

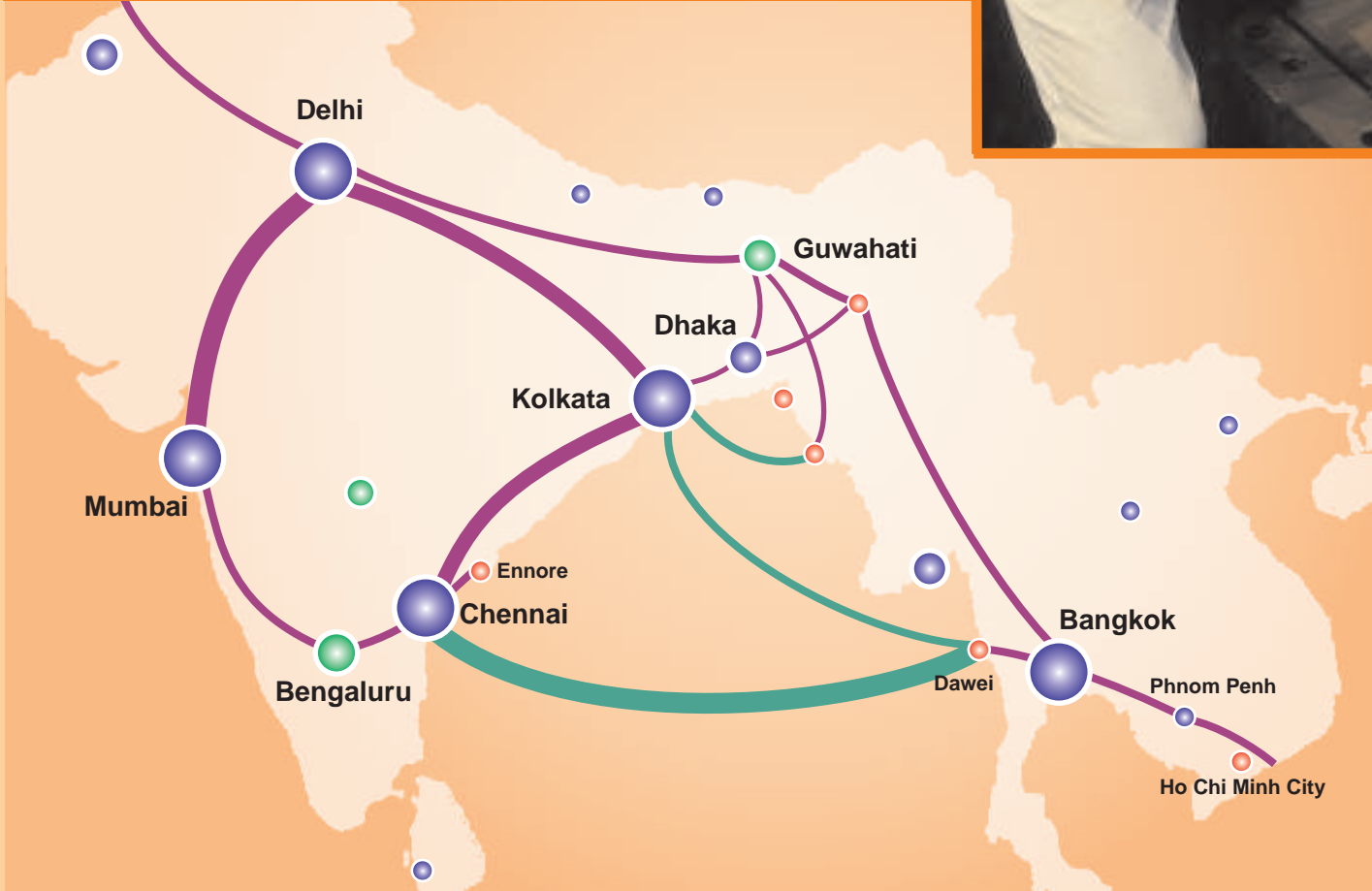


RIS
Research and Information System
for Developing Countries



ASEAN-India Connectivity Report

India Country Study



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Ambassador Shyam Saran
Chairman, RIS

Foreword

Given the importance of cross-border connectivity among the developing nations of Asia, I welcome the initiative taken by RIS to launch the ASEAN-India Connectivity Report. The Study undertaken under this initiative and concrete recommendations contained therein, will be useful both for policymakers as well as research scholars. That the Report is being brought out on the eve of the 19th ASEAN Summit and the 9th ASEAN-India Summit to be held later this year makes it a timely and valuable contribution to the deliberations of these forthcoming meetings amongst regional leaders.

