

## ‘OBOR’ and South Asia: Can India and China Cope with the Emerging ‘New Normal’ in the Region?

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**Abstract** Ever since President Xi Jinping announced the ‘One Belt, One Road’ project in 2013, more than 66 countries across the continent expressed their interest to be part of this grand project of the century. In South Asia, most of the countries embraced the idea except India. There is no doubt that OBOR is likely to have far-reaching implications on South Asian politics, economy and security. China has been engaging in the region through various economic and development projects for last two decades. This has raised serious security and strategic concerns in India. China’s growing bilateral trade investments and development-oriented connectivity projects in India’s neighbourhood have been popularly dubbed as China’s ‘String of Pearl Strategy’ aimed to contract India’s sphere of influence in the region. There is a deficit of trust between emerging India and rising China over their interests and intentions. Many observers, however, view OBOR as a game changer at least in South Asia, where this would necessitate re-alignment and re-balancing. But, how does India perceive this project is a matter of serious concern that would shape the nature of implications on South Asia? In this context, this article examines the impact of OBOR on South Asia Region from sub-regional perspectives and it explores how China can play a constructive role by reconciling its grand strategy with national interests of South Asian countries in order to minimise the adverse impact of OBOR [especially China–Pakistan Economic Corridor (CPEC)] on the peace and security of the region through effective CBMs.

**Keywords** India and OBOR · Sub-regional trade and connectivity · South Asia · CPEC · India and Jammu and Kashmir

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## 1 Introduction

The One Belt and One Road (OBOR) initiative announced by President Xi Jinping in 2013 in Kazakhstan has heralded a new developmental discourse in the global politics. While unveiling China's first ever global grand strategy popularly known as 'New Silk Road' initiative that aims to link East and West, Asia and Europe, he hoped 'to work with Central Asian countries to unceasingly enhance mutual trust, to consolidate friendship, to strengthen cooperation, so as to push forward the common development and prosperity, and work for the happiness and well-being of the people in the regional countries'.<sup>1</sup> It is reported that more than 66 countries expressed their interest to join the project across the continent from Mexico to Myanmar that would roughly covers 70% of world population. Majority of them are from developing and least developed countries according to UN developmental standards. To accelerate the OBOR, China has unleashed series of initiatives under the OBOR at domestic, regional and international levels in order to expedite the process of building a transcontinental infrastructure and developmental network. One of the important initiatives is to establish Asian Infrastructure and Investment Bank (AIIB) to finance infrastructure construction projects which would eventually promote inter-regional connectivity and economic integration. With the signing of memorandum of understanding (MoU) to join AIIB, more than 50 countries formally joined as founding members out of which 26 countries are from Asia.<sup>2</sup> It is interesting to note that India is the second largest founding member of AIIB with vote share of 8%. These developments raise two important questions: what is the nature and scope of the Belt and Road Initiative? And how does OBOR impact on current order in terms of global economic governance and financial practices? To answer these questions, it is pertinent to understand the basic features of OBOR. The proposed OBOR consists of six major economic corridors namely China–Mongolia–Russia; New Eurasian Land Bridge; China–Central Asia–West Asia; Indochina Peninsular; China–Pakistan Economic Corridor (CPEC); and Bangladesh–China–India–Myanmar (BCIM).<sup>3</sup>

The western discourse surrounding OBOR has been contemptuous about the nature of OBOR. Many western analysts dubbed this trans-regional project as 'China's Marshal Plan' which is a response to US pivot to Indo-Pacific, a policy shift announced by President Obama in 2011.<sup>4</sup> Refuting such comparisons are unwarranted, the Chinese Foreign Minister, Mr. Wang Yi said, OBOR is 'the product of inclusive cooperation, not a tool of geopolitics, and must not be viewed with an outdated Cold

<sup>1</sup> See for original transcript of President Xi Jinping's speech delivered in which he proposed to build a Silk Road Economic Belt with Central Asian Countries for a 'Better Future' on 07 September 2013 at Nazarbayev University in Astana, Kazakhstan. Retrieved from the Ministry of Foreign Affairs of the People's Republic of China [http://www.fmprc.gov.cn/mfa\\_eng/topics\\_665678/xjpfwzysiesgjtfhshzzfh\\_665686/t1076334.shtml](http://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpfwzysiesgjtfhshzzfh_665686/t1076334.shtml).

<sup>2</sup> Basic information about membership retrieved from AIIB official website; for details, see <http://www.aiib.org/html/aboutus/introduction/history/?show>.

<sup>3</sup> See "The Grand Design of China's New Trade Routes" published by *Stratfor*, 24 June 2015. Retrieved from <https://www.stratfor.com/analysis/grand-design-chinas-new-trade-routes>.

<sup>4</sup> Peter Symonds, 'One Belt, One Road: China's response to the US "pivot"' Wall Street Journal, 4 December 2015. Retrieved from <https://www.wsj.com/en/articles/2015/12/04/obor-d04.html>.

War mentality'.<sup>5</sup> This reflects that the official Chinese view to downplay any geopolitical intentions behind OBOR that would not only jeopardise China's attempts to reform global economic order but also intensify the geopolitical competition. At this juncture, it would be erroneous to compare the OBOR with US Marshall plan to Europe for two simple reasons. First, the project is based on cooperative and consultative model. Second, China holds 50% of its stakes in AIIB that finance the project whereas the US under Marshall Plan monopolised the post-war reconstruction and redevelopment of Europe making the economies of great powers of Europe such as France, Italy, Germany and Britain totally depends on US capital resources. Another interesting study done by the European Parliament Research Services (EPRS) has also raised similar concerns about OBOR. In a briefing to the members of EU Parliament, Gisela Grieger, a research at EPRS made the following critical observations:

OBOR seems to be establishing a centre-periphery pattern between China and its neighbours based on asymmetric relationships likely to result in China's economic, political and military leverage over them. Analysts have pointed to the emergence of a new Sino-centric regional order as part of the 'rejuvenation of the Chinese nation'.....there is an obvious tension between China's declared intention to enhance 'win-win' relations with its neighbours, on the one hand, and to insist on sovereignty claims, on the other. Frictions between 'common interests' and China's 'core interests' could result in more conflict, as it starts enforcing its claims more rigorously, expecting co-claimants to cede.<sup>6</sup>

