



**THE SILK ROAD ECONOMIC BELT AND
21ST CENTURY MARITIME SILK ROAD
IMPLICATIONS FOR INDIA**



FOREWORD



Shishir Bajjal

It gives me immense pleasure to present our report 'The Silk Road Economic Belt and 21st Century Maritime Silk Road – Implications for India'. It is different from our regular reports as it delves into the revival the ancient Silk Road to enhance trade across the globe by developing infrastructure and connectivity.

This initiative has manifold implications on countries and governments falling under its ambit. India has been an important country on the Silk Road that connected the continents of Asia, Europe and Africa by land as well as the sea. However, to India, this initiative comes as a mix of opportunities and concerns. The proposed Bangladesh – China – India – Myanmar Economic Corridor that enters India through Kolkata and then stretches to Europe through the Horn of Africa via the Indian Ocean prompts India's attention from the point of economic benefits and security and geo-political concerns. The initiative will definitely give a push to infrastructure in India. Currently when India seeks investments for infrastructure development, it cannot but choose to engage in the project with stout but smart diplomacy.

Among other stakeholders, the initiative holds prime attention of organizations engaged in the business of infrastructure development and real estate, given the growth prospects that come along with it. For real estate and infrastructure companies, it is an opportunity as well as a responsibility to contribute towards infrastructure building across the globe.

We hold the Silk Road Initiative to have tremendous potential not only to boost global trade and business and usher in enhanced prosperity but also to provide a spectrum of business opportunities for the infrastructure and real estate sector. The Report asserts the same and advocates India's active and bold engagement in the initiative. I trust you will find the report interesting.

I look forward to hearing from you.

Best wishes,

Shishir Bajjal

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BACKGROUND

The Silk Road, opened up by the Chinese General Zhang Qian in the second century BC, extends across Asia, Europe and Africa and has served as a network of trade and cultural exchanges for centuries. This 6,437-km road had no particular name till the 1870s, when Baron Ferdinand von Richthofen coined the term *die Seidenstraße*¹ (the Silk Road[s]) to describe what was then one of the most important and dynamic centres of economic activity in the world. Though silk was the main trading commodity, the route promoted the commercial transaction of various other goods as well. It also contributed significantly to the development of civilisations across these continents, thus building political and economic relations between the countries. The Silk Road was more than a single route; rather, it was a river of connections².

The ancient Silk Road has come into prominence recently. In 2013³, the Chinese government announced its plans to create and develop the Silk Road Economic Belt and the 21st

Century Maritime Silk Route Economic Belt, hereinafter referred to as the Belt and Road, respectively. Through the Belt and Road Initiative, China aspires to revive the ancient trade route by enhancing the existing infrastructure and developing new infrastructure to explore wider opportunities in trade and commerce, as well as increase the country's sphere of influence. The success of the initiative depends on the participation of the countries straddling the proposed Belt and Road.

The Indian peninsula is a prominent landscape falling in the ambit of the Belt and Road. However, India has certain geopolitical concerns about its participation in the initiative. Yet, the prospects of infrastructure development along the Belt and Road present larger developmental and economic opportunities for India, which cannot be disregarded. The extent of India's participation in the initiative would determine the opportunities that can be explored in various sectors.

Silk Road was important in the 2nd century BC. It is still important in the 21st century AD.

In September 2013 the Government of the People's Republic of China announced its plan to revive and develop the old Silk Road.

India has a lot to contribute to the Silk Road. It has a lot to gain too.

1. Integral Study of the Silk Roads – Roads of Dialogue, 1988-1997, the Silk Roads Project, UNESCO

2. Investment Guide to the Silk Road, UNCTAD, 2009

3. In September 2013, the Silk Road Economic Belt concept was introduced by Chinese President Xi Jinping during his visit to Kazakhstan. In a speech delivered at Nazarbayev University, Xi suggested that China and Central Asia cooperate to build a Silk Road Economic Belt. In November 2013, the Third Plenary Session of the 18th Central Committee of the Communist Party of China called for accelerating infrastructure links among neighbouring countries and facilitating the Belt and Road initiative. In December 2013, Xi urged strategic planning of the Belt and Road Initiative to promote connectedness of infrastructure and build a community of common interests at the annual Central Economic Work Conference.

The Initiative has major opportunities and implications for India in terms of:



Port and logistics infrastructure



Transport infrastructure, including road and rail connectivity, customs clearance, reloading and multimodal transport



Industrial infrastructure, regional industries and emerging industries



Real estate development, warehousing and hospitality facilities



Urbanisation and smart cities



Travel and tourism



Energy infrastructure



Communication and information infrastructure



Financial deepening and the development of a vibrant bond market



Trade and investment facilitation

Though announced internationally in September 2013, the Belt and Road Initiative is still evolving as China continues to seek the participation of the countries that come under the coverage area of this extensive

project. The participation process is ongoing, as the countries are officially declaring their desire to engage, while new projects and their related agreements are being announced. This report attempts to understand

the One Belt, One Road strategy initiated by China. It also explores the implications of the strategy for India in terms of prospects for infrastructure development and the ensuing trade and economic opportunities.

THE SILK ROAD ECONOMIC BELT AND 21ST CENTURY MARITIME SILK ROAD INITIATIVE OF CHINA

Using the historical concept of the Silk Road or Silk Route, the Chinese government emphasises on what it calls the **Silk Road Economic Belt and the 21st Century Maritime Silk Road** or the **'One Belt, One Road' (OBOR) Strategy**, also known as the **Belt and Road Initiative**. The planned Belt and Road run through the continents of Asia, Europe and Africa, connecting East Asian economies at one end and European economies at the other. The Belt connects China, Central Asia, Russia and Europe (the Baltic) – it links China with the Persian Gulf and the Mediterranean Sea through Central and West Asia, and also links China with Southeast Asia, South Asia and the Indian Ocean. The Road comprises two routes wherein: i) China is connected to Europe through the South China Sea, the Indian Ocean and the Horn of Africa;

and ii) China is connected to the South Pacific through the South China Sea. The Belt and Road meet at Venice, in Europe, and thus form an integrated route.

The document 'Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road' released by the government of the People's Republic of China in March 2015 (hereinafter referred to as the Vision Document) suggests that OBOR aims to open up new space for enhancing international economic and technological cooperation. It aspires to enhance trade and investment potential across the Belt and Road area through the creation of infrastructure facilities, trade facilitation and financial integration. Behind the initiative also lies China's geopolitical interest to increase its sphere of influence.

Enhancing trade and the sphere of influence are the basic intents of China behind the Initiative. It has kept the Initiative open for participation and investment to all countries and investors across the globe.

Extent and Coverage of the Belt and Road



* China Daily, April 29, 2015: The Chinese government is yet to identify all nations included under the Belt and Road Initiative

** Investment Guide to the Silk Road, UNCTAD, 2009

*** http://wiki.china.org.cn/wiki/index.php/The_%22Belt_and_Road%22_initiatives

The Proposed Silk Road Economic Belt and 21st Century Maritime Silk Road



Source: Xinhua Finance Agency

As indicated by the Xinhua Finance Agency, neither the Belt nor the Road follows any clear geographic line. They serve more as a roadmap for how China plans to further integrate itself into the world economy and strengthen its influence in these regions.

