Article

Geo-economics of India's Trade with its South Asian Neighbours

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Abstract

India's global ambitions are intricately linked to its growth as a leading nation as well as its regional influence. Brimming with opportunity yet equally troubled by challenges deep-rooted in its vast expanses, history and extra-regional geopolitics, cooperation in South Asia has proved to be a predicament as unique as the region itself. It is argued that South Asia's performance in terms of socio-economic indicators depends to a large extent on India's geo-economics, and hence, this essay focuses on the use of trade policy in the geo-economics of India with its neighbours. On one hand, trade and investment figures indicate India's position as the gravitational core in South Asia has weakened. On the other hand, it is doing more than ever under the aegis of the "Neighbourhood First" and the "Act East" policy to strengthen connectivity infrastructure at the sub-regional level, given the sombre achievements of the SAARC region as a whole in strengthening regional economic ties. The essay makes pointed recommendations for effective regionalism amongst the South Asian nations.

Since 1947, India has pursued a foreign policy that was aimed at political stability, economic growth and non-alignment with any of the major power blocs. While, under the Constitution, foreign policy is distinctly the subject of the Centre government, border-states have increasingly contributed to shaping the nation's foreign policy. State-

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level economic policies to promote foreign investment, along with India's Neighbourhood First and Act East diplomatic initiatives, have brought economic and strategic interests to the fore - referred to as 'geo-economic interests' in the new parlance. The use of economic instruments to promote and defend national interests, as well as to produce positive geopolitical results, is the synthesis of what is Geo-economics.[1] There are four primary instruments by which governments pursue foreign policy – Diplomacy, Information, Military force and Economics.[2]

Under economic statecraft, *In War by Other Means* [3], Robert Blackwill and Jennifer Harris enumerate seven tools suitable for geo-economic application: trade policy, investment policy, economic and financial sanctions, financial and monetary policy, aid, cyber, energy and commodities. This essay will focus on one of the tools mentioned above, i.e., use of trade policy in the geo-economics of India with its neighbours.

Translating Proximity into Economic Ties

"India's geographical neighbours are her natural markets. India could more profitably trade with these countries, because they are closer to her, because they too are short of hard currency, and because, being at different stages of development, their pattern of production is often complementary to hers. However, little attempt has been made by India to develop this natural sphere of influence", wrote H. T. Parekh in Economic and Political Weekly as early as in 1967.[4] To an extent the statement still remains valid. Though there are many factors that decide trade flows and export destinations – market openness, complementary economic ties, demand, quality and price of supplies, tariffs, logistics, geopolitical factors, and liberal trade agreements, etc., geographical proximity has a strong trade and strategic logic for India. Over the years, India has entered into several bilateral and regional trading agreements – 11 Free Trade Agreements (FTAs) and 6 Preferential Trade Agreements (PTAs).[5] Of these, 6 are with members of the South Asian Association for Regional Cooperation (SAARC), namely – the South Asian Free Trade Area (SAFTA); India-Sri Lanka Free Trade Agreement; India-Bhutan Agreement on Trade, Commerce and Transit; India-Nepal Treaty of Trade; SAARC Preferential Trading Agreement (PTA); and India-Afghanistan PTA. India's first bilateral FTA was with Sri Lanka, which was signed in December 1998 and came into force in the year 2001. Subsequently, India implemented SAFTA in 2004, followed by the Comprehensive Economic Cooperation Agreement (CECA) with Singapore in 2005, Indo-Korea Comprehensive Economic Partnership Agreement (CEPA) in 2010, and Indo-Japan CEPA in 2011, among others.

What remains fairly ambiguous is the impact of these trade agreements, particularly in terms of an increase in trade. According to one school of analysis, after the conclusion of a trade agreement, growth in trade flows can be witnessed between the partner countries. However, the increase in exports may not keep pace with the spurt in imports, as it happened in the case of India.[6] But with the reduction in the cost of imports, industries get greater access to capital goods and intermediate inputs, which might improve competitiveness and efficiency in domestic market[7,8] as is the case in the Indo-Japan CEPA, where post-implementation, India mostly imported industrial supplies, capital goods and transport equipment, while exports remained moderate. Another school of analysis[9,10,11] attributes only a modest increase in trade flows to the signing of a trade agreement, taking the example of the India-Sri Lanka FTA.