From the economic point of view, OBOR can be interpreted as China's attempt to challenge the existing global economic and financial system which is based on Brettenwood agreement. The global economic or financial crisis surfaced in 2008 urged the need for new international monetary system. Many developing countries including China and India agreed to reform the existing economic order which hardly recognise the emergence of new economies such as Brazil, Russia, India, China and South Africa (BRICS). The economic debate revolving OBOR can be broadly located with the Washington Consensus (WC)<sup>7</sup> versus Beijing Consensus (BJC).<sup>8</sup> This debate would throw very interesting insights about the impact of OBOR on the

<sup>5</sup> A response to a query during a Chinese and Foreign Media conference held on 8 March 2015. Retrieved from [http://www.fmprc.gov.cn/mfa\\_eng/wjzb\\_663304/wjzbz\\_663308/2461\\_663310/t1243662.shtml](http://www.fmprc.gov.cn/mfa_eng/wjzb_663304/wjzbz_663308/2461_663310/t1243662.shtml).

<sup>6</sup> Gisela Grieger, Members' Research Service, European Parliamentary Research Service, Policy Brief to the Members and staff of the EP for their parliamentary work, July 2014. Retrieved from [http://www.europarl.europa.eu/RegData/etudes/BRIE/2016/586608/EPRS\\_BRI\\_2016/586608\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2016/586608/EPRS_BRI_2016/586608_EN.pdf).

<sup>7</sup> The term 'Washington Consensus' was coined by John Williamson in 1989, which is based on ten policy recommendations as follows: (1) Fiscal Discipline; (2) Restructuring Public/Social Expenditure Priorities; (3) Tax Reform; (4) Liberalising Interest Rates; (5) Competitive Exchange Rates; (6) Trade Liberalisation; (7) Liberalisation of Inward Foreign Direct Investment; (8) Privatisation; (9) Deregulation; and (10) Property Rights. For details see John Williamson (2004), 'A Short History of the Washington Consensus', Paper commissioned by Fundació CIDOB for a conference 'From the Washington Consensus towards a new Global Governance', Barcelona.

<sup>8</sup> The term 'Beijing Consensus' was coined Joshua Cooper Ramo through his famous research paper titled The Beijing Consensus in 2014. According to Ramo, the BJC provides alternative global economic development model based on three overarching ideals of Chinese development: Innovation, Pursuit of Dynamic goals and Self-determination. See Ramo, Joshua Cooper (2004) 'The Beijing Consensus' *The Foreign Policy Centre*, pp. 5–9. Retrieved from <http://fpc.org.uk/fsblob/244.pdf>.

current global economic governance and financial practices. While the BJC is not an institutionalised approach, it is an emerging alternative thinking to the existing order. The fundamental difference between WC and BJC is the former is based on Free Market Economy and Democracy with a rigid prescription that democracy is prerequisite for Free Market Economy and the latter advocates authoritarian or disciplined economy that does not call for democracy. Most of the developing countries which are unable to meet the political criteria prescribed by IMF or World Bank for liberalised trade and investment may find AIIB more lucrative. Another interesting difference which BJC exhibits as compared to WC is in its approach. The China development model adopts heuristic approach based on trial and error method using exploratory problem solving techniques. Looking from this methodological point of view, China is prepared to learn lessons from challenges that arise from OBOR projects. Some of the proposed corridors are being built in the politically most sensitive areas/zones that may invite geopolitical conflicts.

Politically, OBOR has received mixed responses from the western countries. China seems to have protect its trans-regional interests through Shanghai Cooperation Organisation (SCO), a non-western security organisation that would potentially compete if not confront with the existing Western dominated politico-security institutions such as NATO and G-8. Although OBOR was well received by the Central Asian states, there seems to be underwhelming responses from South and Southeast Asian countries. One of the reasons could be the ongoing tensions in South China Sea and the strategic competition with new emerging powers such as India. In South Asia, most of the countries embraced the idea except India. Many observers, however, view OBOR as a game changer in South Asia at least in the economic realm, where it not only strengthens the national economies of South Asian countries but also helps them to sustain their economic development in the longer run. For countries such as Nepal, which is landlocked, this initiative provides unimaginable access to global markets and may attract foreign direct investments. Moreover, this is not the first of its kind opportunity to them, rather China has been engaging in the region through various economic and development projects for last two decades. As far as South and Southeast Asia is concerned, there are two economic corridors proposed under the Belt and Road initiative: the Bangladesh–China–India–Myanmar Economic Corridor (BCIM) and the China–Pakistan Economic Corridor (CPEC). Premier Li Keqiang reiterated China’s commitment to build these two corridors. He said, ‘China will intensify the planning and building of a Silk Road economic belt and a twenty-first century maritime Silk Road and promote the building of the Bangladesh–China–India–Myanmar Economic Corridor and the China–Pakistan Economic Corridor. By launching a number of major projects, we will speed up infrastructure connectivity with our neighbours and open up new space for enhancing international economic and technologic cooperation. We will engage in bilateral, multilateral and regional opening up and cooperation in a coordinated way’.<sup>9</sup> For countries in South Asia, subscription to OBOR which

<sup>9</sup> For details see the full text of the Report on the Work of the Government delivered by Premier Li Keqiang at the Second Session of the Twelfth National People’s Congress on March 5, 2014 and adopted on March 13, 2014. Retrieved from [http://news.xinhuanet.com/english/special/2014-03/14/c\\_133187027\\_3.htm](http://news.xinhuanet.com/english/special/2014-03/14/c_133187027_3.htm).

China defines as a Global infrastructure development network would also give the legitimacy to the ongoing projects in these countries. In the past, China's bilateral trade investments and development-oriented connectivity projects in India's neighbourhood have been popularly dubbed as 'String of Pearl Strategy' aimed to contract India's sphere of influence in the region. There is no doubt that OBOR is likely to have far-reaching implications on South Asian politics, economy and security in long term. But, what is important to understand is the immediate impact of the OBOR in South Asia (Fig. 1).