Links

Silk Road Economic Belt

- China–Central Asia–Russia–Europe (the Baltic)
- China–Central Asia–West Asia–Persian Gulf
- China–Central Asia–West Asia–Mediterranean Sea
- China–Southeast Asia–South Asia–Indian Ocean

By Country:

Xi'an, Northwest China– Ürümqi–Central Asia–Northern Iran–Iraq–Syria–Istanbul, Turkey–Bosporus Strait–Europe, including Germany and the Netherlands–Venice, Italy

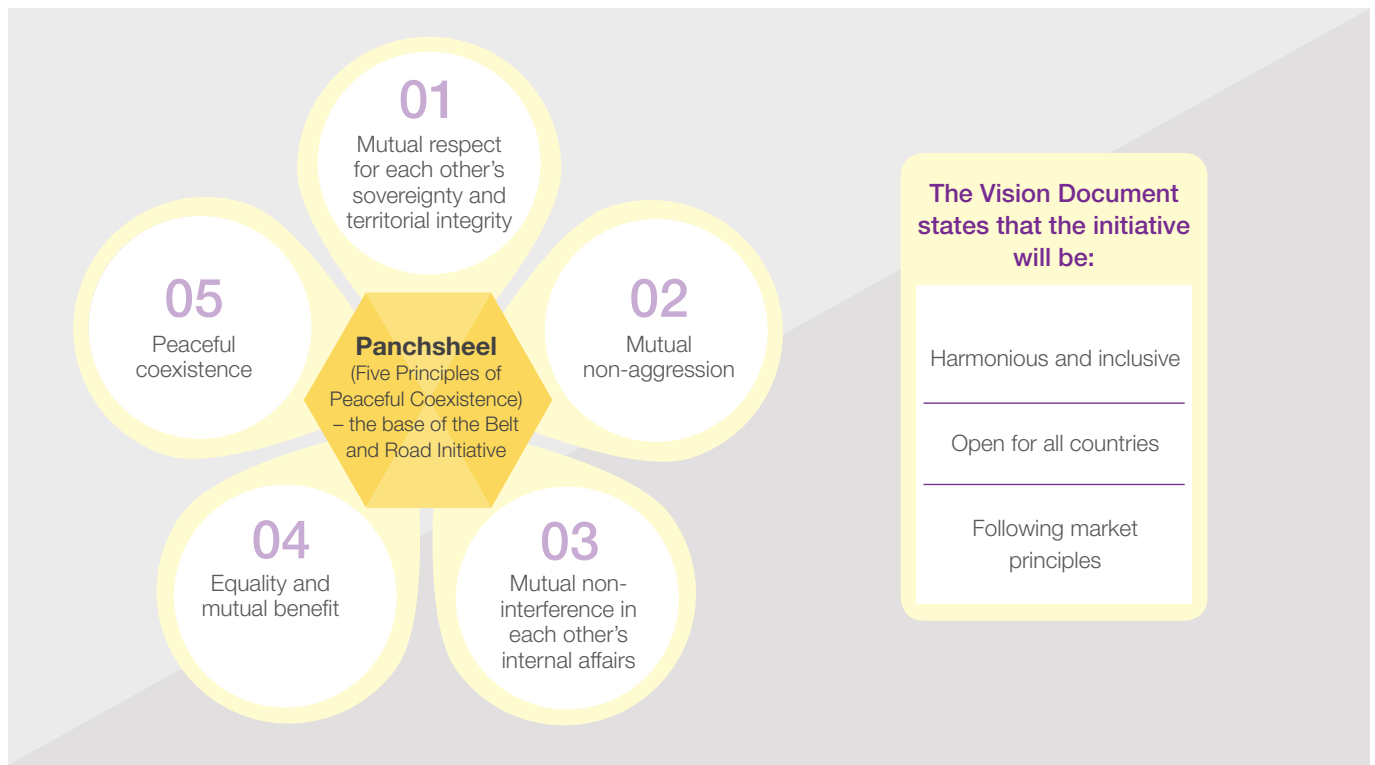
21st Century Maritime Silk Road

- Route 1: China's coast–South China Sea–Indian Ocean–Horn of Africa–Europe
- Route 2: China's coast–South China Sea–South Pacific

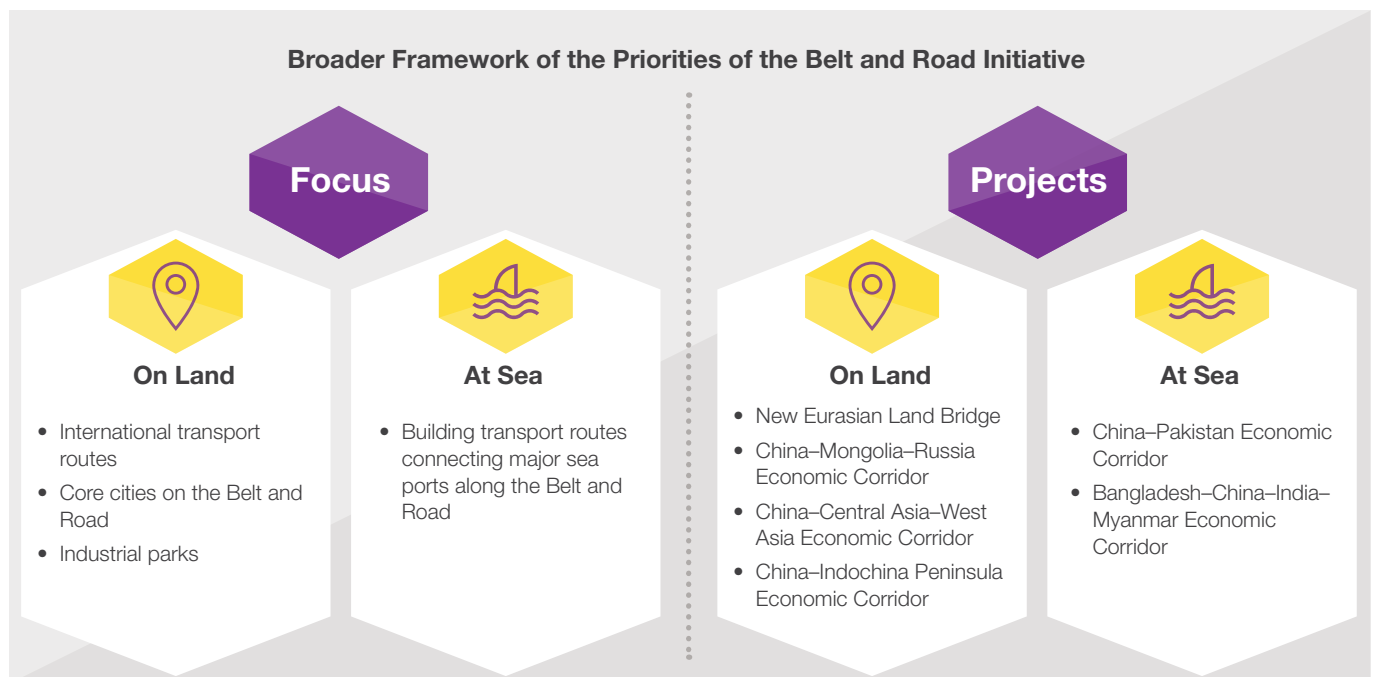
By Country:

- Route 1: Kunming, China–South China Sea–Myanmar–Bangladesh–Calcutta, India–Colombo, Sri Lanka–Indian Ocean–Nairobi, Kenya–Ethiopia–Red Sea–Mediterranean–Venice, Italy
- Route 2: Fuzhou, China–South China Sea–Malaysia–Indonesia–South Pacific Ocean

Principles, Priorities and Sectoral Implications



The Vision Document, March 2015 speaks of “relying on core cities along the Belt and Road and using key economic industrial parks as cooperation platforms”.