Defying the Logic of Proximity

In the case of South Asia, politics trumps economics and trade models fail to make any clear forecasts. The gravity model of international trade shows that total goods trade within South Asia could be worth USD 67 billion rather than the actual trade of only USD 23 billion.[12] Formal trade between India and Pakistan could be 15-fold more than current levels. According to the same research by the World Bank, it is cheaper for India to trade with Brazil than with Pakistan. Trade costs between countries in South Asia are disproportionately high. The average trading cost between country pairs in South Asia is 20 percent higher than among country pairs in the Association of Southeast Asian Nations (ASEAN). Intra-regional trade has remained at less than 5 percent levels. Despite the existence of trade agreements, India's trade with its neighbourhood has remained low— roughly between 2.3 percent and 3.4 percent of its global trade in the last two decades (Table 1).

In the case of South Asia, politics trumps economics and trade models fail to make any clear forecasts.

Table 1: India's intra-regional Trade Share

	2005	2010	2015	2020
India's intra-regional trade	2.8%	2.3%	3.0%	3.4%

Source: Author's calculations with data extracted from trademap.org in September 2022.

To facilitate India's trade with its neighbours, the SAARC Preferential Trading Arrangement (SAPTA) was signed in 1994, followed by SAFTA a decade later in 2004 (which came into force in 2006). Yet, both were continually hobbled by political tensions between India and Pakistan, its two largest members.

Regional Influence and the Role of Other Major Economies

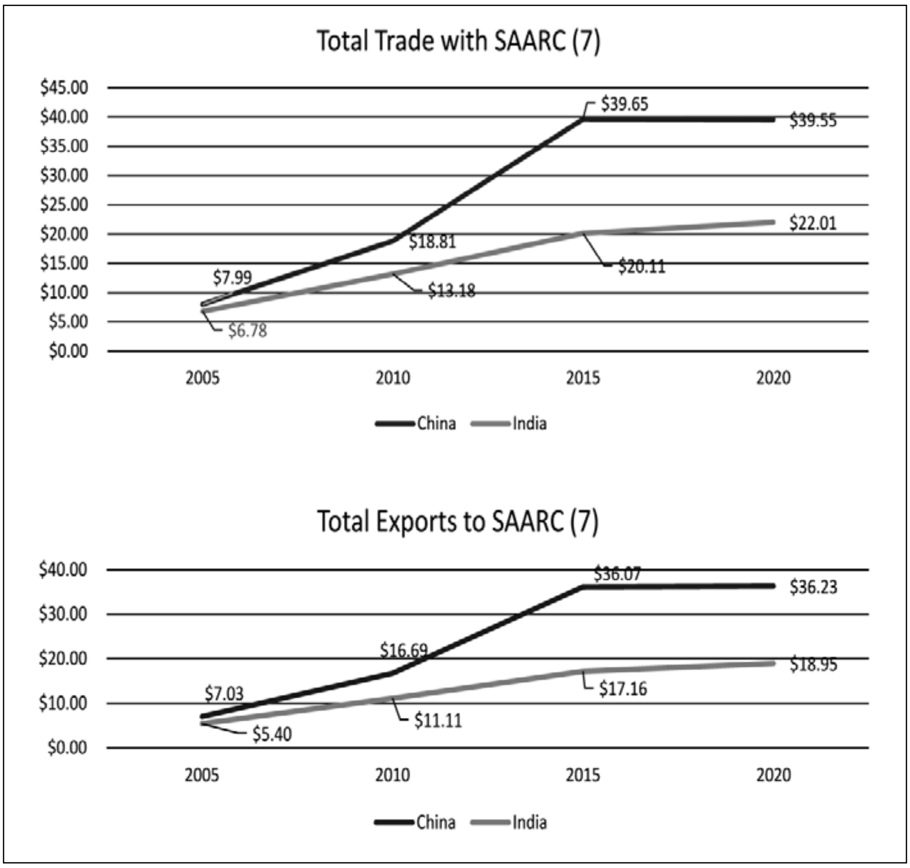
India's global ambitions are intricately linked to its influence as a regional player. Before independence, during the 19th and early 20th centuries, there was an extended period of India's regional primacy, when the then superpower, Britain, had established dominion over the entire neighbourhood extending up to the Indo-Pacific. After independence, in the Nehru era, the three security treaties signed with Bhutan, Sikkim and Nepal during 1949-50 remind us of the persistence of regional primacy. During the campaign for the 1977 general elections, Prime Minister Indira Gandhi was criticised by her opponents for her alleged pursuit of regional hegemony in South Asia. Prime Minister Morarji Desai and his External Affairs Minister Atal Bihari Vajpayee did bring about some correctives towards improved neighbourhood relations, but faced the same criticism. No government since then has escaped the charge by some critics of mishandling the neighbours.[13]