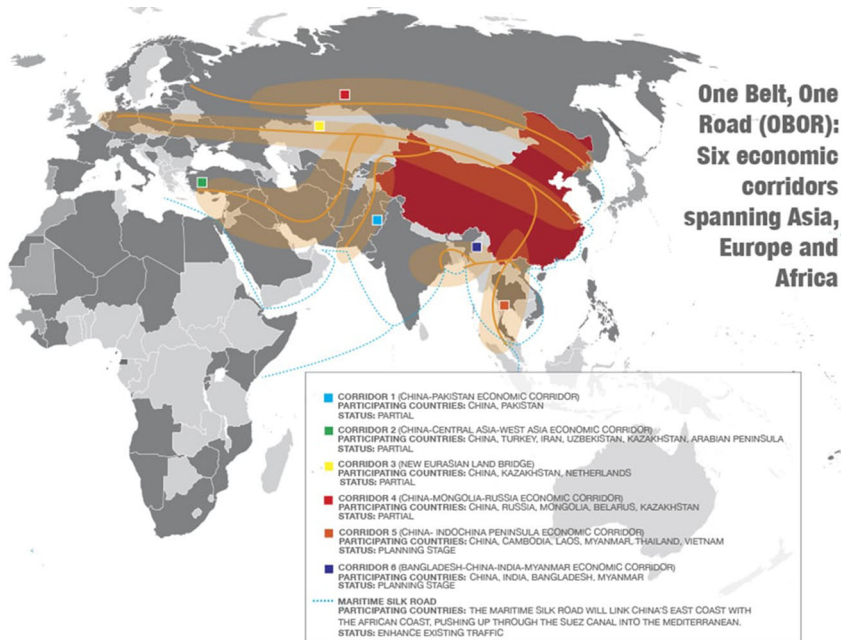
The article examines the impact of OBOR on South Asia from Intra-regional trade and connectivity perspectives. In due course, it delineates the variables in terms of potential factors that would contribute to cooperation, competition and confrontations in future. It reviews the India's current regional policies to strengthen intra-regional trade through various connectivity projects under its two flagship initiatives: Look East 1993 and Act East 2014 policies. A comparative analysis of CPEC and BCIM EC would also bring some interesting perspectives to understand India's stand on OBOR. It is evident that India is neither poised to challenge the existing western institutions (economic and political) nor it can afford to bandwagon any western strategy to contain China which would result in compromising its 'core interest' of preserving its 'strategic autonomy' in region.

## 2 Intra-regional Trade and Connectivity in South Asia

What does OBOR mean for South Asia? In 2015, the Chinese government has released the vision and action plan on the 'Belt and Road Initiative in order to promote the implementation of the SREB and MSR.<sup>10</sup> According to the action plan, CPEC and BCIM are closely related to the Belt and Road Initiative and therefore require closer cooperation and greater progress. These two corridors will have a far-reaching impact on the way in which the intra-regional trade is being conducted. OBOR is more likely to alter the existing connectivity scenario in the region. Over the last several decades, global economy has been driven by regional trade blocs built over the periods through series of free trade agreements. In the west, Europe and the USA have systematically completed the regional economic integration. Trade is considered as panacea for political conflict between states. European Union served as a best example of how regional economic integration could avoid war and political conflict by superseding the notion of sovereignty and nationalism. Intra-regional trade binds states towards cooperation for mutual benefits. And also it facilitates people-to-people contacts, cross-cultural dialogues, and free flow of ideas, sharing of technology and best financial practices. Veronique Salze-Lozac'h and Nin, however, argue that in Asia, as compared to other parts of the world,

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<sup>10</sup> Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road (First Edition), *Issued by the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China, with State Council authorisation*, 28 March 2015. [http://en.ndrc.gov.cn/newsrelease/201503/t20150330\\_669367.html](http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html). Accessed 1 December 2016.



**Fig. 1** Six economic corridors under OBOR. *Source:* <http://herald.dawn.com/news/1153597/cpec-the-devil-is-not-in-the-details>

regional integration is uneven.<sup>11</sup> Geographically, Asia can be broadly divided into two sub-regions: Southeast Asia and South Asia. India and China are the two big powers in the region in terms of economic growth. While Southeast Asian countries have effectively integrated their economies through ASEAN Economic Community (AEC) over the periods, South Asia is still far from economic and political integration through South Asian Association of Regional Cooperation (SAARC).

Though the region is politically volatile due to intra-regional conflicts, South Asia, according to a recent World Bank statistics, is the fastest growing region in the world with economic growth projected to increase 7.1% in 2016 to 7.3% in 2017. In order to sustain this rate of growth, a deeper regional economic integration is required for free flow of goods, capital and ideas. Intra-regional trade, which is believed to strengthen the regional economic integration, is dismal in South Asia as compared to other regions. In 2015, the region witnessed US \$26.17 bn intra-regional trade against a potential of US \$47.55 bn only to achieve 43% of its trade potential. It is able to achieve only 5% of overall regional trade within SAARC as compared to ASEAN region, which is 25%. Nevertheless, many attempts were made in the past to integrate this region by enhancing intra-regional trade under South Asian Free Trade Agreement (SAFTA), which came into effect in January 2006. Unfortunately, it failed to navigate through murky waters of interstate

<sup>11</sup> Veronique Salze-Lozac'h and Nin (2013), 'Intra-Asian trade will define the region's future', published in *The National News Network*, see here <http://www.nationmultimedia.com/news/opinion/aec/30201929>. Accessed 12 December 2016.

conflicts and lack of robust regional trade regulatory mechanism that would arbitrate trade related disputes.

