THE LOGISTICS ASPECTS OF THE ECONOMIC SPACE DEVELOPMENT. THE INDIA PART OF THE “NEW SILK ROAD” – CASE STUDY

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ABSTRACT

One of the main factors of socio-economic development is proper and adequate to the needs logistics infrastructure. Of course, the infrastructure development needs huge amounts of funds which developing countries usually cannot afford. But nowadays, the countries of East and Central Asian region face new possibilities connected with the China’s New Silk Road initiative. The project is aimed at about 60 countries, of which most of them are enthusiastic to the idea, except for India. Due to its geographical location as well as economic and political power in the region, India has a significant meaning for the success of the project and that is why it is in the center of Chinese diplomacy. The aim of the article is to analyze the needs and barriers of creating the logistics infrastructure of the New Silk Road Initiative in India. This paper also attempts to find out what are the needs of the Indian economy in terms of ensuring the development and what are the doubts and prompts faced nowadays by India.

INTRODUCTION

According to the previous work of Karwacka (2010) the development is the process of positive changes, quantitative growth and the qualitative progress in territorial arrangement. To achieve the aims of regional development needs the realization of tasks should include creation of proper climate and profitable functional condition for
location and cooperation of new business units. This is the basis for the development because the company’s decisions on the location usually cause the flow of new investments in the future, regular payment of local taxes to the community budget and a wide offer of work places for the local society (Karwacka & Cicharska 2012).

Following Hussain (2015, p. 175) and Dash (2001), in recent years, regionalism has become the engine for the development. Regional cooperation almost always leads to positive gains for all parties involved, but surprisingly in South Asia it has not been very rewarding until now. The South Asia countries such as Bangladesh, China, India and Myanmar (BCIM) have huge development potential, boasting 9 per cent of the world’s total area, 40 per cent of global population and 7.3 per cent of global gross domestic product. India and China are among the fastest growing economies in the world and have the potential to guide the way for successful Asian regionalism. The geographical proximity of these countries makes the region a natural economic zone and creates opportunities to develop a network through regional cooperation.

But there is a need to take into consideration that the basis of all human economic and social activity is the free movement of all resources, such as: information, staff, materials, raw materials, finished products. However, it is important, that the necessary resources should be physically available in the right place and time, in sufficient quantity and at the right price (cost). The implementation of these proposals corresponds to logistics (Chaberek & Karwacka 2012). In this way, the problem of international economic cooperation and integration is focused on the problem of logistics support for the modern economic systems and their internal processes, such as: economic, cultural, commercial, leisure time, etc. All these processes require efficient (in terms of praxeology) logistics support. The efficiency of logistics support is determined by both the efficiency of logistics processes and the efficiency of logistics systems. The logistics systems are necessary to implement any of the logistics process. The logistics process contains many activities and subprocesses, such as warehousing, storage, picking stocks, and more. Logistics processes are designed to provide manufactured goods and services, the utility of time and place, therefore the logistics processes are impossible without the transportation processes (Chaberek & Karwacka). The processes of population and cargo mobility can be partially replaced by the information flows – and that is why, the next significant component of logistics system is a broadly understood information system (Chaberek-Karwacka & Cicharska 2015).

Bangladesh is India’s largest trading partner in the subcontinent, and China emerged as one of India’s largest trading partners in recent years. To improve trade between the four countries, a 1999 Track 2 initiative conceptualized a logistics corridor as a dedicated transnational trade route that follows common trade agreements, enhances free flow of goods and, because of the ensuing market integration, attracts foreign investment. Known then as the Kunming initiative, it was later renamed the BCIM Corridor and became one of the New Silk Road routes (Sahoo, Bhunia & Dhankar 2016). Unfortunately, various apprehensions such as security, both political and economic, have come in the way of realizing this objective (Hussain 2015, pp. 175-176). The aim of the article is to analyze the needs and barriers of creating the logistics infrastructure of the BCIM Corridor and the whole New Silk Road initiative in India. This paper also attempts to find out what are the needs of the Indian economy in terms
of ensuring the development and what are the doubts and prompts faced nowadays by India according to the China’s investment idea.

INDIA’S INFRASTRUCTURAL NEEDS

The situation of logistics infrastructure in India is determined by some variable factors, for example, the geographic characteristics. India is bordered on the north by the Himalaya Mountains. For this reason, creating road and rail connections from this direction is a major undertaking. However, in the south, the Indian peninsula is well suited for sea harbors. India is the country with the world’s second-largest population. But the population is unequally distributed, creating a major challenge for logistics service providers (Logistics in India 2007).

