore CECA has already started (Chakraborty and Sengupta, 2010). All these overlapping regional integration exercises may cumulatively provide better trade and development outcome with a strong push towards infrastructure development initiatives. India being the common denominator and the link between South and Southeast Asia has immense opportunity to emerge as a major economic hub, and is currently spiraling several major initiatives in both regions.

The current paper seeks to analyze the Indian initiatives taken in the immediate and Southeastern neighborhood. The centrality of the paper is to understand India's soft power inroads to the regions where lies its national interest. It examines the SAARC and ASEAN initiatives towards building physical infrastructure, which is of primary concern in the age of globalization. The recent aid for trade initiatives being undertaken in South and Southeast Asia has also been mentioned. Finally, the paper attempts to draw a comparison between SAARC and ASEAN experience for India and lessons learnt in the respective forums.

2. Trade and Infrastructure

It is often argued that India's trade with the neighbouring countries is below its true potential owing to the absence of key infrastructural linkage (Sharma, 2006). In fact a substantial proportion of India's trade with immediate neighbours is carried out through informal channels owing to the absence of well-organized infrastructure and various other reasons (Taneja, 2002, undated). In addition, absence of adequate infrastructural facilities leads to delay en route, resulting into higher per unit costs, which wipe out the cost advantages owing to tariff reduction as a part of trade integration exercise. In other words, the very basic purpose of FTA formation is defeated. On the other hand, ensuring trade across borders by building transnational infrastructure not only fulfills export interest but also generate regional economic dependencies and goodwill. Given the geographical location of India (long land borders as well as coastline), development of transport connectivity through rail, road and maritime services with FTA partners are equally important.

⁶ For instance, Rodríguez-Delgado (2007) has noted that there is enough scope to reduce intra-SAFTA trade barriers. It is also argued by business forums that Pakistan would considerably gain by providing MFN status to India (Akhter, 2010), the denial of which comes from non-economic concerns.

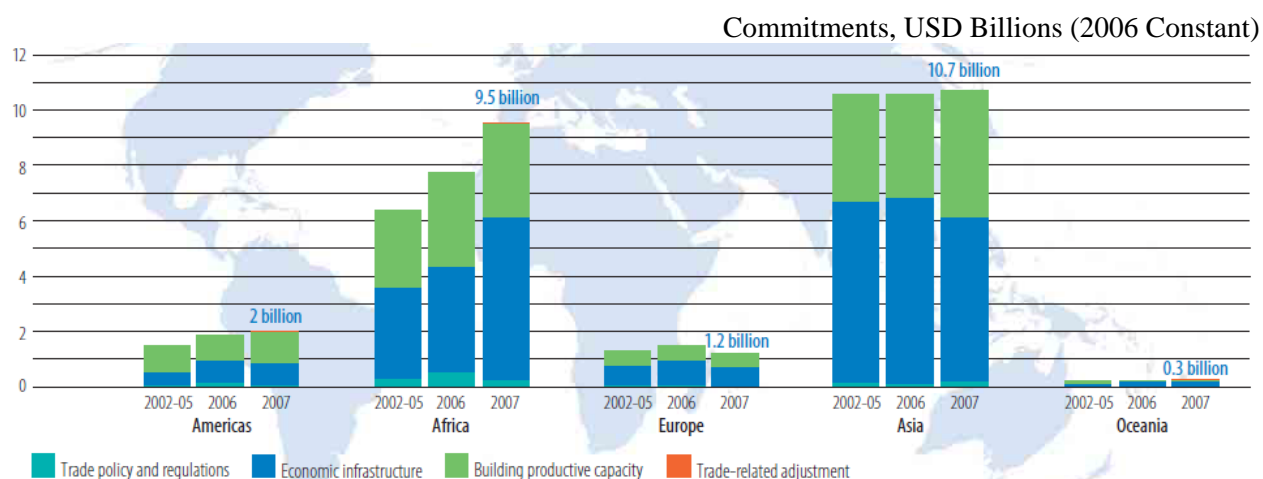
⁷ Vietnam joined AFTA in 1995, LAO PDR and Myanmar joined in 1997 and Cambodia joined in 1999.

Development of supporting infrastructure through economic integration is not a new concept in Asia. For instance, the Greater Mekong Subregion (GMS) regional cooperation project in Southeast Asia is operational for more than a decade, which is responsible for developing the 1,500 km road link connecting the South China Sea and Indian Ocean (East-West Corridor). Funded by Asian Development Bank (ADB), the goal of this project has been to promote connectivity and market integration among Cambodia, Thailand, Lao PDR, Myanmar, Vietnam and China so as to enhance their trade potentials (WTO, 2009). The project has been quite successful in terms of its achievements. Another example under GMS is the Nam Theun II Hydropower Project (\$1.45 billion) located in Lao PDR, which will export up to 5,345 GWh of electricity annually (95 percent of power generated) to Thailand and generate \$1.9 billion in revenues for the host country over 25 years (Wignaraja, 2007).