In fact, regional primacy was hard to sustain after independence even within the immediate neighbourhood in the context of the post-Partition and Cold War politico-security challenges, territorial wars, large domestic challenges, state building and developmental tasks. Depending on their political inclination, political economists currently attribute this to several complex factors, China's growing profile being the most common. The big questions are: Whether India is somehow losing its influence in the neighbourhood or it is doing more than ever, or is it the neighbourhood that is losing India? Are the countries of South Asia moving on, escaping the traditional region called South Asia with India as its gravitational core?[14] Whatever be the trend, at a time when India is increasingly concerned about growing Chinese economic and strategic relationships in the region, India could be missing a costless trick[15] for greater trade and economic ties with its immediate neighbours.

Until 2005, India and China were close in their overall trade with South Asia. However, after 2005, as China's export-led growth rapidly expanded across the world and Asia, it consistently increased its trade with South Asia as well.[16] Large exports of

Chinese material and machinery facilitated by the Belt and Road Initiative (BRI) have further pushed up trade figures with most South Asian states (Figure 1). Even India's industry is heavily reliant on China for much of their machinery and component imports. In the case of Bangladesh, China's exports are now about twice that of India. In the case of the Maldives, India's share has gone downwards and China's upwards to slightly exceed India's share in 2020 (see Table 2). China has always had strong military, economic and trade ties with Pakistan. The gap between China's exports and India's exports has increased from about 10 percent in 2005 to more than 30 percent in 2020. Similarly, in the case of Sri Lanka, China's exports have surpassed India's exports to the island country.

Figure 1: Trade of India and China with SAARC Countries (USD billion)



Source: Author's calculations with data extracted from trademap.org in September 2022.

Table 2: Share of India and China in SAARC Countries Imports

	2005		2010		2015		2020	
	China	India	China	India	China	India	China	India
Afghanistan	0%	0%	4%	8%	5%	7%	6%	10%
Bangladesh	19%	14%	22%	10%	29%	11%	30%	16%
Bhutan	0%	26%	0%	19%	2%	72%	1%	75%
Maldives	0%	13%	6%	9%	9%	9%	15%	11%
Nepal	0%	0%	14%	37%	13%	48%	12%	60%
Pakistan	14%	2%	19%	6%	38%	5%	34%	1%
Sri Lanka	11%	23%	16%	27%	23%	29%	25%	21%

Source: Author's calculations with data extracted from trademap.org in September 2022.

The table 3 shows the major destination markets and export sources for India's South Asian neighbours. It is only in Afghanistan, Bhutan and Nepal that India has maintained its position as the lead exporter, but the numbers show China is catching up. This is despite India having 6 trade agreements[17] with SAARC members and China being a signatory only of the China-Pakistan FTA. Its controversial 2017 FTA with the Maldives has been set aside and not ratified by the current government in Male.

In terms of investment, intraregional investments in South Asia are low, at 0.6 percent of the total inward Foreign Direct Investment (IFDI) from the world, and 2.7 percent of the total outward FDI (OFDI) to the world. According to the World Bank research[18], the following are the major constraints to intra-regional investments in South Asia:

- Most OFDI policies in South Asia are restrictive, non- transparent, and discretionary.
- IFDI regimes are more liberalising, but they have their own challenges by global standards, like arduous dispute resolving mechanisms, restrictions on land ownerships, and sector-specific restrictions.
- South Asian firms have low and polarised knowledge about the economic and investment environment in neighbouring countries. This increases information

Table 3: Major Markets and Sources for South Asian countries

	Top 5 Markets	Top 5 Sources
Afghanistan	India Pakistan China Turkey UAE	Iran China Pakistan US Turkmenistan
Bangladesh	US Germany UK Spain France	China India Singapore Hong Kong Indonesia
Bhutan	India Bangladesh Italy Japan Nepal	India Korea China Japan Austria
Maldives	Thailand Germany France US UK	UAE China Singapore India Malaysia
Nepal	India US Germany Turkey UK	India China Indonesia UAE US
Pakistan	US China UK Germany UAE	China UAE US Indonesia Saudi Arabia
Sri Lanka	US UK India Germany Italy	China India UAE Malaysia Singapore

Source: Accessed from World Integrated Trade Solution (WITS), on 16 December 2022.

friction and costs of searching for trustworthy partners. For FDI in services, knowledge-embedded networks are even more important for investment decisions.