The Report clearly indicates that without proper connectivity, it would not be possible to realise the full benefits of the regional free trade and cooperation agreements which are already in place or are currently under negotiation. Connectivity in its broadest sense encompasses road, rail, waterway, shipping and electronic connectivity. These provide the transmission channels through which development impulses can spread across the region and can add to the dynamism of economic and social progress of both ASEAN countries as well as India. India has welcomed ASEAN's own Connectivity Project for intra-ASEAN inter linkages and there are opportunities for harmonising this initiative with plans for improving cross-border transport and communications across the South Asian borders. I have no doubt that the Report will make a significant contribution to these efforts.

October 2011
New Delhi

Ambassador Shyam Saran

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This report has been benefited from comments of participants at the Open Dialogue on 'ASEAN-India Connectivity: Comprehensive Asian Development Plan, Phase 2', held at New Delhi on 23 May 2011. In particular, Prof. Fuku Kimura (ERIA and Keio University), Mr. So Umezaki (ERIA and IDE-JETRO), Mr. Arvind Kumar (Ministry of Shipping, Government of India), Mr. S.K. Popli (Rail India Technical and Economic Services Ltd. (RITES), Government of India), Mr. Sudip Chaudhury (Ministry of Road Transport and Highways, Government of India), Mr. N. Unni (Inland Waterways Authority of India, Government of India), and Mr. Sanjeev Kumar (Inland Waterways Authority of India, Government of India) provided useful comments and suggestions. Useful suggestions were provided by participants at several events, including two important international conferences where the findings of this report were presented - one at Chennai on 12 November 2011 (ASEAN-India Connectivity: Towards Deepening Asian Integration, organized by RIS in collaboration with Economic Research Institute of ASEAN and East Asia (ERIA) and Confederation of Indian Industry (CII)), and another at Imphal on 4 May 2012 (ASEAN-India Connectivity and Northeastern Region of India, organised by RIS in collaboration with ERIA and Indian Chamber of Commerce (ICC)). The study has also been benefited from discussions with Dr. Biswajit Dhar (Director-General, RIS), and Ms. Renu Pall (Jt. Secretary - ASEAN, Ministry of External Affairs, Government of India), among others. Ms. Poulomi Dasgupta and Ms. Sreya Pan provided research assistance for this study. Mr. David Zote (Manipur University) helped in arranging the field visit of the study team to Moreh (India) and Tamu (Myanmar).

Ms. Sunita Dogra (EditCorner) provided copyediting services, Tish Kumar Malhotra coordinated the production of this report, and Sachin Singhal provided DTP assistance. Kiran Wagh provided secretarial assistance.

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Executive Summary

Connectivity is important because it promotes trade, brings people closer, and integrates the economies. Improving connectivity is essential for a region's prosperity, continued growth, and, most importantly, for poverty reduction. Improved connectivity lowers costs and increases reliability. It is of great importance for industrial transport and thus for production, cost effectiveness, and reliability of supply. In the absence of adequate connectivity, enormous opportunities generated by the dynamic growth centres of Asia may stop at their international borders. Connectivity between India and ASEAN may be seen in this perspective.

