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Issue Brief

India Gears Up to Enter the Eurasian Integration Path

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S*ummary*

Prime Minister Narendra Modi could push for India's own connectivity agenda for Eurasia, although it should be done without necessarily becoming engaged in direct conflict or competition with China's BRI. Russia, Iran and Central Asian states can certainly help India enter into the Eurasian integration path. Apart from INSTC and Chabahar Port, India should seek to join Russia's "Greater Eurasian" corridor of BAM, TSR and the Northeast Passage to connect to the Far East and even Japan.

World powers, including India, are making moves to counter China's global thrust on infrastructure building under the Belt and Road Initiative (BRI). On May 23, weeks after the BRI Summit, India and Japan proposed a multi-billion dollar Asia-Africa Growth Corridor (AAGC), which would focus on creating new sea corridors linking the African continent with India and other countries in South and South-East Asia. The AAGC is aimed at curtailing the increasing Chinese influence in Africa. It is expected to be a "low-cost" and "less carbon footprint" option compared to the land corridor floated by China as part of BRI.

On May 24, the US administration proposed two connectivity projects: a) reviving the New Silk Road (NSR) project to focus on Afghanistan and its neighbours, and b) the Indo-Pacific Economic Corridor (IPEC) linking South and Southeast Asia. Both projects are to be pushed through regional collaboration and financing by bilateral and multilateral donors along with private sector participation.

On May 25, the United Nations (UN) raised a red flag over the economic, financial, social and environmental risks of BRI in a number of countries including in South and Central Asia, where massive Chinese investment compared to the relatively small size of their economies could ultimately push them into a debt trap.

On May 14, at the Beijing Summit on BRI, President Vladimir Putin advocated Russia's own "Greater Eurasia" connectivity plan to expand the capacity of the Baikal-Amur Mainline (BAM), the Trans-Siberian Railway (TSR), and the Northeast Passage. While supporting China's initiative, Putin talked about integrating the Eurasian Economic Union (EEU), BRI, Shanghai Cooperation Organisation (SCO) and the Association of Southeast Asian Nations (ASEAN) for building a Greater Eurasian transport corridor. In spite of the symbiotic synergy formalised between BRI and the Russia-driven EEU in 2015, Putin is fervently enlarging the scope of the EEU to bring over 50 European, Asian and Latin American states under its ambit. Moscow is thereby trying to protect its interests by encouraging more countries in Central Asia to join the EEU. With a view to limit the flow of Chinese goods into these markets, the EEU has imposed new import restrictions that have badly hurt Chinese trade in recent years.

India has been slowly coming up with its own Eurasian agenda. It has taken some significant steps with enormous implications for realising a strong potential connectivity link between India and Eurasia. On May 18, amid China's push for BRI projects, the Ministry of External Affairs (MEA) held a multi-stakeholder meet to highlight some latest surveys undertaken by Indian institutions such as the Federation of Freight Forwarders' Associations in India (FFFAI), the Ladakh International Centre (LIC) and the Institute for Defence Studies and Analyses (IDSA). The meeting discussed how the implementation of the International North-South Transport Corridor (INSTC) has moved to a fast-track stage after India decided to join the international customs convention, TIR, following cabinet

approval. The meeting also discussed modalities and the recent progress made in overcoming impediments in realising the INSTC, including the benefits of moving to the use of e-TIR, etc.

INSTC, which was formalised in 2002, is a 7200-km-long multi-modal (ship, rail and road) transportation system for connecting the Indian Ocean and Persian Gulf to the Caspian Sea via Iran and thence to Russia and North Europe. Apart from the original members India, Russia and Iran, 11 other countries including Armenia, Azerbaijan, Belarus, Bulgaria (observer status), Kazakhstan, Kyrgyzstan, Oman, Syria, Tajikistan, Turkey and Ukraine are INSTC members.

In the absence of viable surface transport connectivity, Indian goods to Russia and Central Asia move either through the sea route via Rotterdam to St. Petersburg or from the Chinese port of Qingdao that takes over 50 days. Recent studies show that INSTC can reduce the time and cost of container delivery by 30-40 per cent and once the flow of goods from the two Iranian ports begin the corridor will be able to move 30 to 50 million tons of goods per year.

Considering the rapidly changing development on the connectivity front, the joint LIC-IDSAs report suggests that India needs to position itself to stake its economic presence in Eurasia, which is being increasingly infringed by other powers, especially China. The report notes that India's current trade volume with the Eurasian region is minimal:

- Around USD 9 billion with EEU.
- Less than USD 1 billion with Central Asian countries.
- USD 28 billion with INSTC members.
- USD 29 billion with the entire region.
- No country falls in the list of India's Top 20 trading partners.
- Iran is 21st in the list with bilateral trade standing at USD 9 billion.
- Chabahar route plus INSTC could boost trade worth up to USD 170 billion from India alone (60.6 billion in export and 107.4 billion in import). And
- According to a recent joint EEU-India Feasibility Study report, the potential for EEU-India trade is USD 37 to 62 billion.