- Bilateral mistrust increases transactional and contracting costs of economic engagement.

The table 4 compares the inward direct investment into India's South Asian neighbours, from India, China, the US and Germany. It reflects China's increasing share in terms of investment in recent years.

Table 4: Inward Investment in South Asia, 2021, USD million

	India	China	USA	Germany
Afghanistan, Islamic Rep. of	2	435	13	6
Bangladesh	359	2,204	633	54
Bhutan	63	0	0	1
Maldives	55	72	NA	NA
Nepal	347	463	NA	NA
Pakistan	0	7,485	386	430
Sri Lanka	531	640	148	265

Source: Author's calculations from https://data.imf.org/, accessed on 16 December 2022.

Besides direct investment, development assistance in the form of concessional line of credit is extended by the government of India under the Indian Development and Economic Assistance Scheme (IDEAS) through the Exim Bank of India. As per the latest data, 306 Lines of Credit (LOCs) worth USD 30 billion have been extended to 65 countries across the globe. India's LOC to its immediate neighbours have increased four-fold between 2014 and 2020 to USD 14.7 billion (See Table 5).[19]

The largest concessional credit was given to Bangladesh, including development of two Indian Economic Zones at Mirsarai and Mongla in Bangladesh. Sri Lanka initially received support totalling over USD 1.4 billion, of which USD 400 million was a currency swap, USD 500 million was loan deferment and USD 500 million LOC for fuel imports.[20]

Table 5: India's LOC to select Neighbours, 2022

Bangladesh	USD 8 billion
Nepal	USD 1.65 billion
Sri Lanka	USD 1.4 billion
Maldives	USD 1.3 billion

More recently, following the financial, economic and political crisis in Sri Lanka in 2022, India was the first to respond with a large emergency support of nearly USD 4 billion to Colombo through 2022. It was the largest aid by any country or international institution to Sri Lanka.[21] On the other hand, China, the largest source of loans/debt to Colombo for its various projects, has been reluctant to give a new loan or a debt waiver.

Virtuous Triangle between Trade Connectivity, Infrastructure and Facilitation

Under the aegis of the "Neighbourhood First" and the "Act East" policy, there is a renewed focus on strengthening connectivity infrastructure at a sub-regional level, given the limited achievements of the SAARC region as a whole (see Table 6).

A study[22] conducted on ASEAN countries has aimed to connect trade connectivity and infrastructural development based on estimating a fixed effect panel model. A positive relationship was found between trade connectivity and infrastructure, showing how different modes, including air transport and shipping connectivity play a crucial role in increasing trade connectivity.

Focus on infrastructure is not new. Even during the last five-year plan, 2012-2017, the erstwhile Planning Commission had estimated a requirement of around USD 1 trillion towards infrastructural investment in India and to tap that, the Ministry of Shipping, Road Transport and Highways' top agenda for infrastructural development included doubling cargo handling capacity at ports, connecting all 12 seaports with railroads and setting up of new Integrated Check Posts (ICPs)[23] at land borders.

Table 6: Select Recent Projects Undertaken by India to Improve Connectivity with its Neighbours

Sub-regional	Bilateral	Hinterland
BBIN (Bangladesh, Bhutan, India and Nepal) Motor Vehicle Agreement to realise the full benefit of trade and people-to-people connectivity	A new inland waterways route connecting Tripura to Bangladesh operationalised with the first-ever export consignment of 50 MT cement from Bangladesh reaching Tripura through the Chittagong–Tripura inland waterway route	Sagarmala Programme, the flagship programme of the Ministry of Shipping, Government of India, to promote port-led development and reduce logistics cost for domestic movement
India-Myanmar-Thailand Trilateral Highway project, providing land connectivity with South East Asia	Three substations under the Modi-Lekhnath Transmission Line and Substations Project inaugurated in March 2022 in Nepal, financed under the Government of India's Line of Credit of USD 250 million	Dedicated Freight Corridor aimed at improving connectivity of the hinterland with the ports
Sea-river-land Kaladan Multi-Modal Transit Transport Project giving NER access to the sea	Two entry-exit points at Tamu-Moreh and Rih-Zowkhawthar to increase connectivity with Myanmar	

Over the years, several initiatives have been taken by Indian agencies to improve cross-border trade with neighbouring countries. The Land Port Authority of India (LPAI), has established many ICPs at the border crossings to facilitate the processes of immigration, customs, security, quarantine, etc. It provides modern facilities such as single-window infrastructural facilities, including warehouses, examination sheds, parking bays, weighbridges, etc., for smooth cross-border movement of passengers and goods at designated locations on the land borders of India.[24] Besides infrastructure, it is the facilitation of trade aimed at simplification, modernisation, and harmonisation of export and import processes that has a positive impact on increasing trade.