In addition to GMS, ADB also supports other road infrastructure development initiatives in Asia. For instance, Central Asia Regional Economic Cooperation (CAREC), which covers Azerbaijan, the PRC (Xinjiang Uygur Autonomous Region), Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan and Uzbekistan needs to be mentioned here. The project has also registered positive development repercussions in target economies (ADB, 2009).

The regional initiatives to bridge the gap in infrastructural requirement in developing countries and LDCs are recently being attempted multilaterally through the Aid for Trade (AFT) initiative. The Doha Development Agenda (2001) of the WTO stressed the need to support domestic efforts for mainstreaming trade into national plans for economic development and strategies for poverty reduction, and the focus strengthened after the Hong Kong Ministerial (2005). The idea of AFT is to create suitable economic environment in a country so as to enable it to take full advantages of the ongoing globalization process. Though AFT initiatives include support under various categories like trade policy and regulations, trade-related adjustments, building productive capacity etc., building of economic infrastructure is a major component of it. WTO (2009) noted that in 2007, Asia received a total AFT of US \$ 10.7 billion as compared to US \$ 9.5 billion in Africa. It is observed from Figure 1 that a significant proportion of the fund allocated to Asia has been unitized for creation of economic infrastructure.

Figure 1: Aid for trade: regional distribution



Source: WTO (2009)

Annex 1 reports the list of the top twenty recipients of AFT support in 2006 and 2007. It is observed from the table that India topped the list in 2007, while the other major countries benefiting from the programme includes several Asian neighbours like Viet Nam, Afghanistan, Indonesia, Bangladesh, Pakistan, China and Sri Lanka. Clearly trade infrastructure augmentation in Asia is receiving a major boost in recent period.

Tables 1 and 2 show India's trade dynamics with South and Southeast Asian countries over the last decade. It is observed from Table 1 that India's proportional import from SAFTA has decreased in 2008-09 from the 1996-97 level (less than 1 percent), though the figure has been higher during the interim years. A similar picture emerges in case of India's export share to SAFTA countries as well, where after a decline in relative importance during late nineties; export share witnessed a moderate increase in 2007-08, but declined sharply during 2008-09. This is representative of the overall SAARC trade scenario, where intraregional trade as a proportion of total trade has remained small and has increased marginally from around 3 percent in 1985 to around 5.6 percent in recent years (WDI data). On the other hand, the proportional presence of ASEAN countries both in India's export and import basket has increased over this period, despite its relative distance in comparison to SAFTA countries. This calls for a deeper analysis of the infrastructure-related policies India has followed with respect to ASEAN and SAFTA.

3. SAARC Goals on Infrastructure

The first SAARC Summit comprising the seven Heads of State from South Asia ended with the Dhaka Declaration (8th December 1985), which had all the good intents including accelerating the pace of their economic development and enhancing their national and collective self-reliance. However, infrastructure development received only lip service in 6th SAARC Summit and 8th SAARC Summit. Subsequently at the 9th SAARC Summit, the Member States acknowledged that inadequate intra-region communications facilities act as a major hindrance to closer economic co-operation. In 2002, the SAARC countries at the 11th Summit underlined the need for joint efforts in areas such as upgrading of infrastructure, air linkages. This focus on building physical connectivity came with the recognition that the South Asian region has immense intra-regional trade and tourism potential.⁸ To realize this potential subsequently SAARC Regional Multimodal Transport Study (SRMTS) was conducted with the financial and technical assistance of the ADB⁹.

At the SAARC Transport Ministers Meet in New Delhi in August 2007, several pilot sub-regional and regional infrastructural projects were recommended, which include: linkage from Phuntsholing to Hashimara; Birgunj – Kaatihar – Singhabad – Rohanpur – Chittagong road

⁸ SAARC Website, available at: <http://www.saarc-sec.org/main.php?t=2.15> (last accessed on April 26, 2010).

⁹ In September 2004, ADB approved the Study of the SAARC Regional Multimodal Transport with the amount of \$500,000 on a grant basis from ADB's TA funding program. For details, see ADB website: <http://www.adb.org/Documents/TA-Major-Changes-Scope/REG/38459-REG-MCS.pdf> (last accessed on April 12, 2010).

connectivity with links to Jogbani; rail corridor between Colombo and Chennai, Ferry Service between Colombo and Cochin and Colombo and Tuticorin etc. (De, 2008).