The study indicates that India's trade volume with Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan) is less than USD 1 billion, compared to China's 50 billion and Russia's 30 billion with the region. India's trade with the region accounts for a mere 0.11 per cent of its total trade. Similarly, India's share in Central Asia's total trade is only about one per cent. This is mainly

because Russia and China have direct physical proximity as well as established transportation links with Central Asia.

Even though India's northern regions are close to Central Asia than its own states in the South, because of the constraints imposed by geopolitical factors (read Pakistan), India's trade with Central Asia and Afghanistan has fallen short of realising its full potential. This imbalance suggests an obvious rationale for increasing India's connectivity with Central Asia, the study says. Therefore, India has been exploring different variants of realistically attainable transport connectivity with Eurasia.

The report highlights how some expert-level studies, after identifying a trade potential index using a gravity model of trade framework, indicated huge untapped potential for increasing trade between India and Central Asian countries. Similarly, the complementary aspects of Indian and Central Asian economies are seemingly high in potential. With a viable trade route available, trade in goods can increase manifold in the future, the report says.

The LIC-IDS report is being launched ahead of India becoming a full member of the SCO in June 2017. This is in addition to the studies already conducted by others on INSTC, which is inching closer to the operational stage. The study aims to raise India's standing in the pan-Eurasian regional grouping. Some important features of the LIC-IDS report are:

1. Given the importance of Chabahar Port to Iran's infrastructure development plans, its potential as an entry point both for Iran and Central Asia is assured.
2. Iran has already developed infrastructure in and around Chabahar, which will assume greater significance not just for Iran but also for the countries situated in the Indian Ocean and Eurasian region.
3. The report highlights the operational capacity of two terminals at Chabahar – Shahid Kalamtari and Shahid Beheshti. It says that the first terminal is handling about 2.1 million tons of cargo per year with an unused capacity of 1 million tons, which can immediately be tapped for transit trade with Central Asia, pending operationalisation of Shahid Beheshti terminal (which will increase the capacity to about 10 million tons) by India.
4. There is even greater prospect for enlarging both the operational and practical scope of Chabahar to become a vital gateway to Central Asia as it gives ready access to a number of trade corridors (existing and planned).
5. India already has a foothold in Chabahar as a result of the 2016 India-Iran Agreement, which underscores the Indian commitment to build, equip and operate the port (two terminals and five berths with cargo handling for 10

years). The MoU provides the necessary legal framework for trans-shipment of goods to Afghanistan.

6. Transport connectivity from Chabahar is not only viable but also competitive in terms of distance, cost, delivery, market access, sustainability and safety of goods and cargo to and from Eurasia. Besides, the Chabahar transit route would potentially provide the landlocked countries of Central Asia with the shortest land route to conduct maritime trade with countries in the Indian Ocean region.

Map 2: Accessing Central Asian Road Network through Chabahar



7. INSTC and Chabahar Port will complement each other for optimising India connectivity with Russia and Eurasia. The multiple transport corridors intersecting the region can be easily accessed from the south.

8. India is already committed to lay a railway track from Chabahar to Zahedan. To further demonstrate its commitment to improve connectivity with Central Asia, India should extend the Chabahar–Zahedan railway line up to Mashhad. According to some estimates, the Chabahar route plus INSTC could boost trade to a total of USD 170 billion from India to Eurasia (60.6 billion in export and 107.4 billion in import).

Map 3: Accessing Iran-Central Asian Rail Network through Chabahar



Further, the LIC-IDSA study recommends that India focus attention on the following priority areas:

1. Faster completion of the ambitious INSTC project.
2. Expeditious development of the container terminal at Shahid Beheshti and early operational control of it by India to facilitate access to the Central Asian markets.
3. Facilitate regular and frequent shipping links between the ports in India (Mundra, Kandla & Mumbai) and Chabahar.
4. Support the proposed joint Afghan-Uzbek project of extending the approximately 700-km long Mazar-i-Sharif to Herat railway line that would pass through Shiberghan, Andkhoy and Maimana in western Afghanistan. Uzbek Railways estimate that the Mazar-Herat railways line will cost less than USD 2 billion, and is willing to execute the project with foreign assistance. If this project materialises, all Central Asian countries including Tajikistan and Kyrgyzstan would be connected to Chabahar corridor via western Afghanistan. It will be the biggest breakthrough in Asian transport connectivity with enormous implications for the entire region, both in terms of spurring economic prosperity as well as ensuring political stability. Afghanistan, Iran, and Uzbekistan have already signed an agreement to

develop a trans-Afghan transport corridor. The 75-kilometers single-rail line from Hairatan to Mazar-i-Sharif is in operation since 2011.

5. Apart from Afghanistan, India needs to rope in one or more of the Central Asian countries, preferably Uzbekistan and Kazakhstan, in its effort to project Chabahar as a gateway between Eurasia and the Indian Ocean. Cooperation in the area of connectivity with these countries could also be pursued under the SCO framework.
6. The Kazakh operator KTZ Express is already in the process of constructing a terminal in Mundra (Gujarat). This could be considered as an important connectivity cooperation effort under the SCO framework.