The challenges that need to be addressed in the region include, to mention a few, poor quality of roads and incomplete road networks, missing links in road and railways, and inadequate maritime and aviation infrastructure. In the rail sector, track gauges, voltages, and signalling systems differ from one country to another. Similarly, in the road sector, highway lanes, lighting system, and quality of roads differ across countries in Asia. The port facilities in some countries are well equipped with technical and electronic equipment, whereas in many countries of the region ports still belong to the ancient period and are far away from automation and modernisation. While runways in some airports accommodate bigger airplanes, most of the Asian airports lack basic aviation infrastructure. To create a functional single market in Asia, it is necessary to overcome the missing links in transportation, the lack of interoperability, and infrastructure gaps reducing the efficiency and weakening the global competitiveness of the Asian industry.

India-ASEAN free trade agreement (FTA) is central to India's growing engagement with her eastern neighbours. Accompanying this growth will be an increase in the demand of national and international infrastructure, for both production and consumption, and for international trade purposes. Undoubtedly, failure to respond to this demand will slow down India's trade and hamper the growth process. Therefore, infrastructure challenges require a better understanding and adequate support.

In 2010, the East Asia Summit (EAS) Leaders adopted a comprehensive strategy for smart, sustainable, and inclusive growth. At the 17th ASEAN Summit in 2010, these leaders adopted the Master Plan on ASEAN Connectivity, which identifies key strategies and actions to enhance the region's connectivity in three dimensions: physical, institutional, and people to people. It shows the way ahead for Asia in regional integration. Asia's aim of single market depends on the existence of a seamless, flexible, and efficient logistics and transportation system. At present, the market is fragmented and is often an obstacle to free flow of goods and services, and the administrative or technical barriers in the market result in expensive mobility within Asia.

The Comprehensive Asia Development Plan (CADP), designed by ERIA for EAS members, provides a grand spatial design for infrastructure development in East Asia, armed with a consistent conceptual framework based on new waves of international trade theory such as the fragmentation theory and new economic geography. Although the CADP has successfully fulfilled the initial mission, there still remain a number of issues that require further studies. Of these outstanding issues, a study to develop a basic strategy to enhance the ASEAN-India connectivity is selected as one of the subproject under Phase 2 of the CADP. As explicitly stated in the Master Plan on ASEAN Connectivity, ASEAN puts an emphasis on stronger connectivity with neighbouring countries, including India and other EAS countries. The present report has been prepared to fulfil the mandate of CADP Phase 2.

One of the major obstacles to the expansion of trade between India and ASEAN is the high cost of moving goods across the borders. Improved connectivity would reduce trade costs, raise country's comparative advantage and trade flows, expand markets, reduce poverty, and increase country's welfare and quality of life of its citizens. Multiple effective cross border and national transport projects mean stronger ASEAN-India connectivity. An integrated connectivity would also provide substantial benefits to landlocked and small island countries of the region as well as to poor and small countries by giving them low-cost access to world market.

Better connectivity between India and ASEAN can infuse new dynamism in the region's production network. Stronger production network would enhance trade and investment, and thereby deepen the East Asian integration process. To sustain the regional production network, we need to improve the trade costs and country's comparative advantage in trade. The catalyst to regional production network is the lowering trade costs. ASEAN-India connectivity would help unlock the tremendous potential of the region by removing constraints and bottlenecks to growth.

At this very initial stage, the emerging regional physical overland connectivity architecture between India and ASEAN is showing two important features: first, the national connectivity having regional implications such as Delhi-Mumbai Industrial Corridor (DMIC), and second, the regional connectivity showing regional (or international) implications such as Mekong-India Economic Corridor (MIEC), Trilateral Highway (TH) between India, Myanmar, and Thailand, along the Asian Highway (AH) No. 1, and Kaladan Multimodal Transit Transport Project (KMTTP).