On the energy front, it was acknowledged that energy needs of South Asia will increase three times in next fifteen to twenty years. The process of regional cooperation in energy sector began in January 2000 with the establishment of a Technical Committee on Energy. Thereafter, a specialized Working Group on Energy was created in January 2004. To cope with the energy deficiency issue, the First Meeting of the SAARC Energy Ministers (Islamabad, 1 October 2005) decided formation of an Expert Group. The Group recommended carrying out of technology transfer, building awareness, training, and setting up of SAARC Energy Centre at Islamabad which will realize the goal of regional cooperation on developing specific programs and projects on energy conservation and efficiency. However, a cooperative approach on this front is still forthcoming.¹⁰ For Instance, although SAARC countries are border economies, yet there are no gas pipelines crossing the national borders.¹¹

Despite the efforts made by SAARC in the last few years, the infrastructure development initiatives undertaken by the group seem grossly inadequate. As a result, bilateral initiatives on this front are receiving greater impetus. For instance, during the visit of the Bangladesh PM to India in January 2010, the latter proposed several infrastructural initiatives, including laying a new rail line from Akhaura in Bangladesh to Agartala to have a much shorter access route to Tripura via Bangladesh. In addition, India is considering setting up direct bus service between Shillong and Sylhet. This initiative along with Shillong – Dhaka air service is some infrastructural proposals taken up taken up by the Meghalaya Chief Minister D. D. Lapang when he met Bangladesh Premier Sheikh Hasina in New Delhi in January 2010.

4. India's Infrastructure Development Initiatives in South Asia

Intraregional investment flows on infrastructure cooperation are still insignificant in SAFTA. SAARC's missed opportunity has recently been seized by sub-regional platforms such as South Asia Subregional Economic Cooperation (SASEC) program, involving four SAARC countries — Bangladesh, Bhutan, India, and Nepal. The four countries are grouped under the South Asian Growth Quadrangle (SAGQ) initiative where infrastructure development in terms of energy and transport are priority areas. For instance, India and Bhutan are currently involved in energy cooperation (Sigdel, 2007).

¹⁰ SAARC Website, available at: <http://www.saarc-sec.org/main.php?t=2.2> (last accessed on March 9, 2010).

¹¹ There are several ongoing negotiations over setting up of cross-border gas pipelines to deliver natural gas from the energy resource rich neighbouring countries to India. One such initiative is the Iran-Pakistan-India pipeline, where despite long negotiations; pipeline has not materialized because of pricing disagreement between suppliers and India. Another major concern for India is security issue as the pipeline will pass through insurgency prone areas of Pakistan. The Bangladesh-India-Myanmar gas pipelines also suffered similar fate, considering Bangladesh's firm stand on their demand to bring bilateral issues like reduction of trade imbalance, providing a corridor for Nepalese goods to Bangladeshi ports, perceived security threats etc.

India's bilateral efforts need special mention here. For instance, India has provided a line of credit of US\$ 100 million for the refurbishment of Colombo-Matara railway corridor with help from IRCON and RITES (IHC, GOI, 2009). Also a joint venture for setting up a 500 MW coal based thermal power plant in Trincomalee has been agreed between Ceylon Electricity Board (CEB) and NTPC on December 2006, involving investments of US\$ 500 million (Reddy, 2006).

India has also invested in a wide range of infrastructure sectors including hydro-electricity, power transmission lines, road construction, telecommunications etc. in the new SAARC Member country Afghanistan (joined in 2007). For instance, construction of 220 KV double circuit transmission line from Pul-e-Khumri to Kabul, sub-station at Kabul under the North-East power system project to bring power from neighbouring countries to Kabul, reconstruction and completion of Salma Dam Power Project in Herat, construction of 218 km road from Zaranj to Delaram to facilitate movement of goods between Afghanistan and Iran needs special mention here (SCRIBD, undated).

A similar level of Indian involvement is noticed in Nepal as well. For instance, a major proportion of the Mahendra Raj Marg, the major highway of Nepal has been constructed by India. Moreover, roads from Kathmandu to Dakshinkali, Trishuli, Balaju, Godavari and Raxaul via Hetauda, Sunauli to Pokhara, Rajbiraj to Koshi Barrage and Janakpur etc. are built with Indian assistance. India has also constructed a number of bridges on these roads (SATIN, 2008).

The Srinagar - Muzaffarabad bus service across the Line of Control, the West Bengal to Bangladesh road link through Benapole – Petrapole etc. could be cited as some of the achievements under SAFTA. The joint India-Iran initiative to develop the Chahbahar Port in Iran and to connect it by road to Afghanistan is also worth mention (Balooch, 2009).

5. India's Infrastructure Development Initiatives in Southeast Asia

India's infrastructure development initiatives in Southeast Asia are part of the larger Look East Policy (LEP) launched in 1991, partially caused by less than satisfactory trade performance within SAARC at that point. ASEAN provided a major market for Indian exports along with its potential to serve as a passage to enter into East Asia. The driving force behind the current push towards cross-border infrastructure development is the increasing growth in the regional trade, obtaining greater access to international markets, benefiting from increased synergies in production etc.