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Since India ratified the Trade Facilitation Agreement (TFA) of the World Trade Organisation in April 2016, there has been a greater focus and urgency towards implementing measures that cut down export-import-related red tape and make cross-border trade easier. During the TFA negotiations, it was argued that the full implementation of the TFA could reduce trade costs by an average of 14.3 percent and boost global trade by up to USD 1 trillion per year, with the biggest gains accruing to the poorest countries.[25]

In order to efficiently implement the various provisions of the World Trade Organisation's TFA, the National Committee on Trade Facilitation, which was established to oversee the implementation of the TFA in India, has developed the National Trade Facilitation Action Plan (NTFAP) that mandates conducting the Time Release Study (TRS) on a regular basis across ports, in order to comply with Article 7.6 of the TFA. This is particularly important for enhancing the trading experience across Indian borders, especially with the immediate neighbours where geopolitical dynamics are constantly at play, increasing the trade cost.

Assessment of Select Land Border Crossings and Bilateral Connectivity Initiatives

Although trade between the BBIN (Bangladesh, Bhutan, India and Nepal) countries grew six-fold between 2005 and 2019, the unexploited potential remains massive, estimated by the World Bank at 93 percent for Bangladesh, 9 percent for Bhutan, 50 percent for India and 76 percent for Nepal.

Within the BBIN countries, Petrapole-Benapole (along the India-Bangladesh border), Jaigaon-Phuentsholing (along the India-Bhutan border) and Raxaul-Birgunj (along the India-Nepal border) are the busiest trading points and as a result, also the focus of government efforts towards improving logistics and infrastructure. This is reflected in the fast-tracked development of ICPs at different land border crossings, led by the LPAI, a statutory body working under the Ministry of Home Affairs. ICP development is driven, on the one hand, by India's NTFAP commitment to bring down the import clearance time to within 48 hours and export clearance time to within 24 hours at land borders, and on the other hand, by India's popular policies of Neighbourhood First and Act East.

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To provide more context, India's Central Board of Indirect Taxes and Customs, under the Ministry of Finance, conducts annual time release studies at 15 ports in India, which includes two land ports – ICP Raxaul and ICP Petrapole. As per the findings of the National Time Release Study conducted in 2022[26], the import clearance time at ICP Petrapole is 31 hours 18 minutes and at ICP Raxaul is 8 hours 21 minutes.

With a share of more than 40 percent of the overall trade, Raxaul-Birgunj is the most important trade route between India and Nepal (see Table 7). ICP Raxaul,

Table 7: India-Nepal Bilateral Trade and Share of Raxaul-Birgunj

	India to Nepal (USD million)	Nepal to India (USD million)	Share of in Raxaul-Birgunj total India-Nepal trade (%)
2014-15	4559	640	49%
2015-16	3930	471	35%
2016-17	5400	423	45%
2017-18	6597	438	44%
2018-19	7766	508	44%
2019-20	7146	712	45%
2020-21	6766	670	40%

Source: Author's calculations based on data from EXIM Analytics, Government of India.[27]

after being operationalised in 2016, has helped realise mutually beneficial, people-to-people and economic trade ties between India and Nepal. India's exports to Nepal increased by 76 percent in 2016 with the operationalisation of ICP Raxaul. In 2020, India and Nepal launched the construction of a third ICP in Nepalgunj (after Birgunj and Biratnagar in 2018 and 2020, respectively) to boost bilateral trade.

India is Bhutan's largest trading partner. In 2020, India accounted for 82 percent of Bhutan's total external trade, including electricity.[29] Jaigaon (India)-Phuentsholing (Bhutan) is an important trade route for bilateral and third country trade between India and Bhutan – about 60 to 70 percent of India-Bhutan trade is routed via this border crossing (Table 8).[30] Trade between India and Bhutan has more than doubled between 2014 to 2020, which is a result as well as a driver of increased focus on trade connectivity between the two neighbours. In 2020, India opened four trade routes[31] with Bhutan and in November 2021, India and Bhutan announced additional entry/exit points[32] taking the count of entry/exit points to 7.

In 2020, India accounted for 82 percent of Bhutan's total external trade, including electricity.