Map 4: Trans-Afghan Corridors



7. The joint study explores how India could make its best effort at tying up the loose ends of connectivity with Central Asia, addressing both physical and non-physical barriers, through both bilateral and multilateral mechanisms.
8. Significantly, India has applied for accession to the Ashgabat Agreement, which was instituted to establish an international multimodal transport and transit corridor facilitating transportation of goods between Central Asia and the Persian Gulf. India has also signed a bilateral agreement with Tajikistan

in 2015 to enhance connectivity. Kazakhstan, Tajikistan and Kyrgyzstan are already members of the INSTC.

9. India has also applied for accession to the Customs Convention on International Transport of Goods Under Cover of TIR Carnets (TIR Convention, 1975), which is used for international carriage of goods. TIR Carnets provide the principal security for movement of transit cargo. Central Asian states are already members of the TIR Convention.
10. India and Russia have just begun formal negotiations on a free trade agreement (FTA) between India and EEU. This could open up unhindered flow of raw materials and inflow of capital and technology from India to the vast Eurasian market and its growth centres. The new connectivity would pave the way for Russia and Belarus to join the Indian manufacturing sector and also access the markets of in the South Asian Association for Regional Cooperation (SAARC), ASEAN and Africa.

Way Forward

Prime Minister Narendra Modi could push for India's own connectivity agenda for Eurasia, although it should be done without necessarily becoming engaged in direct conflict or competition with China's BRI. Russia, Iran and Central Asian states can certainly help India enter into the Eurasian integration path. Apart from INSTC and Chabahar Port, India should seek to join Russia's "Greater Eurasian" corridor of BAM, TSR and the Northeast Passage to connect to the Far East and even Japan.

Against this backdrop, India and Russia recently agreed at St. Petersburg that connectivity projects "should be based on dialogue and the consent of all parties concerned with due respect for sovereignty." While appreciating the "compelling logic of regional connectivity for peace, progress and prosperity", the two countries also reiterated their commitment "to build effective infrastructure for the International North South Transport Corridor and implementation of the Green Corridor".

The SCO will be particularly problematic for India, given that it will enter the Eurasian grouping along with Pakistan. Islamabad has been waiting in the wings to link up with Eurasia for trade and connectivity so as to avail cheap electricity from Kyrgyzstan and Tajikistan under the CASA-1000 Project. Pakistan also hopes to share its vast experience in countering violent extremism in SCO. There is every possibility that the Pakistan factor and that country's penchant for opportunism could put a spanner in India's goals in SCO. China and Pakistan will try to influence the situation directly in the countries of Central Asia, especially in Afghanistan, against India's interest.

India has chosen to stay out of BRI because of sovereignty reasons involving the China-Pakistan Economic Corridor which runs through Pakistan-occupied Kashmir. But, we need to remember that China is not alone in this regard; Kyrgyzstan and Kazakhstan had long crossed India's sovereignty red lines when they signed the Quadrilateral Traffic in Transit Agreement (QTTA) with Pakistan in 1995 to use the Karakoram Highway (KKH) which too passes through Gilgit-Baltistan. It is a different matter that QTTA has not been effective for facilitating traffic, but it did nullify India's objection much before BRI and CPEC came into being. Tajikistan has recently joined the QTTA and Kazakhstan is showing interest in joining CPEC. This would allow China and Pakistan to push for tapping the potentials of CPEC and QTTA and make them useful policy instruments to raise Islamabad's standing in SCO. If CPEC will strain India's ties with Pakistan, the QTTA too will potentially dent India's ties with other SCO states. Any attempt at characterising these corridors as hare-brained schemes by China and Pakistan may not be received favourably by SCO members.

For SCO to consider regional connectivity seriously under its format, it will have to press Pakistan to open up its borders for greater exchange on trade cooperation. Otherwise, joining SCO will have no meaning for India. Knowing the quirky nature of Indo-Pak relations, many fear that the spotlight would shift from Central Asia and make it harder to advance regional cooperation. Given Pakistan's track record in SAARC and Economic Cooperation Organisation (ECO), its involvement could prove detrimental for SCO's growth, if not a "time bomb" waiting to explode. In fact, none of the trans-border regional integration mechanisms including QTTA, the Afghanistan-Pakistan Transit Trade Agreement (APTTA), the Cross-Border Transport Agreement (CBTA) under the Central Asia Regional Economic Cooperation (CAREC) Programme, the Transit Transport Framework Agreement (TTFA) under ECO, and the SAARC Motor Vehicles Agreement, among many others, have been allowed to realise their full potential due to the unconstructive role played by Pakistan.

While New Delhi enters the Eurasian integration path, it also needs to factor in the changing political dynamics within Central Asia. Following the recent change of leadership in Tashkent, the nature of the regional outlook is changing in favour of intra-regional cooperation. If this trend gathers force, it would not be always easy for China to overcome the broader set of issues that could come in the way of realising its BRI vision. In any event, to counter such a strategic move, the Indian policy response should cater for the interplay of trade, investment, connectivity and culture.

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