Along Myanmar, India shares a land boundary of 1,643 kilometers with Southeast Asia. This geographical proximity was utilized to develop the 160 km *India-Myanmar Friendship road link*, connecting Tamu to Kalemyo to Kalewa, completed in 2001. Tamu is the border area on Myanmar side only 5 km from Moreh, the Indian border point from where the Indian roads and rails are connected to other parts of the country. This strengthened the effect created by opening the cross border point between Moreh and Tamu in 1995 (Kuppuswamy, 2006).

Kaladan Multimodal Transport is another critical project initiated in Myanmar. The project offers an alternative transit route for India to bypass the transport corridor of Bangladesh.

This is a vital step, given Dhaka's reluctance over permitting India's accessibility to Chittagong port. The project involves a major upgradation of infrastructure at Sittwe, located about 250 km from the Mizoram border on the north-western coast of Myanmar where the Kaladan River joins the Bay of Bengal. The project cost is estimated at US\$ 105.4 million, wherein the Indian contribution will be US\$ 95.4 million. The Indian Government is also proposing to extend a credit line of US\$ 10 million to the Government of Myanmar for helping out with their part of contribution to the project (LS, GOI, 2006).

The India – Myanmar – Thailand trilateral highway under the Mekong Ganga Cooperation (MGC) is another important link initiated in 2005. The 1360 km Trilateral Highway with the cost of US\$ 700 million runs from Moreh in India to Maw Sot in Thailand through Bagan in Myanmar. On the other hand, the Diphu – Karong – Imphal – Moreh railway track in India is an example of the Indian initiatives to develop internal transport infrastructure. There are other projects on the pipeline including construction / upgradation of Rhi – Tidim and Rhi – Falam road sections in Myanmar. A deep-sea port at Dawei, in Myanmar's southern tip, and the Dawei - Kachanaburi road that will branch off from the highway would be part of the trilateral highway project (IBEF, 2004). Schemes such as project specific credit lines for upgradation of Yangon – Mandalay Trunk line, India-sponsored optical fibre link between Moreh and Mandalay are on the way (MEA, GOI, 2004).

India is also involved in several cross-border rail projects like Jiribam – Imphal – Moreh line in Manipur and the Tamu – Kalay – Segyi line in Myanmar, as well as rehabilitation of Myanmar's existing Segyi – Chaungu Myohaung line. All these rail linkages would ultimately add up to the New Delhi – Hanoi rail link proposed at the MGC Ministerial Meeting in Phnom Penh in June 2003. With the aim of enhancing trade under FTAs with Singapore and Thailand (already materialized), extended rail link from New Delhi to Hanoi was envisaged. Rail networks already exist in India, Myanmar, Thailand, Cambodia and Vietnam, but there are several missing links that need to be bridged for the proper operationalization of rail link from New Delhi to Hanoi (RS, GOI, 2003). The proposed initiative might play an instrumental role in bridging the gap.

India's infrastructural initiatives with ASEAN neighbours actually provide a strong development impetus to the land-locked northeast region of the country. The chicken's neck or the Siliguri corridor is a narrow stretch of land, which connects mainland to the northeast of India. This distance is over 1,600 km which is not just long but infested with geological perils and security threats. The development deficit in the Northeast India can be encountered by integrating the Northeast with the Southeast Asian region ushering in prosperity of the entire region (Aiyar, 2007). Over the years there has been deliberate effort on the Indian Government's part to project the Northeast region as the bridge to Southeast Asia (Karthykeyan, 2009). India's infrastructural ties with the Southeast Asia through the northeast can be drawn parallel with China's attempt to link Xinjiang province to the neighbouring Central Asia (Clarke, 2008). Similar is the case of Yunnan province, where China has turned the once impoverished landlocked region, into a gateway to South and Southeast Asia (Nanfan Daily, 2010).

It is clearly observed that over the last decade infrastructure development across borders, both in South and Southeast Asia emerged as a major tool of India's economic diplomacy.

Perhaps China's successful experience of linking with the neighbourhood motivated India to extend influence as well as trade beyond borders. However, India's success stories on cross-border connectivity are still quite modest as compared to the Chinese experience. Also ASEAN's successful march on interconnectivity and developing infrastructure (Bhattacharyay, 2009) in facilitating intra-region trade (Hapsari and Carlos Mangunsong, 2006) may provide a learning lesson for India and the SAARC.

6. ASEAN Infrastructural Initiatives

The ASEAN leaders realize transport and infrastructure is fundamentally linked to ASEAN's political, economic (trade, tourism and investment), social and environmental well-being.¹² With the FTA integration with newer countries like China, high-quality infrastructure is the necessary tool to cut unnecessary costs with which ASEAN countries can provide competitive prices against China's highly competitive exports. In addition, the ASEAN is aiming at achieving community building by 2015, which cannot be realized without a proper infrastructural set up and smooth physical linkages around the region. To this end, ASEAN is coming up with a fund to support infrastructure projects within its territories with an initial capital of \$1 billion (Reuters, 2009).