Source: *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road, Government of China, March 2015 (The Vision Document)*

The priorities of the Belt and Road Initiative extend beyond linking countries and continents. At a special meeting in February 2015, the Chinese government chalked out the following priorities of the OBOR strategy:

1. Infrastructure Building



Transport infrastructure, ports, civil aviation, cross-border communication infrastructure based on optical cables, trunk line networks leading to the creation of an Information Silk Road among the countries

2. Trade Facilitation



Trade facilitation agreements, investment facilitation, promoting emerging industries and establishing research and development capabilities

3. Financial Integration



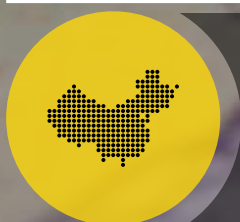
Building a currency stability system, investment and financing system and a credit information system in Asia, opening and developing the bond market in Asia

4. Cultural and Educational Exchanges



Improving people-to-people connect, promoting Silk Road tourism, cooperation in science and technology, etc.

5. China-Specific Priorities



Enhancing communication and co-operation with Central, South and West Asian countries, opening up of cities, promoting border trade, tourism and cultural cooperation, constructing transport (road and rail) infrastructure, ports and civil aviation infrastructure, promoting regional interaction and industrialisation

The Belt and Road Initiative has immense implications along its coverage area. Given the priorities of the initiative, several sectors of the economy are likely to witness a boost:

Logistics and warehousing

The initiative aims at enhancing trade and business by creating free trade areas, lower non-tariff barriers, cross-border e-commerce, enhanced logistics and trading activities, and developing warehousing facilities. China expects its annual trade with the countries involved in the initiative to surpass \$2.5 trillion in a decade⁴.

Tourism and hospitality

The Vision Document and timely announcements by the Chinese government clearly spell out their objective to promote tourism. The immense focus on people-to-people contact, interaction and cultural exchanges, and streamlining application processes for tourist visas emphasises this goal.

Infrastructure and real estate

The core of the initiative lies in the creation of infrastructure facilities and enhancing the existing ones. With 60 countries participating in the initiative and around 900 expected projects, the infrastructure and real estate sector is expected to reap the lion's share of opportunities and benefits. The emphasis on urbanisation and industrialisation—reliance on core cities and economic industrial parks as 'co-operation platforms'—is likely to trigger construction activities in cities across the Belt and Road. The objective of promoting tourism would give a major boost to the infrastructure and real estate sector.

Transport and communication

The initiative has identified several projects to enhance transport and communication, including an optical fibre network.

Financial

Efforts at currency stabilisation, deepening of financial markets and institutional provisions to finance development needs are expected to boost the financial sector.

Financing the Initiative

The financing strategy for the initiative relies on long-term options spanning five to twenty years, wherein the returns could be deferred to a long-term horizon. The Chinese government adopted measures such as initiating specific funds for this purpose and rendering the participation in funding the initiative open to all. Major roles have been given to China's policy banks.

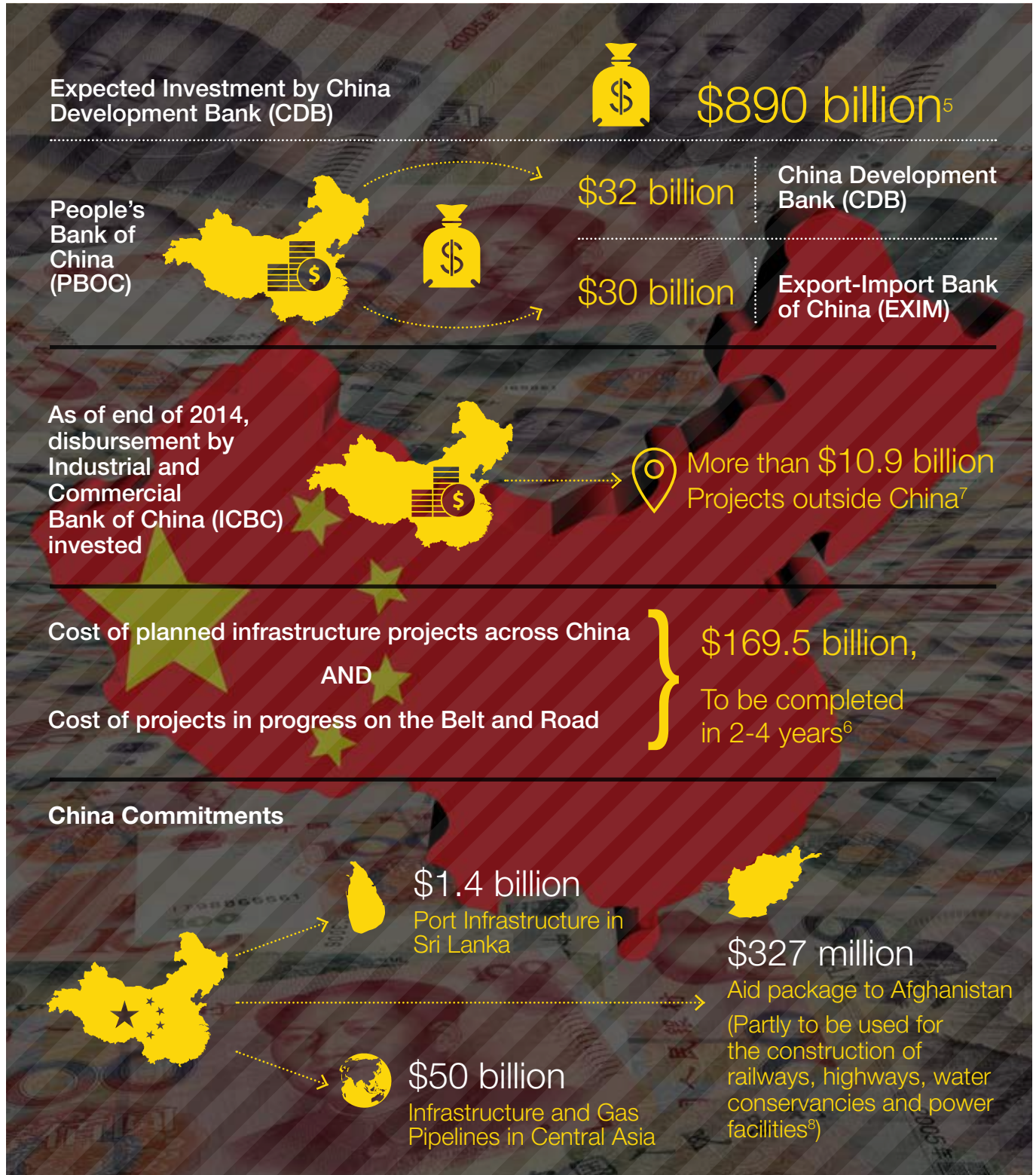
The Chinese government has also exhibited a tendency to reform policy banks to enhance their ability to finance projects on the Belt and Road that require long-term financing and may yield late returns. Accordingly, the State Council of the People's Republic of China approved a plan to reform policy banks to enhance their lending and risk handling capability and to enable them to help accomplish the other policy goals of the government. The Chinese government is keen on the reforms exercise, as policy banks are best adapted to handle a subsidised lending strategy compared to private banks and hence, it is apt to use the policy banks' experience in export lending and policy loans. The exercise is also expected to help in renminbi internationalisation.

Infrastructure development is the core of the Initiative. It also focuses on trade facilitation, financial integration, cultural and educational exchanges along with China specific priorities.

The Initiative relies on a long term financing strategy. Chinese policy banks have been assigned a major role in the exercise while all countries are welcome to participate in the funding process.