Table 1 shows that intra-regional trade in South Asia has not progressed despite the agreement on SAFTA by all the members of SAARC. This is an intriguing phenomenon in the region. India is the major exporter in the region where majority of items such as textiles and clothing are exported to South and Southeast Asian countries. The other major players in terms of exports within the region are Bhutan, Nepal and Afghanistan. The reason why other regions fared well in intra-regional trade than South Asia is discernible. Regional economic integration is a continuous process that requires unwavering cooperation and political patronage from the member countries. South Asian countries are still struggling with their internal socio-economic issues. The region has been plagued by domestic political instability due to fragile political system. As a big country in terms of size and structure, India is placed better to play a leadership role to integrate the region through trade but failed to build a consensus on the idea of common identity and shared destiny. SAARC has become a talk shop because of India–Pakistan conflict over territorial disputes. Needless to mention, none of the SAARC countries are well connected by road, sea and air, but there are too much travel restrictions. One of the reasons for poor domestic infrastructure is lack of funds to invest in the connectivity projects, and there are hardly any incentives for foreign investments for such projects because of weak market. In this context, OBOR would provide an easy access to funds for the South Asian countries especially those ailing economies to build their domestic infrastructure and markets. Lack of trade infrastructure such as customs and banking services and facilitation centres and poor connectivity is commonly attributed to these miserable figures. India's prospects to enhance trade within the region may face competition with the flow of Chinese goods through OBOR. So, India's export potential in the region may contract to an extent to lose its comparative advantage on trade vis-à-vis other South Asian countries. For instance, Bangladesh and Nepal may gain competitive trade advantage over India once they merge their markets with China through OBOR.

**Table 1** Intra-regional trade in various regions. *Source:* World Bank regional trade statistics for 2015

Regions	Volume of trade (%)
European Union (EU)	67.5
North America Free Trade Agreement (NAFTA)	41.0
Association of Southeast Asian Nations (ASEAN)	25.0
Common Market for Eastern and Southern Africa (COMESA)	20.0
Gulf Cooperation Council (GCC)	7.0
Latin America and Caribbean	15.6
South Asia	5.0

See for more details of the World Bank Data. <http://blogs.worldbank.org/trade/picture-how-we-can-visualize-intra-regional-trade-south-asia-and-beyond>. Accessed on 7 December 2016



Intra-regional trade is pitiable in the region. SAARC, which was created to foster regional cooperation and economic integration, made significant progress to improve trade ties among its members. In the early 1990s, members envisaged SAARC Preferential Trade Arrangements (SAPTA) as first step towards free trade agreement. The SAPTA reflected the desire of the member states to promote and sustain mutual trade and economic cooperation within the SAARC region through the exchange of concessions based on reciprocity and mutuality of advantages.<sup>12</sup> Though it provides various instruments of trade and investment liberalisation on a preferential basis, SAFTA intended to create a Custom Union, Common Market and Economic Union in South Asia through implementation of Trade Liberalisation Programme (TLP). As per 2013 data available in SAARC website, the total f.o.b value of exports by Member States under SAFTA has reached about USD 3 bn since launching of SAFTA TLP in 2006, but still intra-SAARC trade flows under SAFTA are far below the potential.<sup>13</sup> A study by Asian Development Bank (ADB) on intra-regional trade and investment potential in South Asia argues 'SAFTA did not take off because of high levels of protection and South Asia still suffers from prohibitive tariffs and the distinction of having the highest interstate barriers to trade'. SAFTA's annexed negative lists remain substantial, and the interstate mobility is hampered by stringent visa rules. Moreover, the exclusion of services and investment from SAFTA renders the agreement toothless in significant areas. So, intra-regional investment within the region, as well as trade, remains meagre.<sup>14</sup> Another interesting study by Asia Foundation also notes that 'enhanced trade in the region has been constrained by a number of factors including tariff and non-tariff barriers, weak infrastructure, poor awareness among stakeholders, a lack of political will, and low levels of investment'.<sup>15</sup> The report further states that 'though tariffs continue to be reduced bilaterally, regionally, and even globally, the burden of non-tariff barriers (NTBs) remains a serious challenge in South Asia'.<sup>16</sup> The recent developments on SAARC suggest that regional economic integration in South Asia would remain as a utopian dream. The current discourse in South Asia is dominated by binary narratives of Trade versus Terror. India has recently adopted a policy that trade and terror cannot go hand in hand.

Table 2 reveals that South Asian countries export share with SAARC has been increased considerably from 2014 to 2015. This indicates that intra-regional trade continues to grow despite global economic crisis. It shows that landlocked countries such as Afghanistan and Nepal have highest share with SAARC, which indicates high degree of integration with region. India and Bangladesh accounts for the lowest

<sup>12</sup> Agreement on SAARC Preferential Trade Arrangement, [http://saarc-sec.org/uploads/document/SAPTA%20Agreement\\_20110812120334.pdf](http://saarc-sec.org/uploads/document/SAPTA%20Agreement_20110812120334.pdf). Accessed on 10 December 2016.

<sup>13</sup> See for more details here [http://www.saarc-sec.org/areaofcooperation/detail.php?activity\\_id=5](http://www.saarc-sec.org/areaofcooperation/detail.php?activity_id=5). Accessed on 11 December 2016.

<sup>14</sup> Asian Development Bank (2009) 'Study on Intra-regional Trade and Investment in South Asia', Asian Development Bank. <http://hdl.handle.net/11540/2416>. License: CC BY 3.0 IGO. Accessed on 13 December 2016.

<sup>15</sup> The Asia Foundation (2016) 'Intra-regional Trade in South Asia', <http://asiafoundation.org/publication/intra-regional-trade-south-asia/>. Accessed on 12 December 2016.

<sup>16</sup> Ibid. P.4.