The ASEAN Leaders at the 15th ASEAN Summit held during 23-25 October 2009 in Cha-Am Hua Hin, Thailand adopted the Statement on ASEAN Connectivity which will serve as a foundation for a more enhanced East Asian connectivity. Notably, substantial progress has been made in the development of the ASEAN Strategic Transport Plan (ASTP) 2011-2015 that would support the realization of the ASEAN Connectivity and establishment of the ASEAN Economic Community in 2015.

Quoting the words of a former ASEAN Secretary General, "Transportation is vital to open up the geographical and mental space for economic growth" (Yong, 2004). Accordingly, ASEAN members have laid down plans for construction of transit routes across borders. Some ongoing road projects include: Meiktila – Loilem – Keng Tung – Tachileik (Myanmar – Thailand Border), Mae Sot (Thailand – Myanmar Border), Tak – Bangkok – Hin Kong – Nakhon Nayok – Aranyaprathet – Khlong Luek (Thailand – Cambodia Border), Nakhon Pathom – Pak Tho – Chumphon – Suratthani – Phattalung – Hat Yai – Sadao (Thailand – Malaysia Border), Chiang Rai – Chiang Khong (Thailand – Lao PDR Border) and the Poi Pet (Cambodia – Thailand Border) – Sisophon – Phnom Penh – Bavet (Cambodia – Vietnam Border). Similarly, under the GMS three corridors are under construction, namely North-east corridor, East-West corridor and Southern corridor. The 1,500 km-long East-West Corridor links the key points in four countries: Mawlamyine – Myawaddy provinces in Myanmar, Maesot – Phitsanulok – Khonkaen – Kalasin – Mukdahan provinces in Thailand, Savannakhet – Dansavanh in the Laos, and Lao Bao – Dong Ha – Hue – Danang in Vietnam (ADB, undated).

The ongoing Kunming – Bangkok Highway and Singapore – Kunming Rail Link projects show the growing Chinese linkage with ASEAN. The 2,000 km long highway project is a part of the proposed Asian Highway, which is expected to lower the travelling time to 20 hours. China is co-financing with Thailand the construction of the Houei Sai – Chiang Khong Mekong Bridge of

¹² ASEAN website, available at: <http://www.aseansec.org/21006.htm> (last accessed on March 7, 2010).

Kun Man Road (Kunming – Bangkok Highway via Lao PDR) aimed to be completed by 2011. The Singapore – Kunming Rail Link (SKRL) will link Kunming, the capital of the southern Chinese province of Yunnan, to Hanoi, Ho Chi Minh City, Phnom Penh, Bangkok, Kuala Lumpur and then Singapore. The railway infrastructure would be completed by 2015 and will join the Trans-Asian Railway.¹³

The ASEAN members, barring Laos, possess extensive coastlines and hence maritime transport explains majority of their trade. There has been steady implementation of measures for implementing an integrated and competitive maritime transport in ASEAN. There is also deliberation on the development of the strategy framework for the development of ASEAN Single Shipping Market. The signing of the Memorandum of Understanding on Cooperation Relating to Marine Casualty and Marine Incident Safety Investigations by their respective maritime transport authorities is another step forward. These steps will strengthen intra-ASEAN maritime transport services and ensure globally competitive and integrated ASEAN ports and shipping sector by developing infrastructure, promoting a liberalised regulatory environment, harmonising standards and building human resource and institutional capacities (Ahmed and Ghani, 2007).

There are issues of soft infrastructure initiatives which are required to facilitate swift and smooth intra-regional trade. For example, the inaugural Meeting of ASEAN Transit Transport Coordinating Board (TTCB) held on 5-6 November 2009 at the ASEAN Secretariat, Jakarta, Indonesia speeds up the completion of all necessary regulatory and procedural foundations for the implementation of the ASEAN Framework Agreement on the Facilitation of Goods in Transit (AFAFGT), ASEAN Framework Agreement on Multimodal Transport (AFAMT), and ASEAN Framework Agreement on the Facilitation of Inter-State Transport (AFAFIST) for seamless movement of goods in the region.¹⁴

On the Energy sector, the ASEAN Energy Meeting (AMEM) held in Langkawi in July 2003 was a turning point with respect to cooperation in the development and exploitation of the energy resource potentials in the region, as well as in attracting private sector participation and investment in the ASEAN energy sector. Presently, the region is looking for a Trans-ASEAN Gas Pipeline (TAGP) and the ASEAN Power Grid Projects to provide greater stability and security of energy supply in the ASEAN region. In addition, ASEAN Energy Business Forum (AEBF) is being built as an important platform for facilitating business interaction, technology exchange and project financing opportunities between ASEAN energy authorities and the private sector. Subsequently, ASEAN is aiming for implementation of eleven electricity interconnection projects by 2020 which are expected to generate potential savings of about US\$ 662 million.¹⁵

The ASEAN countries are conscious of their geographical limits. Therefore, there is an ongoing attempt to broaden the ASEAN connectivity covering South and East Asia. For instance, ASEAN – Republic of Korea transport cooperation is currently identifying the potential

¹³ Intergovernmental Agreement on the Trans-Asian Railway Network was signed in 2006, 28 countries are parties to it. Bangladesh and Pakistan are parties, but yet to ratify.