4. Xinhuanet, 20 May 2015

The Belt and Road Initiative will be financed in various ways and several institutions will contribute:



5. <http://atimes.com/2015/05/china-to-invest-900-billion-in-new-silk-road/>

6. http://news.xinhuanet.com/english/2015-04/05/c_134126390.htm

7. Mizuho Securities Asia Limited, 2 April 2015

8. Julius Baer, Investment Ideas, China endeavouring to develop a new silk road, 12 January 2015



\$400 million
Invested in the Port of Piraeus in Greece



\$300 million
Signed package for further development needs in Greece⁹

In next few years China to invest



\$160 billion
Countries along the Belt and Road¹⁰

China–South Asian Expo (June 2015)

Investment contracts signed worth
\$126 billion
(up 10.8 per cent y-o-y)



Infrastructure



Electronics



Information



Pharmacy



Tourism



Energy projects¹¹

Details about the location, nature and cost of the other projects in China and across the length and breadth of the Belt and Road are yet to be announced. The number of projects extending beyond China's territory, and the cost involved, would depend on the number of countries willing to participate and the extent of their engagement in the initiative. China has called on countries, organisations, stakeholders and investors across the globe to engage in the initiative and make joint investments.

9. A. Duquennoy and R. Zielonka, Bridging Asia and Europe Through Maritime Connectivity, European Institute for Asian Studies, April 2015

10. Beijing Review.com.cn, 16 May 2015, NO. 15

11. Xinhuanet, 19 June, 2015

Some of the measures taken by China to fund the Belt and Road Initiative are:

i) Asian Infrastructure Investment Bank (AIIB)

In October 2014, 21 Asian countries agreed to establish the AIIB, to which China will contribute up to 50 per cent of initial capital. The bank will finance infrastructure projects across Asia, with a focus on the Association of Southeast Asian Nation (ASEAN) members. The bank aspires to raise \$100 billion for projects on the Belt and Road¹².

ii) China-Mexico Investment Fund

In November 2014, the Chinese and Mexican governments agreed to set up a cooperation fund with a corpus of \$2.4 billion, seeking mutual benefits in infrastructure, mining, tourism and energy projects. The two countries plan to double the fund corpus eventually¹³.

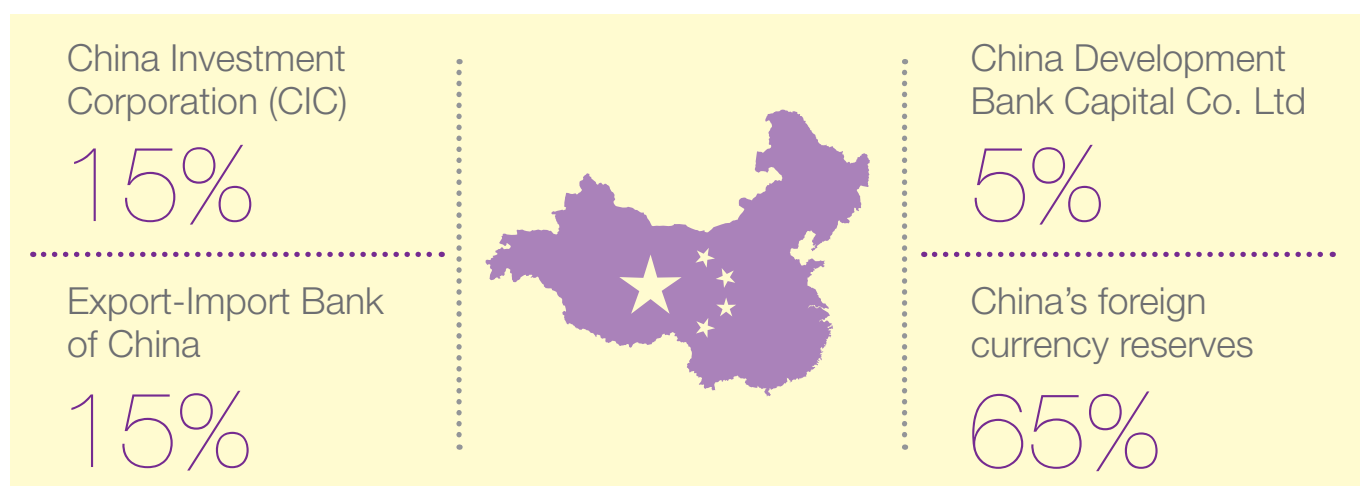
iii) Silk Road Infrastructure Fund

In November 2014, the Chinese government announced that it would set up the Silk Road Infrastructure Fund and will contribute \$40 billion to it.

The Chinese Government clarified that the fund would focus on providing investment and financial support for infrastructure, industrial cooperation, financial co-operation and other projects in countries along the Belt and Road. The Fund has been operational since February 2015 and has started functioning along the lines of a private equity (PE) venture. The fund is a limited liability company (LLC) based on market-oriented principles and the international order of finance.

China has taken immense efforts to fund the gigantic initiative. It has led the formation of some international funds. The Silk Road Infrastructure Fund is one such prominent initiative by China to which it has contributed to the tune of \$40 billion through its financial institutions and forex reserves. Additionally, it has also considered several outbound investment mechanisms.

Contributions to the Silk Road Infrastructure Fund (\$40 billion*)



* Future injections could be expected if the investment demand warrants it, and other institutions too can invest with a long-term commitment

Source: Xinhuanet, 16 February 2015

12. ChinaFile, 9 December 2014

13. <http://thebricspost.com/china-mexico-launch-2-4-bn-investment-fund/#.VZpiKfmqqko>

Several other outbound investment mechanisms are also under consideration by the Chinese government:

i) Green Ecological Silk Road Investment Fund

In March 2015, private investors created the \$4.8-billion Green Ecological Silk Road Investment Fund¹⁴. This is a private equity fund, with investments by eight Chinese enterprises. The fund will focus on solar panel construction, clean energy and ecological remediation projects.

ii) Gold Fund

As a part of its initiatives to finance trade and transport infrastructure on the Belt and Road, China established the Gold Fund in May 2015. The fund is expected to raise about \$16 billion in three phases for gold-related investments. The Fund will be run by a new company to be set up by gold

producers and financial institutions. The two leading gold producers—Shandong Gold Group and Shaanxi Gold Group Incorporation Limited—will take 35% and 25% stakes in the Fund, respectively, while the rest will be owned by financial institutions¹⁵.

iii) BRICS (Brazil, Russia, India, China, South Africa) Bank

In July 2014, China and the other BRICS nations agreed to create the BRICS Development Bank (now referred to as the New Development Bank [NDB]), which would have an initial capital of \$50 billion, eventually increasing to \$100 billion. The establishment of the Bank is expected to help in mobilising funds for the Belt and Road Initiative.

Projects identified along the Belt and Road

Currently, the Belt and Road focuses on building six prominent corridors, viz.

1. China-Mongolia-Russia Economic Corridor
2. New Eurasian Land Bridge
3. China-Central and West Asia Economic Corridor
4. China-Indochina Peninsula Economic Corridor
5. China-Pakistan Economic Corridor (CP-EC) and
6. Bangladesh-China-India-Myanmar Economic Corridor (BCIM-EC)

Around 900¹⁶ projects are anticipated at present. Several key infrastructure projects have been proposed as a part of these corridors – transportation and energy undertakings being the

major ventures. More projects in infrastructure and financial cooperation are in the pipeline, and are expected to be launched in 2015 and thereafter.