**Table 2** Intra-regional trade (% of total export share of country in the region) 2014 and 2015. *Source:* Direction of trade statistics data from Asian Regional Integration Centre (ARIC)

From/to	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	SAARC	Sri Lanka
2014									
Afghanistan	-	0.2	-	32.9	-	0.0	26.5	59.6	0.0
Bangladesh	0.0	-	0.0	1.5	0.0	0.1	0.2	1.9	0.1
Bhutan	-	-	-	-	-	-	-	-	-
India	0.1	2.1	0.1	-	0.0	1.4	0.7	6.4	2.0
Maldives	-	0.2	-	2.1	-	0.0	0.0	7.0	4.7
Nepal	0.0	1.9	0.4	59.6	0.0	-	0.1	62.0	0.0
Pakistan	8.2	1.6	0.0	1.8	0.0	0.0	-	12.6	0.9
SAARC	0.7	1.9	0.1	0.6	0.1	1.1	0.6	6.9	1.7
Sri Lanka	0.0	0.8	0.0	5.7	0.8	0.0	0.7	8.1	-
2015									
Afghanistan	-	0.8	-	42.1	-	0.0	28.9	71.8	0.0
Bangladesh	0.0	-	0.0	1.8	0.0	0.1	0.2	2.2	0.1
Bhutan	-	-	-	-	-	-	-	-	-
India	0.2	2.1	0.2	-	0.1	1.2	0.7	6.6	2.1
Maldives	-	0.4	-	1.8	-	0.0	0.0	8.1	5.8
Nepal	0.0	0.6	0.4	61.1	0.0	-	0.2	62.3	0.0
Pakistan	9.0	1.7	0.0	1.6	0.0	0.0	-	13.4	1.0
SAARC	0.9	1.9	0.1	0.8	0.1	1.0	0.7	7.2	1.7
Sri Lanka	0.0	0.5	0.0	7.1	0.9	0.0	0.7	9.3	-

Export share is the percentage of exports going to a partner to total exports of a country/region. A higher share indicates a higher degree of integration between partner countries/regions. The data are extrapolated from ARIC regional integration indicator database and organised accordingly. <https://aric.adb.org/integrationindicators/result/>  
 Accessed on 20 December 2016

share and their degree of integration with SAARC is relatively low. The export and import share between India and Pakistan remains unchanged during the two consecutive years. Interestingly, Afghanistan's export share with India has considerably increased from 2014 to 2015 as compared with to Pakistan. However, the year 2016 is watershed moment in the history of SAARC because of India's boycott of two important meetings owing to terrorist attacks on India. So the interstate conflict especially the cross-border terrorism has the potential to deter the trade prospects and growth. Total trade growth rate of India with SAARC is 22.3% in 2014 to -10.76% in 2015. This reflects the emerging trend that India's export trajectory is shifting from SAARC region to other regions especially ASEAN. It is estimated that trade share between China and India vis-à-vis ASEAN+4 has also grown for the last 2 years. These indicators clearly reflect the current trends and trajectory of intra-regional trade in the region. It appears that SAARC will soon be replaced by BIMSTEC in the future as India has started 'Acting' towards east through BIMSTEC. Integrating trade in the eastern regions would also bring economic prosperity to India's North-eastern states which are undeveloped for decades. Under India's Act East Policy, India can not only tap trade potentials but also enhance intra-regional trade and energy supplies. Moreover, India is also eyeing an opportunity to connect with China-Myanmar gas pipeline so that it could tap energy resources from Central Asia. Rajiv Kumar and Manjeeta Singh argue that 'regional economic integration in South Asia that implies a greater share of intra-regional trade and cross-border investment is not only desirable but necessary if South Asian countries are to realise their development objectives of reducing poverty by sustaining rapid and spatially equitable economic growth' (Table 3).<sup>17</sup>

Connectivity is one of the most neglected areas in the national economic and development policy planning of the respective governments of SAARC countries ever since their independence from the British Empire. The dream of integrating South Asian economy and building regional economic community can be realised only with an enhanced intra-regional transport and connectivity. Realising the potential for connectivity through surface, air and water, the 12th SAARC summit held in Islamabad, Pakistan, in 2004 called for strengthening transport, transit and communication links across South Asia and subsequently conducted *SAARC Regional Multimodal Transport Study (SRMTS)*.<sup>18</sup> A detailed project report of SRMT was prepared with the support from Asian Development Bank. The study proposed possible regional transport and transits corridors and gateways such as road, rail, inland waterways, maritime and aviation gateways. It also identified major physical and non-physical barriers and suggested action plans for the members' states to be adopted at national, bilateral and regional levels.<sup>19</sup> In the 14th

<sup>17</sup> Kumar and Singh (2009). <https://www.adb.org/publications/indias-role-south-asia-trade-and-investment-integration>. Accessed on 18 December 2016.

<sup>18</sup> 12th SAARC Summit held from 4-6 January, 2004 in Islamabad, Pakistan. <http://saarc-sec.org/userfiles/Summit%20Declarations/12%20-%20Islamabad%20-12th%20SAARC%20Summit,%204-6%20January%202004.pdf>. Accessed on 17 December 2016.

<sup>19</sup> SAARC Regional Multimodal Transport Study (2006), Final draft prepared and submitted to the SAARC Secretariat, <https://kumarage.files.wordpress.com/2015/03/2006-r-01-nt-ramathulla-kumarage-et-al-saarc-regional-multimodal-transport-study-189pp.pdf>. Accessed on 16 December 2016.

**Table 3** Proposed regional road corridors by SRMTS. *Source:* SRMTS 2006, 25, Table 4

S. no.	Corridors	Countries	Basis of selection
1	Lahore–New Delhi–Kolkata– Petrapole/Benapole–Dhaka– Akhaura/Agartala	Pakistan, India, and Bangladesh	Potential to providing shorter route leading to transport cost savings
2	Kathmandu–Birgunj/Raxaul–Kolkata/ Haldia	Nepal and India	Access to landlocked Nepal to Indian ports
3	Thimphu–Phuentsholing–Jaigaon– Kolkata/Haldia	Bhutan and India	Access to landlocked Bhutan to Indian ports
4	Kathmandu–Kakarvitta–Phulbari– Banglabandha–Mongla/Chittagong	Nepal, India and Bangladesh	Access to landlocked Nepal to Bangladeshi ports
5	Samdrup Jongkhar–Guwahati– Shillong–Sylhet–Dhaka–Kolkata	Bhutan, India and Bangladesh	Potential to providing shorter route leading to transport cost savings
6	Agartala–Akhaura–Chittagong	India and Bangladesh	Shorter access to Chittagong port for Indian north-eastern States
7	Kathmandu–Nepalganj–New Delhi– Lahore–Karachi	Nepal, India and Pakistan	Potential of the corridor to carry future traffic
8	Thimphu–Phuentsholing–Jaigaon– Burimari–Mongla/Chittagong	Bhutan, India and Bangladesh	Access to landlocked Bhutan to Bangladeshi ports
9	Maldha–Shibganj–Jamuna Bridge (Bangladesh)	India and Bangladesh	Potential to provide direct connectivity to carry future traffic
10	Kathmandu–Bhairahawa–Sunauli– Lucknow	Nepal and India	Potential of the corridor to carry future traffic