¹⁴ ASEAN website, available at: <http://www.aseansec.org/24102.htm> (last accessed on March 23, 2010).

¹⁵ ASEAN website, available at: www.aseansec.org/ar04/CHAPTER%202-b.pdf (last accessed on March 9, 2010).

transport projects and activities to be undertaken in the next 5 years¹⁶. Another significant partner is Japan, who has over the years emerged as the largest donor and investor in infrastructural projects. At present, the Manila Action Plan for the ASEAN – Japan Transport Partnership (AJTP) has been implemented in the area of transport logistics, safety and security, environment, and common infrastructure. Both players are looking forward for a new important initiative as a part of the Manila Action Plan, namely the *Ha Noi Initiative* on “ASEAN-Japan Action Plan on Environment Improvement in the Transport Sector (AJ-APEIT)”. The project, to be implemented over a five-year period from 2010 to 2014, intend to secure low-carbon and low-pollution transport systems for achieving sustainable social and economic development.

However, China has emerged as the biggest player within ASEAN in terms of trade and infrastructure linkages by pursuing a distinctive engagement policy in its periphery. The long-term Chinese strategy encapsulates its integration into the ASEAN regional system. To this end, the Strategic Plan for ASEAN-China Transport Cooperation Plan focuses on the following corridors: (i) China – Myanmar – Andaman Sea, (ii) China – Lao PDR / Myanmar – Thailand – Malaysia – Singapore, (iii) China – Vietnam – Laos – Cambodia, (iv) Vietnam – Cambodia – Thailand – Myanmar, and (v) Vietnam – China – Myanmar – Bangladesh – India. In Myanmar, all infrastructure building and transport linkages are Chinese sponsored, including railways tracks within the country such as Kalemmyo – Pokkaku (345 km), Nansong – Loikaw (240km) and Ye –Tavoy (95km). Several airfields and naval bases within ASEAN are also Chinese made.¹⁷ China recently launched a US\$ 10 billion infrastructure investment fund to improve road, railway, airlines and information telecommunications links between China and ASEAN and is providing a US\$ 15 billion credit facility to promote the same. With China’s global investment strategy just beginning to take off, and judging from the US\$ 52.1 billion in FDI outflows from China in 2008, there would be more investments in this sphere within ASEAN.¹⁸

7. Challenges in SAARC and Lessons learnt in ASEAN

The current globalization process makes the borders of the nation-states less relevant. Intra-regional cooperation in sectors such as infrastructure ensures large gains to all countries. A small yet significant example of this phenomenon is the ‘Pacific Aviation Safety Office’ established in Port Vila, Vanuatu, a single regional organization, replacing fragmented national aviation authorities in the region. The arrangement is benefiting governments, air transport operators and users of 7 member countries, i.e., Fiji, Kiribati, Papua New Guinea, Samoa, Solomon Islands, Tonga and Vanuatu.¹⁹ Could this be a replicable model for South Asia?

¹⁶ For details see ASEAN website, ASEAN Transport Action Plan 2005-2010, available at: <http://www.aseansec.org/16596.htm> (last accessed on May 11, 2010).

¹⁷ There are unconfirmed reports of six naval bases built by China in Myanmar’s coastline which includes, Sittwe, Munaung, Hainggyi, Coco Islands, Mergui, and Za Det Gyi. These ports are constructed to serve several Chinese interests, for example, the Sittwe port is developed for transport of goods to Bay of Bengal wherein prohibitive cost and commercial viability forces her to shift exit point to Yangon. On the other hand, Za Det Gyi port gives China access to the Indian Ocean, Thailand and Malacca Straits. India’s concern lies in possibility of covert underground monitoring facility being developed in Coco Islands aimed at monitoring activities in the Indian Ocean.

¹⁸ ASEAN website, available at: <http://www.aseansec.org/24161.htm> (last accessed on April 4, 2010).

¹⁹ For details see Pacific Aviation Safety Office Website, available at: <http://www.paso.aero/> (last accessed on March 2, 2010).

Undoubtedly, seamless transport in a geographical space which is otherwise divided by polity will enhance trade inter-linkage and draw more FDI than fragmented markets. The SAFTA experience however has so far not been able to fulfill these expectations. The recent Indian initiatives towards creation of infrastructure linkages with neighbours should be viewed in this light, which has generated a mixed outcome so far. While India's proportional trade with SAFTA members as a whole has declined in 2008-09 as compared to the corresponding figures during late nineties (Table 1), the same has increased in case of ASEAN (Table 2), a bloc more successful in creating regional production networks.