14. China Money Network, 20 March 2015

15. Reuters, 25 May 2015

16. <http://atimes.com/2015/05/china-to-invest-900-billion-in-new-silk-road/>

Select Projects Identified along the Belt and Road

Corridor	Timeline	Projects	Status
1. China-Mongolia-Russia Economic Corridor	2015	Moscow-Kazan High-Speed Rail Project (770 km)	The Russian–Chinese consortium has won the bid and will carry out the engineering, planning, area demarcation and project documentation design in 2015–2016
2. New Eurasian Land Bridge	Nov 2014	Upgrade of Greece's Piraeus Port	Under Construction
	2015	Hungaro-Serbian High-Speed Railway	Expected
3. China Central and West Asia Economic Corridor	Oct 2013	Constructing a logistics centre for Kazakhstan at the Lianyungang Port of China	Completed
	2015	Upgrade of Kazakhstan's logistics centre at Lianyungang Port in China	Expected
	2015	Building a China–Kazakhstan border cooperation centre and additional cooperation projects	Expected
	Dec 2014	Geku railway (Golmud-Korla Railway), linking Korla in Xinjiang province and Golmud in Qinghai province to facilitate transportation from eastern China to Central Asia	Under Construction
	2008 onwards	Central Asia–China gas pipeline	Three lines are completed and expected to be operational in Q1 2015. The fourth line is planned
4. China-Indochina Peninsula Economic Corridor	2015	China and Thailand agreed to link the two countries with high-speed railways (connecting Thailand to China's Yunnan province)	Expected
5. China-Pakistan Economic Corridor	May 2015	1,320 megawatt coal plant at Sahiwal, Pakistan	Work started
	2015	720 megawatt hydropower project at Karot, Pakistan	Expected to start by the end of 2015 and take about six years to build
	2015	Enhancing facilities and creating new infrastructure at Gwadar Port	Under construction
6. Bangladesh-China-India-Myanmar Economic Corridor	Sept 2014	Building a modern port city with a business centre at Colombo	Under Construction
7. Internal connectivity in China	2014	Karamay–Tacheng railway*	Expected to be finalised by 2016

* The KaramayTacheng railway will be connected with Kazakhstan, forming a part of the land bridge between China and Europe

Source: Zinhua News Agency & Mizuho; AzerNews, 2 March 2015, 2 Apr 2015; Source Watch, 23 April 2015; Livemint, 28 April 2015; Times of India, 14 April 2015; Investment Ideas, 12 January 2015

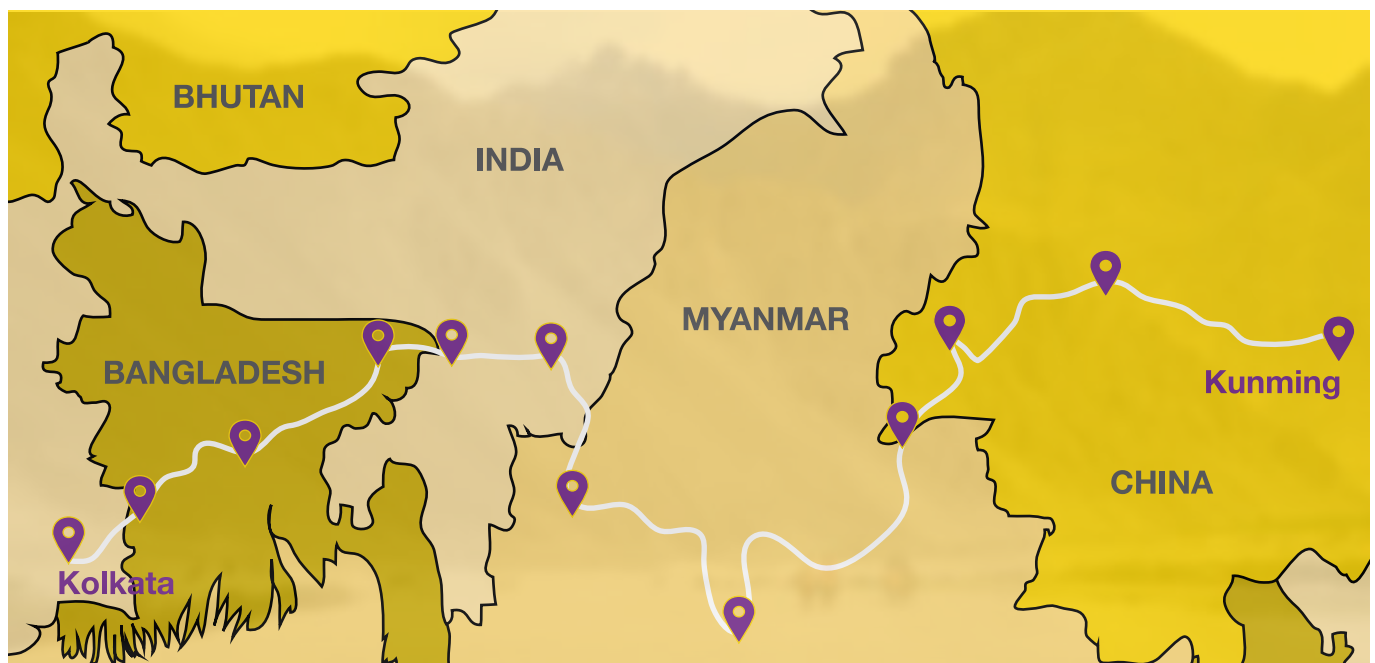
IMPLICATIONS AND PROSPECTS FOR INDIA

The proposed network of the Belt and Road has identified several projects across 60 countries. Many more projects are expected to come up, depending on the extent of the countries' willingness to participate in the initiative. Several countries have availed themselves of the Chinese proposals and investments, and have engaged in the projects. However, the Government of India has not finalised its position and hence, there is no clear commitment to participate. The Chinese government has been seeking

political approvals, but India is still to develop a clear stance to position itself on the Belt and Road initiative, considering several geopolitical and geoeconomic concerns. India has expressed concerns over the China–Pakistan Economic Corridor (CP-EC), as it runs through Pakistan occupied Kashmir (PoK). It has, however, expressed willingness to participate in the Bangladesh–China–India–Myanmar Economic Corridor (BCIM-EC), but has security concerns in the Indian Ocean.

India has major concerns over the China–Pakistan Economic Corridor (CP-EC), as it runs through Pakistan occupied Kashmir (PoK). It is, however, willing to participate in the Bangladesh–China–India–Myanmar Economic Corridor (BCIM-EC), though has also expressed security concerns in the Indian Ocean

The Bangladesh China India Myanmar Economic Corridor (BCIM-EC) and its Benefits



Source: Asia Briefing, 25 October 2013

Links

Kunming–Ruili–Bhamo–Lashio–Mandalay–Tamu–Imphal–Sylhet–Dhaka–Kolkata

The idea of BCIM-EC emerges from the concept of growth zones in development economics. Growth zones generally depend on the cooperation between three or more countries for the development of a geographically contiguous region that comprises a part of each country, wholly or partially. In the developing world, growth zones have generally been developed along the east and southeast¹⁷.

The BCIM-EC is one of the key infrastructure projects identified on the maritime Road. The project assumes significance because it proposes to construct a route that can help bypass the Strait of Malacca, which poses a major impediment in trade in the Indian Ocean and the Pacific. The BCIM-EC has the maximum potential to reap benefits for India.

The BCIM-EC would comprise a combination of infrastructure facilities and trade facilitation arrangements for the following sectors and business activities:

1. Port and logistics infrastructure
2. Tourism: religious (Buddhist), business, study and eco-tourism
3. Infrastructure and real estate development, including warehousing and hospitality facilities
4. Power sector projects
5. Industrial zones
6. Road, water and air links
7. Financial sector deepening

Port and Logistics Infrastructure

The BCIM-EC is also important to India with regards to port infrastructure. The Vision Document says, 'At sea, the Initiative will focus on jointly building smooth, secure and efficient transport routes connecting major sea ports along the Belt and Road'. India currently seeks investments in port infrastructure,

The BCIM-EC is a 1.65 million square km stretch, connecting Yunnan in south-western China to Bangladesh, Myanmar and India. Kolkata is the entry point of the BCIM-EC in India. In India, the corridor passes through West Bengal and the north-eastern states¹⁸. According to the initial estimates, the BCIM-EC will cost \$22 billion¹⁹.