summit held in New Delhi in 2007, SAARC members decided to implement the SRMTS by urging their transport ministers to pursue the recommendations. But the 2008 Mumbai terror attack perpetrated by the terrorist groups based in Pakistan raised concerns over building such connectivity networks across the region. Terrorists who attacked Mumbai entered via waterways exploiting security lapses on the sea. India is prone to cross-border terrorism emanating from Pakistan soil. In the past, terrorist also hijacked Indian airlines from Nepal. Similarly, Sri Lanka too concerned about Indian fishermen from Tamil Nadu crossing the strait to reach its northern provinces dominated by Tamil population. Although the SRMTS was conceived in the Islamabad summit and mentioned in the *Islamabad Declaration*, Pakistan failed to submit any proposal or plan of action to implement the SRMTS. This raises question about Pakistan's interest in strengthening connectivity in South Asia. One reason could be that it does not share borders with any other SAARC members except India and Afghanistan. So the only way that Pakistan could connect with rest of the members is via aviation corridors over Indian air space. Given the intractable conflict between India and Pakistan who fought four wars to settle territorial disputes, it would be naive to expect both the countries to strengthen cooperation on transport and communication facilities. Under SRMTS, only India proposed four major road corridors such as *Birgunj–Katihar–Singhabad–*

*Rohanpur–Chittagong railway corridor, with links to Jogbani, Biratnagar and Agartala; Kathmandu–Birgunj–Kolkata/Haldia; Agartala–Akhaura–Chittagong rail corridors; Air connectivities between Male–New Delhi and Islamabad–New Delhi.*<sup>20</sup> At the 16th summit held in Thimphu, Bhutan, in 2010, SAARC members declared that 2010–2020 as ‘The Decade of Intra-regional Connectivity in SAARC’ and agreed to expedite the proposed projects based on the framework provided by SRMTS.<sup>21</sup> Parallel to this development, the Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation (BIMSTEC)<sup>22</sup> Transport Infrastructure and Logistics Study (BTILS) supported by ADB had also prepared a framework for the development of transport and logistics systems for connectivity within and between South Asia and Southeast Asia. India has been very active in the process of strengthening intra-regional connectivity in South Asia through BIMSTEC since 2011 (Fig. 2).<sup>23</sup>

India is keen to develop all forms of connectivity through BIMSTEC which opens greater market access to ASEAN countries under Act East Policy. ASEAN is also looking west to integrate their economy. At the 18th SAARC summit, India proposed SAARC Motor Vehicle Agreement (MVA) which aims to facilitate the movement of all sorts of vehicles including trucks without barriers. However, Pakistan turned down this agreement and refused to provide Afghanistan an access to India. But member countries can make similar agreement bilaterally to stitch their connectivity. In 2015, the cabinet of the Government of India has approved the signing of Bhutan, Bangladesh, India and Nepal (BBIN) Motor Vehicle Agreement. Most of the countries have ratified the agreement and also signed bilateral agreements except Pakistan. Nevertheless, the last SAARC summit was boycotted by India and other members of SAARC as protest against Pakistan to take strict action against cross-border terrorism. According to Government of India, BBIN will promote safe, economical efficient and environmentally sound road transport in the sub-region and will further help each country in creating an institutional mechanism for regional integration. BBIN countries will be benefited by mutual cross-border movement of passenger and goods for overall economic development of the region. The people of the four countries will benefit through seamless movement of goods and passenger across borders.<sup>24</sup> The regional cooperation on connectivity in South Asia is facing the classic security dilemma of pursuing security by a state

<sup>20</sup> Rahmatullah (2010, pp. 3–4).

<sup>21</sup> See for more details on the Summit declaration here <http://www.mea.gov.in/bilateral-documents.htm?dtl/3886/16th+SAARC+Summit+Declaration+29+April+2010>. Accessed on 10 December 2016.

<sup>22</sup> BIMSTEC is a regional organisation comprising seven Member States lying in the littoral and adjacent areas of the Bay of Bengal constituting a contiguous regional unity. The members include Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, and Thailand. See <http://bimstec.org/index.php?page=overview>. Accessed 11 December 2016.

<sup>23</sup> In its 12th Five Year Plan (2012–2017), the Government of India has identified connectivity with the North-East, both within the region and with the far eastern region, including Myanmar, Bangladesh and Thailand, to be one of the focus areas for economic development of the region and expanding economic activities.

<sup>24</sup> See for the details [http://www.pmindia.gov.in/en/news\\_updates/bangladesh-bhutan-india-and-nepal-bbin-motor-vehicle-agreement/](http://www.pmindia.gov.in/en/news_updates/bangladesh-bhutan-india-and-nepal-bbin-motor-vehicle-agreement/). Accessed 20 December 16.



**Fig. 2** Asian highway route map. *Source:* United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP)

inadvertently creates insecurity in the other states. In short, regional trade is challenged by the cross-border terrorism. Intra-regional connectivity is also weakened by interstate conflicts. Indeed, none of the countries are capable of mobilising resources to further the agenda of intra-regional trade, transport and transit except India because of its sheer economic and political size to do so.