What is the economic or political intuition behind this scenario? A comparison of India's initiatives undertaken in South and Southeast Asia (Section 4 and 5) clearly reveals that the participation is much deeper in case of the latter bloc as compared to the former, and perhaps marginal increase in the proportional presence of ASEAN countries in India's trade basket can be explained in this light. Now which factor gives rise to this causality? Would it be right to deduce that since investment on infrastructure augmentation in general and trade infrastructure in particular in SAFTA members is relatively low; their trade with India is also not peaking up? Or, looking at the scenario from the other side of the prism, could it be concluded that India is investing more in the infrastructural initiatives in Southeast Asia because trade in SAFTA is in any case constrained by political factors? Alternatively, is it being motivated to do so by the growing Chinese presence (both commercial and infrastructure-oriented) in the countries surrounding Indian Territory (Bhattacharyya, 2010)? It seems all these factors contribute in shaping the recent Indian actions, and the relative strengths of each one of them would be clearly discernible only in the coming future.

It has been noted during ADB's 39th Annual Meeting held on 14 July 2006 at Hyderabad that cross border infrastructure development in the SAARC is constrained by political challenges, structural adjustments and fiscal imbalances. The less than potential intra-regional trade is explained by the high cost of doing business, originating from the lack of proper infrastructure. Perhaps the present political instability in Afghanistan, Pakistan, Nepal, Bangladesh and Sri Lanka explains the tentative response of bloc as a whole in bridging the infrastructure gap. Moreover, the leaderships in several SAARC countries are struggling for their own political legitimacy. Therefore, often they do not hold the mandate to aggressively pursue the long-term goals like regional infrastructure. Interestingly, ASEAN during its initial years faced similar challenges. However, the political eagerness, changing strategic dynamics of the Soviet Union breakup and the consequent peace in Indo-China region brought ASEAN on the right track and the economic implications of the deepening integration since then is obvious.

Most significantly, India's infrastructural drive towards SAARC neighbors suffers because the SAARC countries suffer from misperception and apprehension over India's intention. In order to play a positive role and erode the existing mistrust, India needs to learn from Indonesia, who suffered from same problem during ASEAN's initial years and since then has successfully managed to bring confidence among its regional partners.

Lack of long term vision is another shortcoming facing SAARC countries. The regional infrastructural initiatives required the genesis of single, unified geographical and economic unit

in South Asia. In practice, several SAARC countries are still struggling to ensure internal demands in terms of basic rights (e.g. UN Millennium Development Agenda). Building infrastructure across borders is quite ambitious in this perspective, in particular given the limited trade potential of several LDCs of the region. Nataraj (2007) has noted that the other persistent problem with the SAARC countries is a vicious cycle of inefficiency.

Apart from boosting trade, developing connectivity linkages in South Asia has the potential to address the problem of growing energy insecurity of the region. For instance, Pakistan and Afghanistan can serve as the gateway to Central Asian energy source. Similarly, with proper infrastructure in place, the natural gas reserves in Bangladesh could be the growth engine for the neighbouring SAARC countries. Once the physical connectivity integrates the region, this will add benefits to the land-locked countries (Bhutan, Nepal) of the region. Cross-border management of water resource is another area that can be taken up under SAARC banner. This will generate irrigation and hydro-power related benefits in one country while ensuring flood control for the neighbouring one. For example, India – Nepal, India – Bangladesh, and Afghanistan – Pakistan can effectively reap the benefits of cooperation in water storage and management issue. However, as evident from the current scenario, sorting problems of mutual mistrust needs to precede that eventuality.

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Table 1: India's Trade with SAFTA Countries (% share in India's export and import basket)

Countries	Export						Import					
	1996-97	1997-98	2001-02	2006-07	2007-08	2008-09	1996-97	1997-98	2001-02	2006-07	2007-08	2008-09
Afghanistan	0.0679	0.0611	0.0556	0.1438	0.1528	0.2169	0.0078	0.0258	0.0341	0.0186	0.0434	0.0431
Bangladesh	2.5962	2.2609	2.2867	1.2883	1.7905	1.3461	0.1590	0.1225	0.1150	0.1230	0.1022	0.1032
Bhutan	0.0657	0.0383	0.0173	0.0455	0.0532	0.0606	0.0863	0.0324	0.0465	0.0761	0.0773	0.0500
Maldives	0.0310	0.0251	0.0613	0.0544	0.0550	0.0702	0.0004	0.0006	0.0008	0.0016	0.0016	0.0013
Nepal	0.4951	0.4889	0.4893	0.7348	0.9245	0.8511	0.1637	0.2294	0.6923	0.1647	0.2497	0.1641
Pakistan	0.4697	0.4115	0.3286	1.0680	1.1934	0.7769	0.0924	0.1071	0.1260	0.1740	0.1145	0.1214
Sri Lanka	1.4264	1.4064	1.4395	1.7850	1.7342	1.2959	0.1095	0.0728	0.1311	0.2534	0.2510	0.1181
Total	5.1520	4.6922	4.6783	5.1198	5.9036	4.6177	0.6191	0.5906	1.1458	0.8114	0.8397	0.6012