The major beneficiaries of the BCIM-EC in India are the north-eastern states, including Manipur, the Barak Valley of Assam, and Kolkata, as the proposed economic corridor will pass through them. The benefits will be more pronounced once India commits to the initiative in clear terms. With a firm and clear commitment from India, more areas will come under the BCIM-EC, and India and China would be better placed to identify more projects.

and its participation in the BCIM-EC project would enhance opportunities to develop port infrastructure in the country. Investments in ports could trigger investments in logistics and warehousing infrastructure as well as the construction of industrial zones in the corridor.

BCIM-EC is crucial for the countries through which it passes as it helps bypass the Strait of Malacca in the Indian Ocean and the Pacific. It has many benefits in store for India.

The BCIM-EC is a 1.65 million square km stretch. Kolkata is the entry point of the BCIM-EC in India which passes through West Bengal and the north-eastern states. India's north-eastern states are the major beneficiaries.

According to initial estimates, the BCIM-EC will cost \$22 billion.

"At sea, the Initiative will focus on jointly building smooth, secure and efficient transport routes connecting major sea ports along the Belt and Road."
– The Vision Document, March 2015,

Engaging in the Initiative is important for India given its investment requirements to finance port infrastructure.

17. BCIM Economic Cooperation: Prospects and Challenges, Paper 64, Centre for Policy Dialogue (CPD), Bangladesh, September 2007

18. The Hindu, 26 June 2015

19. http://www.business-standard.com/article/news-ani/four-nations-including-india-agree-to-create-economic-corridor-114121900317_1.html

Tourism

Tourism cooperation is a major topic on the agenda of the Belt and Road Initiative. The Government of China has announced the boosting of tourism across the countries on the Belt and Road, including the Tibet Autonomous Region. The minutes of the First Meeting of the Joint Study Group of BCIM Economic Corridor, held on 18–19 December 2013, stated, ‘...infrastructure facilities may be strengthened and the tourism potential of the region be explored to create a BCIM tourism circle’.

Sources at the National Tourism Administration of The People's Republic of China indicate that around 150 million tourists will visit countries along the Belt and Road, spending an estimated \$200 billion in the next five years. China has identified over 200 tourism projects along the Belt and Road, to be launched in the next three years²⁰.

Tourism is a major sector to benefit, given the efforts by the governments of China and India to streamline visa processes. With its rich biological resources, ancient history and cultural diversity, there is vast untapped potential in the Indian tourism sector, particularly in the north-eastern states.

The north-eastern region is endowed with a hilly topography and immense biodiversity. A significant 66% of the geographical area in northeast India is under forest cover, the highest being in Mizoram (90.7%) and the lowest, in Assam (35.2%)²¹. The BCIM-EC is an apt channel to help India explore its maximum potential in tourism.

India's north-eastern region also holds tremendous potential for religious (Buddhist) tourism, study tourism and eco-tourism. Tourism development would not only increase the government's revenues but also earn other long-standing benefits. Eventually, with the development of infrastructure, business tourism could emerge as a flourishing sub-sector.

Kolkata is the gateway to northeast India and has substantial links—geographical, cultural and economic—with the eastern states. However, the percentage share of foreign tourist arrivals (FTAs) in India among the top 15 airports reveals that Kolkata attracts only 3.79% of the total FTAs. This affirms the immense scope to enhance tourist flow from Kolkata, which is the entry point of the BCIM-EC in India²².

“...infrastructure facilities may be strengthened and the tourism potential of the region be explored to create a BCIM tourism circle.” - Joint Study Group of BCIM Economic Corridor, December 2013

BCIM-EC enhances scope for religious tourism, study tourism and eco-tourism in the north east blessed with immense bounty of natural beauty. With infrastructure development, scope for business tourism would also arise.

Tourism is a major sector to benefit, given the efforts by the governments of China and India to streamline visa processes. The north-eastern states of India hold tremendous untapped potential for tourism development. The same can be explored by participating in the BCIM-EC.

Infrastructure and Realty, Warehousing and Hospitality in the Northeast

The Vision Document's emphasizes on urbanisation and reliance on 'core cities' along the Belt and Road. Hence, participation in the BCIM-EC would help strengthen India's ambitious plans for the development of 100 smart cities in the country.

India's north-eastern region is underdeveloped in terms of infrastructure and business facilities. Easier trade and its correlated benefits are the most obvious benefits of

infrastructure development in this region. The boost to tourism prompts opportunities for construction and real estate development. The region identified in the coverage of the maritime Road in India lacks infrastructure and connectivity. If the governments of both India and China identify appropriate infrastructure projects, including transport infrastructure, the sector would witness a historic boom in the

20. Xinhuanet, 19 June 2015

21. Open Government Data (OGD) Platform India

22. Ministry of Tourism, Government of India

region. With the Chinese government's proposals to enhance road, water and air links, several projects could be anticipated. Eventually, the exercise would help the real estate sector explore untapped markets and customer segments in the eastern and north-eastern states and also states such as Bihar, known for its rich

natural resources, ancient centres of learning and tourist sites.

Connectivity and other infrastructure development ushers in several benefits. Asset classes in the real estate sector, such as warehousing and hospitality, are bound to benefit in the long run.

The Vision Document emphasizes on infrastructure development, urbanisation and reliance on 'core cities' along the Belt and Road. India's participation in the BCIM-EC would only help realize its ambitious plans for development of 100 smart cities. The north – eastern states having huge development backlog could benefit from infrastructure and connectivity, warehousing and hospitality. Real estate sector has an opportunity to explore the untapped potential in the northeast.

North eastern states are rich in natural resources including water resources. India's participation in the BCIM-EC would boost the scope of hydropower and energy sector in the region.

Hydropower and Energy Sector

The north-eastern states of India are rich in water resources. Around 40% of India's rivers are in its north-eastern states. Cherrapunji, in Meghalaya, is known to be the wettest place on earth due to the record rainfall it receives. The BCIM-EC offers ample opportunities for hydroelectricity generation and can help satiate India's power needs.

A boost to the energy sector is another advantage that the BCIM-EC would offer the north-eastern states of India that are rich in hydrocarbon and mineral resources. The corridor is likely to usher in opportunities to further

explore and harness hydrocarbon and natural resources such as natural gas, crude oil, coal, limestone, low-ash coal resources, dolomite deposits, etc. Assam has vast hydrocarbon reserves, while Assam and Tripura have immense natural gas reserves. China has already invested robustly in thermal projects and gas pipelines across the BCIM-EC. The vast, conventional and renewable energy resources in the region covered by the BCIM-EC, particularly the coal reserves in states such as Odisha, West Bengal, Chhattisgarh and Jharkhand, could be exploited to cater to India's power and energy needs.



Industrial Zones

The Belt and Road Initiative includes plans to set up industrial zones. These zones could be expected to serve as supporting platforms for India's ambitious 'Make in India' drive.

China is engaged in the joint construction of 70 cooperative zones in India, Singapore, Thailand and Laos. During the first quarter of 2015, China's non-financial investment in

countries such as Singapore, India, Thailand and Laos stood at \$2.56 billion, making up 10 per cent of its total overseas investment. These zones would include industrial parks with company investments over \$8 billion. The zones are expected to yield an annual output of at least \$20 billion and create up to 200,000 jobs²³.

The Initiative has plans to set up industrial zones and industrial parks. BCIM-EC is likely to give a push to the "Make in India" drive!

Lack of connectivity is not just a problem of India's northeast region but also of some regions in the other BCIM-EC countries. It has also hampered intra-regional trade in the BCIM-EC countries. Building of BCIM-EC would address the connectivity issues and save on time and cost of transportation.