In this report, we suggest an appropriate strategy to enhance the physical connectivity between India and ASEAN. We recommend two major axis that could be promoted to enhance this connectivity: the first one is the overland connectivity through India's North East Region (NER) and the second one is the multimodal connectivity through southern India, primarily through Chennai-Ennore area. This report considers these issues starting with assessments of connectivity in trade and transportation between India and ASEAN. The report also identifies prioritised projects from the list of key actions stipulated under the various regional cooperation projects, especially those that will have high and immediate impact on ASEAN-India connectivity. These projects are listed as follows:

- Completion of Chennai-Ennore Port Road Connectivity Project
- Completion of National Highway Development Programme (NHDP), Phase VI
- Completion of Dedicated Freight Corridor (DFC) projects
- Linking Chennai with DFC projects
- Capacity augmentation of airports in Tamil Nadu and North East India
- Capacity augmentation of seaports in Tamil Nadu
- Completion of Delhi-Mumbai Industrial Corridor (DMIC)
- Development of Chennai-Bangalore-Mumbai Industrial Corridor (CBMIC)
- Completion of the feasibility study of PRIDe (Peninsular Region Industrial Development) corridor
- Completion of the missing links of India-Myanmar-Thailand Trilateral Highway
- Completion of the feasibility study of Delhi-Hanoi Railway Link (DHRL)
- Completion of the Kaladan Multimodal Transit Transport Project (KMTTP)
- Development of Mekong-India Economic Corridor (MIEC)
- Setting-up of dry ports in India's North East

ASEAN countries and India have to identify the missing links and investment needs from a region wide perspective. To a great extent, missing rail and roadways in Myanmar is hindering the overland connectivity between India and ASEAN. Therefore, Myanmar's average road condition and railway system

need to be rebuilt. For efficient movement of larger vehicles, roads leading from Myanmar to India and Thailand need to be widened and maintained properly. Development of economic corridors connecting countries in the region will facilitate investments as well as spur economic growth of India's southern and northeastern regions as well as of Myanmar and Mekong.

The proposed connectivity between ASEAN and India would throw many challenges for its development. The link would open considerable avenues and opportunities for trade between the regions. Indian ports are heading for a better future with growing international trade. Thus, operational efficiency of the ports have to be competitive and on par with the best ports in the world. Modern cargo handling techniques must be introduced to improve port performance. Efforts must be made to enhance the quality of service and productivity levels. While upgradation of the Chennai and Kolkata airports (both domestic and international terminals) is in progress, it is essential to have second airports for both these cities. In the context of Indian Railways, technological upgradation and modernisation for the current assets is essential for realising maximum benefits. Timely completion of the western and eastern DFCs would provide significant boost to economic development in the region and bring confidence for planning of other DFCs along the trunk routes. Plans for Chennai-Bangalore-Mumbai Industrial Corridor must be evolved by closely studying best practices from DMIC project and similar projects developed elsewhere in the world. Funding requirement for infrastructure is huge and a considerable amount of future investment is expected to come from the private sector. So far, response from the private sector has been good. However, efforts to enable level playing field to the private entrepreneur by fair allocation of risks is highly essential. In this regard, greater economic and/or commercial cooperation is desired from those developed and developing countries that have technological expertise on transport and communications.

In order to fund the large infrastructure investments required to boost ASEAN-India connectivity, the region needs to further develop mechanisms for the financial intermediation between its large savings and its equally large investment needs. The region should support expanding the use of Public Private Partnerships (PPPs) for investment in infrastructure and creation of a large regional infrastructure development fund to channel its foreign exchange reserves into much needed infrastructure investments.

Enhancing connectivity between India and ASEAN is a multifaceted task and requires implementing strong policy initiatives. Development of this connectivity would open significant opportunities for industrial development in India and its trade potential with South and East Asian countries. Chennai has already established itself as a gateway to southern India. This connectivity would link the Chennai region to the rest of the world through its maritime infrastructure. Thus, Chennai has a great potential of becoming the greater gateway for India and function as a core node providing centre of business activities with industrial clusters and work as an engine to promote regional economic growth.

At the same time, with greater connectivity, NER will be better integrated with the markets of neighbouring countries. Cross-border trade and investment flow and cross-border development cooperation will open up new avenues for growth and development. Private investment will be encouraged to cash on the cross-border synergies. ASEAN-India connectivity will be beneficial for the people living across the borders in both the countries.