Table 8: India-Bhutan Bilateral Trade and Share of Jaigaon-Phuentsholing

	India to Bhutan (USD million)	Bhutan to India (USD million)	Share of Jaigaon-Phuentsholing in total India-Bhutan trade (%)
2014-15	334	150	87%
2015-16	469	281	68%
2016-17	509	269	67%
2017-18	542	373	71%
2018-19	657	371	76%
2019-20	715	406	67%
2020-21	694	389	63%

Source: Author's calculations based on data from EXIM Analytics, Government of India.[28]

Bangladesh and India are each other's largest trading partners in the region. As per the latest data, Bangladesh nationals top the list of foreigners visiting India for general tourism as well as for medical tourism. ICP Petrapole, one of the busiest ports accounting for nearly 30 percent of bilateral trade between India and Bangladesh, has been the focus of a wide array of trade facilitation to boost trade and passenger movement between the two neighbours (see Table 9).

Table 9. India-Bangladesh Bilateral Trade and Share of Petrapole-Benapole

	India to Bangladesh (USD million)	Bangladesh to India (USD million)	Share of Petrapole-Benapole in total India-Bangladesh trade (%)
2014-15	6451	377	34%
2015-16	2403	444	82%
2016-17	5190	670	24%
2017-18	3582	686	64%
2018-19	9210	1045	14%
2019-20	8189	650	33%
2020-21	9103	817	20%
2021-22	16156	1978	22%

Source: Author's calculations based on data from EXIM Analytics, Government of India.[33]

Additionally, India and Bangladesh have been leveraging the history and strength of riverine transport in the Ganga-Brahmaputra-Meghna delta. The world's longest river cruise was launched in January this year on the Indo-Bangladesh Protocol route. The North Eastern state of Tripura, whose trade volume with Bangladesh has grown 158 percent in 3 years[34], witnessed the first-of-its-kind arrival of goods by ship through the Chittagong–Tripura inland waterway route, where the trial run in 2020 carried 50 MT of cement from Bangladesh to Tripura. Regarding the rail connectivity, the Agartala–Akhaura railway link, a 15-km long stretch, is under execution and is expected to reduce the distance travelled between Agartala and Kolkata from the existing 1600 kms to 550 kms via Dhaka. Overall, there is continued focus on strengthening connectivity and economic ties with Bangladesh, reflecting in the seven pacts relating to water sharing, railways, space and science that have been signed between India and Bangladesh during the recent visit of Bangladesh Prime Minister to India in September 2022.

According to the LPAI, India will have 24 ICPs along its land borders by 2025, enabling better integration within South Asia, and with South East Asia.[35]

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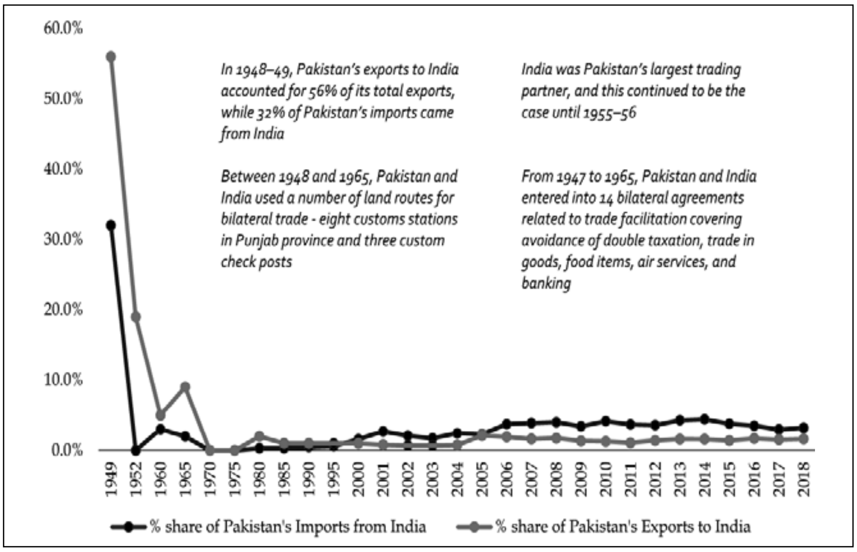
While the momentum is high on the eastern front, progress on the western front is unenergetic. India and its western neighbours – Afghanistan and Pakistan, are signatories to the Transports Internationaux Routiers or International Road Transports (TIR) Convention. The TIR Convention establishes an international customs transit system, of which little benefit has been accrued given the geopolitics of the Afghanistan-India-Pakistan sub-region.