Connectivity – Trimming Transportation Costs and Enhancing Intra-Regional Trade

The BCIM-EC is expected to ease transportation along its route. Improving transport infrastructure would eventually lead to socioeconomic development and a higher standard of living.

Most of the states in India's north-east region and some of the regions in the other BCIM-EC countries, including the southwest China region, are landlocked and currently pay higher transportation costs while accessing sea ports. The BCIM-EC is expected to cut down on transportation costs and the time taken to access the ports. The planned development of a 312-km stretch of Stilwell Road, connecting Northeast India with Yunnan, could help cut down transportation costs between India and China by 30 per cent²⁴.

Intra-regional trade in the BCIM-EC countries has remained at subdued levels on account of poor transport connectivity and poor investment flows. The development of the economic corridor will help boost the countries' exports within the

region. Currently, trade between the north-eastern states of India and other Indian states, and with the world, depends on the transfer of goods through the 'Chicken's Neck' (Siliguri Corridor, a narrow stretch of land, about 1,200–1,600 km long). In China, Yunnan's trade with the world requires transferring goods through a distance of 2,000 km east, to the South China Sea and further. A southern route devised under the proposed BCIM-EC is expected to cut the distances by 400–700 km for both, the north-eastern states of India and Yunnan, through seamless, multi-modal connectivity of road, rail and waterways²⁵.

On the international level, the BCIM-EC is expected to cut down trade and travel costs for India and China. China is keen on connecting Yunnan with Assam, so as to have direct access to India and other South Asian countries, which would otherwise involve a 7,000-km detour via Hong Kong and Singapore²⁶.

23. China Daily, 29 April 2015)

24. IDSA Comment, North East in BCIM-EC: Problems and Prospects, Rupak Bhattacharjee, 17 October 2014

25. BCIM Economic Cooperation: Prospects and Challenges, Paper 64, Centre for Policy Dialogue (CPD), Bangladesh, September 2007

26. BCIM Economic Cooperation: Prospects and Challenges, Paper 64, Centre for Policy Dialogue (CPD), Bangladesh, September 2007

Bilateral Trade

China is one of India's biggest trading partners. India aspired to take its bilateral trade with China to around \$100 billion per annum by 2015. Current trade between the two countries stands close to \$70 billion. However, India's trade deficit with China has risen to \$37.8 billion

in 2014 from \$1 billion in 2001–02. India's major concern is bridging this trade deficit. This could be achieved by increasing India's access to the Chinese market and diversifying and expanding India's export capacity. Bilateral trade with Bangladesh and Myanmar would also be enhanced.

Financial Sector – Steps towards Deepening and Developing a Vibrant Bond Market

One of the priorities of the Belt and Road Initiative is to deepen financial cooperation and usher in a currency stability system, investment and financing system and credit information system in Asia. This would also include expanding and deepening the financial markets by introducing new dimensions and scales for financial products, such as a bilateral currency swap and settlement with other countries along the Belt and Road, while also encouraging sovereign wealth funds, commercial equity investment funds and private funds. The Vision Document aspires to 'open and develop the bond market in Asia'. It also speaks of strengthening financial regulation cooperation, including cooperation between credit investigation regulators/institutions and credit rating institutions.

India needs all these developments in its financial sector; however, the major

concern for investors is its weak debt market, especially the corporate bond market. The government bond market in India, which stands at around 49 per cent of the GDP, compares well with other Asian countries, but the corporate bond market is still not developed. The Indian corporate bond market has grown in terms of value, but still stands at a mere 5.4% of the GDP, compared to the Republic of Korea (77.5% of the GDP), Malaysia (43.1% of the GDP), Singapore (37% of the GDP), Hong Kong (31.4% of the GDP) and China (13% of the GDP)²⁷.

The Indian financial sector and regulation landscape are evolving progressively. If India's active participation in the Belt and Road Initiative could aid its financial sector reforms trajectory and attract a larger inflow of investments, it would definitely pave the road for substantial gains in the future.

India aspired to increase its bilateral trade with China to around \$100 billion per annum by 2015. However, the current trade between the two countries stands near \$70 billion. This could be addressed by increasing India's access to the Chinese market and diversifying and expanding India's exports.

The Vision Document aspires to 'open and develop the bond market in Asia'. It also aims to strengthen financial regulation cooperation.

A major concern of various stakeholders in India is that the corporate bond market in India is at a nascent stage and needs to develop. Financial sector and the regulatory landscape in India are progressively evolving. This could be an apt time to strengthen efforts at ushering a vibrant bond market in India.

27. R. Gandhi, Corporate Debt Market: What needs to be done A Reaffirmation, RBI, 23 March 2015

GEOPOLITICS VERSUS GEOECONOMICS – WHERE DOES INDIA STAND?

A look at the select projects identified reveals that India has not engaged itself in the Belt and Road Initiative to the extent that other countries have engaged. India is willing to participate in the Bangladesh –India– China–Myanmar–Economic Corridor (BCIM-EC), but has voiced security concerns about the overall development of the Maritime Silk Route Economic Belt passing through the Indian Ocean. China is keen that India backs its initiative and has offered to link its projects with those of India to address India's security concerns.

One of the prime corridors on the Belt is the 3,000-km China–Pakistan Economic Corridor (CP-EC), and work on it has already begun. Chinese investments in this corridor could reach \$46 billion. India has expressed concerns over the CP-EC as the project passes through Pakistan occupied Kashmir (PoK). Any project on disputed land should be commenced only after obtaining consent from the disputing parties in clear terms. In case of the CP-EC, India has not approved of the project. In fact, it has opposed the passage of the corridor and the projects therein through Kashmir, which is critical to the corridor. This could be deemed as a major issue in terms of diplomatic adherences as well as India's sovereignty rights. China's plans to use Gwadar Port in Pakistan as its naval outpost add further gravity to India's security concerns.

The Belt and Road Initiative is based on Panchsheel – the Five Principles of Peaceful Coexistence (one of them being 'mutual respect for each other's sovereignty and territorial integrity') rooted in the ancient Buddhist philosophy that made its way from India to China, and were enunciated

in the 1954 Panchsheel Agreement signed by both the countries. The agreement was a trade pact between the two countries, guiding bilateral, political and trade relations with respect to the disputed territories of Aksai Chin which China calls 'South Tibet' and India (Arunachal Pradesh). Although the agreement lapsed in 1962, it continues to serve as the guiding principle in the countries' international relations. This should help make the Belt and Road Initiative appealing to India and China. China claims to abide by these principles and expects India to reciprocate with a firm commitment to engage in the Belt and Road Initiative. However, the contradiction in terms becomes glaringly obvious when China clears deals related to the CP-EC, which passes through the disputed Pakistan occupied Kashmir – a clear disregard for India's sovereignty and territorial integrity.

Proposals for the BCIM-EC provide vast scope for local and regional infrastructure development and trade facilitation. The north-eastern states of India, particularly Manipur and Assam and the eastern state of West Bengal would benefit tremendously as the BMIC - EC passes through these states. The maritime Road touches India's borders in the Bay of Bengal and passes through the Indian Ocean. Most of India's neighbours have agreed to join the initiative so as to avail themselves of the opportunity to build ports and related facilities. India is keenly seeking investments to fund infrastructure, and the initiative offers the opportunity to garner the much-needed investment flows. India's bilateral relations with Sri Lanka, Bangladesh, Myanmar and even with Pakistan cannot be isolated from the Chinese project. India needs

India is almost unengaged with regards to the projects identified along the Belt and Road.

CP-EC stands on a disputed land which is a major issue in terms of diplomatic adherences and India's sovereignty rights. India has rightly opposed the passage of the corridor and the projects therein through Kashmir.