### 3 Building *Héping Lu* in South Asia

While both China and India are carefully pursuing a policy of peaceful co-existence in the region, the twenty-first century is going to witness how China and India can harmonise their strategy to strengthening inter-regional trade and connectivity in South Asia? When India began to look east, China turned towards its west and south-west. China has been engaging in South Asia for the last two decades, and since then its role has been growing in length and breadth in the region. Although the stated China's South Asia policy confines its role to economic and infrastructure development, it does not incline to upset the strategic balance in the region, which is in favour of India. Having learned the important lessons of 1962 incident with India that brought two superpowers—USA and Soviet together to help out India from any external aggression, China respects India's indomitable strategic influence in the region. The post-cold war period provided enough space for both the countries to manoeuvre in the economic field. However, the nuclear test by India and Pakistan in

1998 heightened China's strategic concerns in the region especially in the Indian Ocean region. According to Dahlman, the rise of China and India has created a stress on the global environment, geopolitical and economic systems (Dahlman 2012). The 2008 global economic crisis opened a window opportunity for the two Asian giants to strengthen their trade relationship. To understand China's economic development engagement in South Asia, one has to examine China's international development approach. Many scholars observed China's phenomenal engagement in the developing world especially in Africa and South Asia by comparing it with Japans'. A white paper on China's foreign aid released in 2011 states, 'China is the world's largest developing country, with a large population, a poor foundation and uneven economic development...as development remains an arduous and long-standing task, China's foreign aid falls into the category of South-South cooperation and is mutual help between developing countries'.<sup>25</sup> As far as South Asia is concerned, China prefers to assist the countries in need of development support bilaterally because of the concern that any attempt to do so in a multilateral set-up would disturb the strategic balance in the South Asia. China's infrastructure development projects in Sri Lanka, Myanmar, Nepal, Bangladesh, Pakistan and Maldives have been popularly dubbed as 'string of pearls' strategy to encircle India in the region. Some section of the Indian strategic community and media subscribed to this version, but at the political level both countries have sustained their relationship for mutual benefits and win-win cooperation in the field of trade and environmental issues. New leadership in China and India does not see each other as 'rival competitors' rather tend to project as emerging partners of cooperation. D.S Rajan observes that President Xi Jinping seems to have shifted the focus of his regime's foreign policy including that towards South Asia from core interests to economic interests.<sup>26</sup> This is an interesting development for the region.

After President Xi Jinping announced the 'One Belt, One Road' project in 2013, most of the countries embraced the idea except India. Two reasons that would better explain why India remains a mute spectator on OBOR are: first and the foremost, Indian authority claims that the nature and scope of the project is yet to be known and studied and second, its security and strategic entanglement with Pakistan, a close ally of China in the region. Many observers, however, view OBOR as a game changer in South Asia at least in the economic realm, where it not only strengthens the national economies of South Asian countries but also helps them to sustain their economic development in the longer run. For countries such as Nepal, which is landlocked, this initiative provides unimaginable access to global markets and may attract foreign direct investments. Moreover, this is not the first of its kind opportunity to them, rather China has been engaging in the region through various economic and development projects for last two decades. For South Asian countries, subscription to OBOR which China defines as a Global infrastructure network would also give the legitimacy to China's existing infrastructure development projects in these countries.

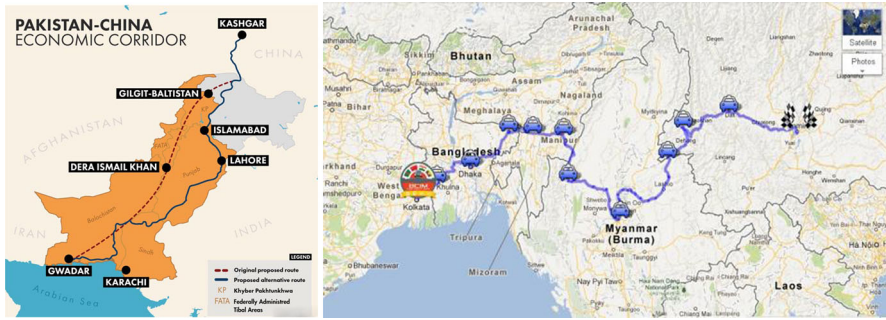
<sup>25</sup> China's Foreign Aid (2011). State Council of the PRC. April, 2011: 4. [http://english1.english.gov.cn/official/2011-04/21/content\\_1849913.htm](http://english1.english.gov.cn/official/2011-04/21/content_1849913.htm). Accessed on 21 December 2016.

<sup>26</sup> Rajan (2015). Published in the South Asia Analysis Group, <http://www.southasiaanalysis.org/node/1763>. Accessed on 16 December 2016.

While the OBOR is hardly a major issue discussed and debated in the Indian academia, Chinese academia is littered with multiple assumptions about India's stand on the matter. In fact, India is yet to articulate its position/stand on OBOR officially which does not mean that it is averse to the project as assumed by the Chinese academia. It is interesting to note that India is the second largest founding member of the Asian Infrastructure and Investment Bank (AIIB), which was created to implement the OBOR. India has the second largest subscription amount of \$8367.3 mn. This shows that India in principle has no objection to the project. Nevertheless, it has legitimate security and strategic concerns regarding the legality of China–Pakistan Economic Corridor (CPEC), which runs through the disputed territory between India and Pakistan. India has time and again raised her serious concerns questioning the legality of the development projects across its working border with Pakistan, Line of Control (LoC). India has been the driving force behind the Bangladesh, China, India and Myanmar (BCIM) Economic Corridor that connects Kunming provisions in China to Kolkata. India compares BCIM with CPEC in terms of legality, respecting sovereign equality and territorial integrity of countries concerned. There is no official record either from Indian or Chinese side on whether CPEC was discussed at bilateral or multilateral levels. Even this was not figured in the last BRICS summit held in Goa. There are occasional invitations to India to join CPEC but the question remains whether Pakistan will accept India to join CPEC? It is beyond doubt that India is the regional power in South Asia which exerts considerable influence in its strategic sphere from Indian Ocean to Trans-Himalayan region. As a stable economy, India has natural appetite for new markets and energy sources especially from Central Asia. OBOR may provide an opportunity for India to get access to Central Asian and Russian energy resources. In October this year, India and Russia signed energy pact worth of \$25 bn to build a pipeline from Siberia to India. However, one of the alternative options suggested by Indian side to swap natural gas with China via Myanmar and Russia can supply that amount of gas to China. Although it is economically viable, it needs consent from China and Myanmar. In a sense, India is eyeing opportunities in OBOR despite its strategic considerations. It is unfortunate China has so far not discussed officially with her Indian counterparts about the nature and scope of the project which created enough room for scepticism and speculations. If China considers South Asia as a land bridge that connects Southeast and East Asia with Central Asia and Middle East, then it must recognise and respect India's indispensable role as a stabiliser of the region (Fig. 3).