In the case of Pakistan, the trade has become a casualty of continued political differences and terrorist attacks on Jammu and Kashmir. Yet, several attempts have been made to revive the economic relationship, such as amendments in the maritime protocol in 2005, the opening of the Wagah-Attari border for bilateral trade, introduction of cross-Line of Control trade in 2008, setting up of the ICP at the Attari-Wagah border, to name a few (see Figure 2).

Figure 2: Pakistan's Trade with India, 1949-2018 [36]



Source: Brief India, January 2020

Had these factors translated into tangible gains, India and Pakistan could have realised their full trade potential, which is an estimated USD 37 billion a year, according to a recent World Bank report.[37] However, in 2018-19 bilateral trade stood at an abysmal USD 2.5 billion and is currently suspended. While the bilateral trade between India and Pakistan was quite small[38] for its suspension to have any significant impact on the two countries' national economies, the economy of some of the border areas were affected by the halt in cross border-trade.

As described above, barring the Wagah-Attari border with Pakistan, there is a continuous focus by India on strengthening connectivity at various land border crossings with other South Asian states. However, overland trade constitutes only a minuscule part of India's global trade. As per the Ministry of Shipping, around 95 percent of India's trade by volume and 70 percent by value, is moved through maritime transport. India's coastline extends over 7,500 kilometers, with 13 major ports and over 200 non-major ports. It's the development of infrastructure and the capacity of these ports that steers the economic engine of India's trade story. In the recent NTFAP 2020-2023 laid out by the Central Board of Indirect Taxes and Customs, 18 of the 66 provisions related to infrastructural up-gradation. In the last few years, from 2015 onwards, different reforms – both infrastructural up-gradations and regulatory policy amendments -- were undertaken, but digitisation and automation measures have been at the core of the transformation of India's maritime trade ecosystem.

These have led to reduced dwell time at trade gateways, to which a part of the crossing of India's ambitious annual exports target of USD 400 billion in March 2022 can be attributed[39], along with the post-pandemic surge in global pent-up demand and fruition of government initiatives under the rubric of "Atmanirbhar Bharat" (Self-reliant India).

Recommendations

Brimming with opportunity yet equally troubled by challenges deep-rooted in its vast expanses, history and geopolitics, economic cooperation in South Asia has proved to be a predicament as unique as the region itself. Despite experiencing a long period of robust economic growth, South Asia's performance in terms of socio-economic indicators has been far from satisfactory; disparities in the distribution of resources, inadequacies in quality of life, slow social progress and development have plagued the South Asian nations. Many in South Asia believe the benefits of greater interaction and cooperation could be myriad—reaping economies of scale, developing infrastructure and transit linkages, pursuing common objectives, solving shared problems and trans-boundary issues, cohesively managing natural resources, etc.

For regionalism amongst the South Asian nations to prove to be truly effective, some of the following areas can be baby steps to the beginning of good times.

Linking the Landlocked

Except for Chhattisgarh, Haryana, Jharkhand, Madhya Pradesh, and Telangana, all Indian states have an international boundary.[40] Hence, border states have an opportunity to benefit from the growing economic and commercial exchanges with our neighbouring countries.

Nowhere is this more relevant than in India's North-East, which shares borders with five neighbours, namely China, Nepal, Bhutan, Bangladesh and Myanmar. The biggest beneficiary of enhanced land and river transport connectivity would be India's North East. Till the recent initiatives with Bangladesh, the competitiveness in this region was inhibited significantly by the costly and time-consuming need to traverse the chicken's neck – a narrow stretch of land that connects the region with the rest of the country through a 1,600 km journey by road, instead of 450 km through Bangladesh or 200 km to Chattogram Port, which would result in 80 percent lower transport costs.

On the border with Pakistan, Amritsar traditionally has no significant industry. In the absence of India-Pakistan trade, faster execution of the Patti-Makhu rail project[41]—a 25 km long rail link across Punjab between the Patti area in the district of Tarn Taran and the Makhu region in Ferozepur district—would reduce the distance travelled from Amritsar to Mumbai by 240 kms. This rail link will be a boon for traders in Indian Punjab, cutting short the distance between northern states and connecting Punjab with major trade centres in states such as Maharashtra, Rajasthan and Gujarat.

To enable the border states to play a role in India's economic integration with the neighbours, there is a need for a significant mind-set change. Prime Minister Manmohan Singh signalled a new approach when he said, 'I do not have the mandate to change borders; but I do have the mandate to make these borders irrelevant over a period of time.' Though he said this in the context of Pakistan, this principle applies to all the neighbours.