Panchsheel Principles – the base of the Belt and Road Initiative is also the base of India and China's international relations. And yet China pursues CP-EC – a clear violation of the principle 'mutual respect for each other's sovereignty and territorial integrity'.

The maritime Road touches India's borders in the Bay of Bengal and passes through the Indian Ocean. India's neighbours have grabbed the opportunity to avail themselves of investments in ports and related infrastructure. India needs to engage too.

to engage in the BCIM-EC, as 60 countries on the Belt and Road have already agreed to participate in the various projects planned in their countries with Chinese investments.

Amid the several geopolitical and strategic issues daunting India, the Belt and Road Initiative prompts several geo-economic implications as well. The Belt and Road is set to be the world's largest economic corridor, covering a population of 4.4 billion people and with an economic output of \$21 trillion. With opportunities to enhance bilateral trade with China, India stands to gain in regional trade as well. Over and above, there are opportunities beyond trade and monetary calculations that could be the stepping stones for India's aspirations to grow as a major economic power, infrastructure creation being a major one among them. Thereby, several important sectors and sub - sectors of Indian economy surrounding infrastructure, viz. real estate, warehousing, port and logistics, hospitality, tourism are likely to be helped tremendously by engaging in the initiative. Other sectors like energy, manufacturing and financial sectors would be benefitted too.

The countries identified along the Belt and Road Initiative need transport infrastructure on a priority basis; however, very few of these countries have sufficient capital to finance such infrastructure. According to the Asian Development Bank (ADB), the combined annual GDP for countries in the targeted regions is around \$21 trillion; however, their combined annual infrastructure investment needs are likely to cross \$730 billion by 2020. Institutions such as the ADB and the World Bank can only pump about \$20 billion into Asia every year, and only about half that amount would be available for infrastructure construction²⁸. This has implications for a country like India, which is in need of infrastructure finances. Given the circumstances, the Belt and Road

Initiative could enable India avail itself of the infrastructure development opportunities to a wider extent. The north-eastern region, in particular, can attract investments and get ahead of its current development backlog.

China advocates that India should merge its Look East and Act East policies with Chinese development goals. While, India's participation in the BCIM- EC would connect India's north eastern states with China and the rest of the world, India cannot ignore the fact that the north eastern states are poorly connected through road, rail and air network with mainland India itself. Hence, enhanced connectivity of these states with the rest of the world is likely to result in entry of illegal immigrants. This should be factored in while considering participation in the BCIM –EC.

The BCIM-EC countries are members of trading blocks, or regional organisations. While Bangladesh and India are members of the South Asian Free Trade Area (SAFTA), Bangladesh, Myanmar and India are members of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), and Bangladesh, India and China are members of the Asia-Pacific Trade Agreement (APTA). The necessary trade and economic initiatives such as trade facilitation, free trade areas, investment promotion and direct market access have already been initiated herein, and the respective country's interests are being addressed. Thus, economic and trade cooperation is already being addressed. Under the circumstances, the BCIM-EC is expected to accelerate economic progress by enhancing connectivity and infrastructure, and boosting trade volumes and growth by drawing synergies.

The BCIM-EC has an equally predominant geopolitical element attached, given India's aspirations to play a dominant strategic role in the

Amid the several geopolitical and strategic issues daunting India, there are several geo-economic implications as well. There are opportunities beyond trade that could be the stepping stones for India's aspirations to grow as a major economic power - infrastructure building is one of them. Sub - sectors of Indian economy surrounding infrastructure, viz. real estate, warehousing, port and logistics, hospitality, tourism would be the major beneficiaries.

In the emerging countries there exists an infrastructure financing gap which even institutions like the ADB or the World Bank cannot bridge.

India's participation in the BCIM-EC is important but the step prompts caution as well. BCIM- EC would connect India's north eastern states with China and the rest of the world, but they are poorly connected with mainland India itself, thus enabling the entry of illegal immigrants to India.

Members of BCIM-EC are already members of one trading block or the other and hence trade related issues are already being taken care of. BCIM-EC is expected to do further i.e. to accelerate economic progress and boost trade volumes.

28. <http://www.chinafile.com/reporting-opinion/caixin-media/new-fund-china-hits-silk-road-stride>

Indian Ocean. The BCIM-EC region is located at the crossroads of East and Southeast Asia on one hand, and South Asia on the other. Thus, the corridor serves as a strategic location to develop trade and economic links and grow as a geopolitical outpost. India has already launched Project Mausam in June 2014 to re-establish its ancient maritime routes with its early trade partners in and along the Indian Ocean and to enhance the understanding of national cultures and concerns along the maritime areas. The project focuses on monsoon patterns, cultural routes and maritime landscapes, and aims to understand how the knowledge and manipulation of the monsoon winds has shaped interactions across the Indian Ocean and led to the spread of shared knowledge systems, traditions, technologies and ideas along maritime routes²⁹. Further, the Government of Kerala is making efforts to revive the two-millennia-old Spice Route that linked Asia, Europe and Africa, while Project Mausam seeks to incorporate ideas proposed by Kerala Tourism³⁰. The Government of India has also approved Project Seabird Phase II,³¹ an ambitious naval infrastructure programme near Karwar, in Karnataka, and there are plans to develop some new projects in the Arabian Sea. This emphasises India's aspirations for a predominant regional role and to increase its sphere of influence in the maritime region.

China has expressed willingness to deliberate with India over its participation in the Belt and Road Initiative, and to link the initiative with India's Project Mausam and the Spice Route project if required. Thus, while China has been conveniently ignoring India with regards to the CP-EC, it is keen on India's participation in BCIM-EC. Further, regardless of whether India joins the Belt and Road Initiative or not, it has already been launched, and India's neighbours have committed to participate in it. It is evident that China's relations with India's neighbours have been strengthening. By exhibiting reluctance to participate in the initiative, India may lose out, not only on infrastructure development opportunities and trade and economic benefits but also on its influence in the Indian Ocean.

India's dilemmas could be sorted out successfully with strong deliberations. It makes immense economic and geopolitical sense for India to engage in the initiative, especially the BCIM – EC on its own terms and with a strong stand, rather than isolate itself from it. As a 'holder of the balance' in the Indian Ocean, India needs to realise that in the struggle for power and peace,

*"While the balancer has no permanent friends, it has no permanent enemies either; it has only permanent interest of maintaining the balance of power itself"*³².

India aspires for a predominant regional role in the Indian Ocean and is a contestant well supported by nature given its geographical location with regards to the Indian Ocean. The challenge lies in well projecting India's position as a natural leader in the Indian Ocean region and then keeping the position well secured.

China keenly wants to rope India in the BCIM-EC while it conveniently ignores India's stance with regards to CP-EC that passes through PoK.

Major implications:

- Whether India joins or not, others in the region have already joined. A time to think about the balance of power in the Indian Ocean...
- By not joining, India stands to lose on the trade and economic front and more than that on its influence in the region.

There are no permanent friends and enemies in international politics. There are only permanent interests.... India needs to secure those by participating in the BCIM-EC - on its own terms and with a strong stance.

In the long run it is not just a struggle for prosperity but also a struggle for POWER and PEACE. Herein, who plays the 'holder of the balance' is important.

29. Ministry of Culture, Government of India

30. http://ignca.nic.in/PDF_data/Mausam_Concept.pdf

31. Times of India, 10 June 2014

32. Hans J. Morgenthau, "The Balance of Power" / Politics Among Nations: The Struggle for Power and Peace, 1948





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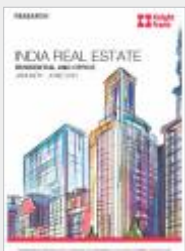
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