A two-pronged strategy of development may help the NER to overcome the predicaments of landlockedness. First, because NER shares 96 per cent of her borders with the neighbouring countries of Bhutan, Bangladesh, China, and Myanmar, it is important to link the region with the Southeast Asian as well as South Asian markets. Second, restoration of NER's traditional routes by way of transit and transshipment corridors through Bangladesh for movement of goods and passengers can address the adverse geographical condition and ensure speedy development of NER. However, for both the options, the obstacles to physical connectivity as well as non-physical institutional arrangements between the region and the ASEAN countries on the one hand and between the region and Bangladesh on the other need to be addressed expeditiously. Once the cross-border connectivity is improved, cross-border trade

and development cooperation would be promoted. Border trade may be viewed as a strategic tool for the long-term development of the frontier areas.

An improved infrastructure between India and ASEAN will be insufficient to foster the regional integration until and unless it is widely complemented by appropriate policies and regulations as well as participation of the private sector. We need policies and regulations to foster an effective cross-border movement of goods, services, and people. Harmonising and simplifying the customs procedures, information sharing, customs modernisation, establishing transparent transit rules, and improving logistics in general are also critical to infrastructure expansion. Enhancing the connectivity requires stronger regional institutions to build and manage the cross-border infrastructure.

Trade liberalisation is important but sometimes is not adequate enough to enhance country's trade. Improved connectivity and trade facilitation can complement that effort. It is the way forward for regional trade and economic partnership between India and ASEAN. The desired outcomes emanating from this report would be to facilitate the deepening and widening of the production and distribution networks between India and ASEAN. Equally important, enhanced ASEAN-India connectivity will narrow the development gaps and lead to increased opportunities for greater investment, trade, growth, and employment. Finally, deeper intraregional economic linkages and people-to-people interactions between ASEAN and India will eventually contribute towards the achievement of an integrated Asian community.

About the Report

India's strong economic growth has made a significant impact on Asian economy. Its trade with Asia is expected to increase manifold in the coming years. The India-ASEAN free trade agreement (FTA) is central to India's growing engagement with her eastern neighbours. However, accompanying this growth will be an increase in the demand for improved connectivity to foster production and consumption at national level as well as for international trade purposes. Undoubtedly, failure to respond to this demand will slow down the pace of economic exchange and ultimately the economic integration process. Therefore, the challenge is to improve India's connectivity with ASEAN as well as with the rest of the world.

The Comprehensive Asia Development Plan (CADP), designed by the Economic Research Institute of ASEAN and East Asia (ERIA) on request of the East Asia Summit (EAS) members, provides a grand spatial design for infrastructure development in East Asia. As explicitly stated in the Master Plan on ASEAN Connectivity, ASEAN emphasizes the need for stronger connectivity with neighbouring countries, including India and other EAS countries. The present report, titled 'ASEAN-India Connectivity Report: India Country Study', has been prepared by RIS to fulfil the mandate of CADP Phase 2.

This Report outlines an appropriate strategy to enhance the physical connectivity between ASEAN and India. It recommends two major axis that could be promoted to enhance this physical connectivity: the first one is surface connectivity through India's North East Region (NER) and the second one is multimodal connectivity through Southern India, primarily through Chennai-Ennore area. The Report argues that ASEAN-India connectivity would help unlock the tremendous growth potential of the region by removing constraints and bottlenecks to economic development.

About RIS

The Research and Information System for Developing Countries (RIS), a New Delhi based autonomous think-tank under the Ministry of External Affairs, Government of India, is an organization that specializes in policy research on international economic issues and development cooperation. RIS is envisioned as a forum for fostering effective policy dialogue and capacity-building among developing countries on international economic issues.

The focus of the work programme of RIS is to promote South-South Cooperation and assist developing countries in multilateral negotiations in various forums. RIS is engaged in the Track II process of several regional initiatives. RIS is providing analytical support to the Government of India in the negotiations for concluding comprehensive economic cooperation agreements with partner countries. Through its intensive network of policy think tanks, RIS seeks to strengthen policy coherence on international economic issues.

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