Building Localised Supply Chains in South Asia

With a population of 1.9 billion, South Asia naturally has domestic demand but needs value chains intact to keep supplies from drying. The new post-Covid world order demands building on existing cross-border production and distribution networks – regionally as well as bilaterally between neighbours.[42]

"The Indian private sector should be encouraged to invest more in the neighbourhood. Trade and investment are intimately linked, especially in the form of cross-border value chains. By investing in neighbouring countries, Indian firms can help accelerate regional value chains, increasing the regional trade in parts and components. Firms from neighbouring countries can invest in India to create the same positive impact on regional trade and value chains."[43]

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Trading with a People-centric Approach

One indicator of the strength of a cross-border bond is the extent of people to people contact, and evidence of that includes the Bangladesh-India border haats – local markets along the border, and cross-Line of Control trade – a unique barter system to connect the two sides of the Line of Control.[44] Any economic activity, more so along the borders of India with its neighbours where the cultural affinity is huge, creates an emotional ecosystem that sustains itself on the people of the two sides. The success of these initiatives is a sign that people whose livelihoods are at stake matter more than the geopolitical dynamics of the region.

Another example is the sanitizer supply chain[45] in the wake of the pandemic. After the suspension of India-Pakistan trade in 2019, besides the top traded commodities like cement, cotton and sugar, what was also disrupted was the supply of Indian sanitizers in Pakistani markets and Pakistan's ethanol – a major raw material for sanitizers – in the Indian market, increasing India's dependence for ethanol on the USA. In the interest of the people of the region, an area for immediate policy action is to reshape SAFTA, at least for the 'new essentials' of the post-pandemic era.

Shaping the Right Narrative

As development practitioners, when we talk about South Asia and the levels of intra-regional cooperation, we inadvertently overlook hundreds of students convening for only-one-of-its-kind South Asia students meet; or a South Asian symphony orchestra harmonising a cultural dialogue amongst the region's youth; or an innovative social enterprise breaking taboos around menstruation in the region. The discussion often limits itself to low levels of intra-regional trade and investment, which are indeed of long-standing concern in South Asia.

Initiatives such as the World Bank's Good Neighbours series[46] that documents innovative examples of cross-border cooperation can play an instrumental role in shaping the right narrative about South Asia and in turn, India's role in the region.

Continuing to Facilitate Trade through Simpler and more Harmonised Cross Border Infrastructure and Procedures

India has taken several steps over the years to promote cross-border trade with the neighbouring countries, like, single window infrastructural facilities at various land border crossings in the BBIN, development of infrastructure and capacity of seaports for maritime trade, and other regulatory and digital reforms. Continued focus on mitigating policy, regulatory, operational and infrastructural gaps, in line with the NTFAP 2020-23, is crucial for streamlining the cross-border trade, enabling faster clearance of goods. This is even more important for landlocked neighbours like Nepal and Bhutan, and would boost India's overall trade in the region.

Tapping into the Re-emerging Opportunity as the First Responder to Crisis in the Region

Since the mid-2000s, China has steadily expanded its strategic presence in the region, which in some cases has resulted in unfavourable political and socio-economic consequences, as seen in the case of the economic crisis in Sri Lanka and the Maldives. Two other major recipients of Chinese loans in the region, Pakistan and Nepal, also seem to be in a similar situation with Pakistan facing heavy debts and Nepal's foreign exchange reserves falling.[47] New Delhi has a unique opportunity to strengthen its leadership role and showcase its positive contribution to South Asian stability, re-exercise regional influence and project its approach as a better, people-centric and a viable alternative.

Creating Higher Economic Interdependence

In the recessionary aftermath of the 2008 global financial crisis, countries did not resort to widespread protectionism. In fact, global economic leaders jointly committed to refrain from new trade and investment restrictions for a year. This helped limit, to some extent, the deepening of trade restrictions and the 'beggar-thy-neighbour' policies[48] – where countries address their economic woes, worsening it for other countries - that became widely popular during the Great Depression of the 1930s.

Economic interdependence in normal peaceful times to an extent insulates countries from the uncertainty of geopolitical shocks. As Sharma writes: "Rising intra-regional trade was one of the main drivers of the long economic miracles in Japan, Taiwan, South Korea, and lately China, all of which proved willing to drop old wartime animosities to cut trade deals."[49] Although these are increasingly uncertain and turbulent times, a world in crisis needs both trade and aid!

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