In order to establish an environment conducive for strong cooperation on trade and investment in the region, both Beijing and New Delhi need to calibrate their diplomatic efforts to minimise the mistrust accrued in their relationship. If China expects India to subscribe to OBOR, then it must first address India's concerns in the region through periodic consultation on the project. India can play a substantive role in strengthening the sub-regional trade and connectivity in South Asia by exploiting opportunities provided by the OBOR. It seems that neither India nor China have discussed about OBOR in their bilateral or multilateral forums so far. This had actually created a space for speculation and scepticism. To avoid this, there should be at least a common platform perhaps to be established within the





**Fig. 3** CPEC and BCIM. *Source:* DWAN and The Hindu Newspapers

framework of AIIB where the members can sort out their differences. As far as CPEC is concerned, the devil lies in the details. If CPEC remains to be only a transit corridor, then India may think of joining it. But, it is not sure whether Pakistan especially the Army would welcome India's participation in CPEC. However, if CPEC is more than that, it may compel Pakistan to accept and recognise the existing LoC as an international border, which would serve India's proposed plan to seal the border with Pakistan. It is not too difficult for India to join CPEC. Trade is happening between India and Pakistan at Attari border that also connects India with Afghanistan. The proposed CPEC would also touches this route in which India can import goods from China through this route to meet its demands in the northern states. This would also strengthen the domestic economies in the northern states. There is a win-win situation/scenario for India, Pakistan and China plus Russia if they are keen to promote geoeconomic development agenda. China and India can also explore alternative routes along their borders to connect with Silk Road Economic Belt (SREB). Ladakh could be a potential area of mutual cooperation where it would serve as India's Gateway to Central Asia. India and Pakistan have been discussing in various summits in the past about opening of Skardu (Gilgit)–Kargil (Ladakh) road. For China, this route would become economically more viable to trade natural gas with India. Russia would also support this. Another alternative option is to connect China with India through Demchok, a border village along Line of Actual Control (LAC). From here the famous Kailash Mansarovar Lake is just 300 km, which could attract many tourists. It may sound naive for suggesting a very liberal approach to enhance trade and connectivity in the region. But ironically that is the only option available for all the parties concerned if they are serious about strengthening the trade. In a globalised world, no country can sustain their economic growth and development on its own. For a win-win situation both India and China should identify areas in which both can cooperate by jointly prioritising action plan for development projects. China can benefit more from India which not only has the immense trade potential but also has the capacity to handle large volume of trade in the region. Neither Sri Lanka nor Nepal or Pakistan can contribute more in terms of utilising the infrastructure facilities that is being developed by China. They can remain as a transit hub for Chinese goods rather service enablers for China's cargo traffics.

## 4 Conclusion

China and India are on the cusp of embracing the 'New Normal' that emerged after the global economic crisis. As the epicentre of power is shifting from Europe to Asia, both countries have immense potential to chart a new world order based on mutual benefit and peaceful co-existence. The factors that contribute to the economic growth of India and China are changing. China is revamping its service sectors to global standard as it undergoes structural changes due to sluggish growth in the manufacturing sector. On the other hand, India has initiated various measures to strengthen its fragile manufacturing sector under 'Make in India' campaign. The trade deficit between China and the USA may affect the former's manufacturing sector as it was evident in the President-elect Trump's rhetoric comments. Trump's new policy of regulating IT industry would also affect India's service sectors especially the business processing outsourcing (BPOs). Demographic patterns are also changing in the two countries where China's ageing population and India's youth bulge would affect the pace of economic development in the region. The 'Belt and Road Initiative' would provide enormous opportunities for the entire region as it integrates Asian markets including Central Asia. As far as South Asia is concerned, it not only brings trade investment opportunities but also fixes the intra-regional connectivity in the region. This article proposes the following suggestions as policy recommendations for both India and China in order to achieve stronger cooperation on OBOR and South Asia:

1. China and India should form a working group/study group on OBOR which would provide a common platform to sort out all issues and concerns related to this initiative.
2. China should officially discuss OBOR with India, and it can have different trilateral framework for China-India-Pakistan; and China-India-Russia.
3. Since OBOR is a transcontinental project aims to connect Macau with Mexico, China should form a consultative framework at regional level such as BRICS. This would consolidate South-South cooperation.
4. India should expedite the process to implement the recommendations outlined in the SRMTs, and SAARC can invite China to compliment some of the proposed corridors under OBOR. This would also help to tap AIIB support for SRMT.
5. India and Pakistan should focus on bilateral or trilateral trade rather than being obsessed with their historical animosities. CPEC could be mutually beneficial for India, Pakistan and Afghanistan.
6. BIMSTEC should be expanded to include Pakistan and Afghanistan as it would enhance road connectivity from Kolkata to Kabul.
7. China can persuade Pakistan and India to open Kargil-Skardu road where India can easily get access to Central Asia and Russian energy resources.
8. New alternative trade routes can be explored to shorten the distance between two major trading points. For instance, Kashgar can easily be connected with Kashmir and Lhasa with Leh. This sounds naive, but it is possible and profitable.

9. China and India can consider the opening of Demchok-Leh route that would enhance trade potential in the region.
10. This study suggests that there is a dire need to establish Tran-Himalayan Trade and Economic Corridor (THTEC) by India and China along with other countries along the range for sustainable development and rationale exploitation of natural resources.

Trade is the new game of the town, and countries can no longer be a prison of geopolitics driven by zero-sum game. With the creation of AIIB, the OBOR has been rechristened into One Belt, One Road, One Bank for One Region. OBOR can enable South Asian countries to improve their intra-regional trade volumes as it would build a strong connectivity and communication network within the region.

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