Source: India's Trade data (Ministry of Commerce)

Table 2: India's Trade with ASEAN Countries (%share in India's export and import basket)

Countries	Export						Import					
	1996-97	1997-98	2001-02	2006-07	2007-08	2008-09	1996-97	1997-98	2001-02	2006-07	2007-08	2008-09
Brunei	0.0180	0.0065	0.0084	0.0066	0.0064	0.0095	0.0001	0.0000	0.0007	0.1536	0.0898	0.1369
Cambodia	0.0047	0.0085	0.0258	0.0413	0.0328	0.0256	0.0000	0.0037	0.0022	0.0009	0.0011	0.0009
Indonesia	1.7683	1.2571	1.2178	1.6050	1.3254	1.3771	1.5257	1.7636	2.0166	2.2445	1.9184	2.2374
Lao PDR	0.0011	0.0009	0.0072	0.0019	0.0024	0.0053	0.0000	0.0000	0.0001	0.0002	0.0000	0.0002
Malaysia	1.5869	1.4085	1.7653	1.0322	1.5761	1.8769	2.8194	2.8418	2.2048	2.8505	2.3882	2.3713
Myanmar	0.1350	0.1418	0.1389	0.1108	0.1138	0.1211	0.4528	0.5400	0.7283	0.4213	0.3220	0.3085
Philippines	0.5487	0.6863	0.5654	0.4610	0.3798	0.4019	0.0420	0.0556	0.1845	0.0901	0.0814	0.0848
Singapore	2.9204	2.2266	2.2185	4.8028	4.5226	4.4908	2.1494	2.4154	2.5365	2.9554	3.2285	2.5146
Thailand	1.3358	0.9858	1.4446	1.1430	1.1098	1.0376	0.5039	0.5462	0.8229	0.9398	0.9151	0.8987
Vietnam	0.3528	0.3640	0.4978	0.7776	0.9836	0.9455	0.0043	0.0211	0.0368	0.0903	0.0690	0.1355
Total	8.6717	7.0860	7.8897	9.9822	10.0527	10.2913	7.4976	8.1874	8.5334	9.7466	9.0135	8.6888

Source: India's Trade data (Ministry of Commerce)

**Annex 1: Top 20 Recipients of Aid for Trade in Volume in 2007 Commitments, USD
Million (2006 constant prices)**

Country	Region	Income Group	2002-05 Average	2006	2007	Share (%) of total AFT	ODA as % of GNI
India	Asia	Other Low Income	1352.3	1522.6	1963.8	7.7	0.11
Viet Nam	Asia	Other Low Income	1371.9	1154.1	1673.9	6.6	3.58
Afghanistan	Asia	Least Developed	665.0	1168.2	1341.2	5.3	33.86
Iraq	Asia	Lower Middle Income	1979.2	2061.8	1111.0	4.4	–
Ethiopia	Africa	Least Developed	485.1	655.4	813.6	3.2	12.48
Indonesia	Asia	Lower Middle Income	986.9	814.4	772.6	3.0	0.19
Kenya	Africa	Other Low Income	300.0	294.1	735.0	2.9	4.31
Ghana	Africa	Other Low Income	235.6	207.1	667.1	2.6	7.59
Bangladesh	Asia	Least Developed	642.1	459.7	655.8	2.6	2.06
Mali	Africa	Least Developed	159.5	79.6	653.3	2.6	15.43
Uganda	Africa	Least Developed	221.2	105.4	640.8	2.5	15.72
Egypt	Africa	Lower Middle Income	518.5	701.3	469.8	1.8	0.84
Pakistan	Asia	Other Low Income	345.8	322.5	408.2	1.6	1.51
Tanzania	Africa	Least Developed	324.2	213.0	398.1	1.6	17.43
El Salvador	America	Lower Middle Income	27.0	23.8	369.8	1.5	0.45
Mozambique	Africa	Least Developed	284.2	316.9	365.3	1.4	26.33
China	Asia	Lower Middle Income	695.4	537.5	338.8	1.3	0.04
Sri Lanka	Asia	Lower Middle Income	410.9	281.7	285.1	1.1	1.84
Morocco	Asia	Lower Middle Income	280.6	433.5	265.0	1.0	1.51
Bolivia	America	Lower Middle Income	215.6	115.4	259.0	1.0	3.69

Source: WTO (2009)