In the process of globalization, which is expanding India’s position in world trade, transport volume has climbed rapidly in recent years. The expansion of the logistics infrastructure has been unable to keep up with this pace. For this reason, transport capacities have already reached their limits. The transshipping times for ships in Indian harbors are three to four times longer than the average time in the West. Logistics costs are also very high in international comparison because of the poor infrastructure (Logistics in India 2007).

Road transport is especially important for India’s transport system. India has one of the world’s largest road networks, with a total length of 3.3 million kilometers. But much of this network does not meet Western standards. The government is trying to introduce counter-measures and shift freight transports from the roads to the rails. But first, the rail infrastructure must be expanded and the connections to harbors and airports improved. As national highways in India are built and road transports are increasingly liberalized, the productivity of road shipping will rise in years ahead (Indian Logistics Focus on infrastructure 2014).

In terms of logistics, India remains a developing country in many areas. For instance, it has hardly any multimodal logistics centers. Despite its good geographic position, India has also been unable to evolve into a hub for international freight transports, like Dubai. In regional terms, India lags behind logistics centers like Singapore, Thailand and Hong Kong. Currently, India is moving forward with a plan to turn the country’s 12 main harbors into integrated freight hubs. Many of these harbors do not have the rail and road connections needed to handle the transport volume of ships. Containers frequently sit for weeks in the harbor before they can be transported (Logistics in India 2007).

For any economy, the logistics sector, encompassing transportation, warehousing, cargo consolidation and border clearances, would form the backbone of its trade, and associated economic activity and growth of key sectors. But in India congestion witnessed on roads and ports, longer dwell times on ports, longer overall transit times and overloading of trucks leading to faster deterioration of road infrastructure make this sector inefficient. The cost of trading whether by sea, land or air forms a critical component of the final price of a commodity. Actually, nowadays, only an efficient logistics system can reduce this cost, providing a competitive edge and propelling
economic activity. And there is a huge opportunity for logistics industry players in India (Indian Logistics Focus on infrastructure 2014).

Following the Deloitte report (Indian Logistics Focus on infrastructure 2014), the fast growing India economy with the largest consumer markets and the industries such as automobile, pharmaceuticals, FMCG and retail will drive high demand for logistics in the future. Further impetus will come from the increasing emphasis on enhancing manufacturing and exports. The current stress on the logistics system and its performance suggests that one of the key issues is inadequacy of transportation logistics infrastructure. In recent years, the Indian government has accorded high priority to this and allocated greater public budget to boost overall infrastructure spending. The government has opened up the sector to private investment to bring in better technology, operational efficiencies and other best practices. Initiatives have been taken to facilitate private participation and attract private, foreign and multilateral finance to the sector. Of course, global and domestic economic slowdown over the past two years has stymied overall infrastructure creation. Creation of infrastructure was also delayed because issues related to environmental clearances, land acquisitions as well as sector-specific challenges, that stalled financial closures for awarded projects or impacted investor interest for new ones. Under such conditions, India should search for new solutions, additional founding from variety of sources and entirely new impulse for the development of market demand.

THE NEW SILK ROAD INITIATIVE AS THE RESPONSE FOR INDIA'S NEEDS?

The BCIM initiative is a part of wider China's project of the New Silk Road (Hussain 2015, p. 175). It is to be the economic corridor project, along the old southern Silk Route, which envisages the building of transport, energy and telecommunication networks. The aims of the BCIM initiative include building the combination of road, rail (actually, China has decided to build a 3,000 km long high speed railway line connecting Kunming province in the south west of China side with state capital of West Bengal, Kolkata (China launches Kunming-Kolkata rail line 2015, p. 24), water and air linkages in the region that would facilitate transnational flow of people and goods, minimizing cross-border trade barriers, ensuring greater market access and enhancing trade, tourism, investment and economic growth (Hussain 2015, p. 175). The complexity of that route makes it the “One Belt One Road” (OBOR) initiative. The OBOR involves building a host of new infrastructure connections between China, Russia, Central Asia and the Indian Ocean. A complementary series of ports and other infrastructure projects across the Indian Ocean called the Maritime Silk Route (MSR), land-based connections with the Indian Ocean, including the China–Pakistan Economic Corridor (CPEC) and the proposed Bangladesh–China–India–Myanmar Economic Corridor (BCIM) (Brewster, 2015). The maritime dimension consists of a network of ports and other coastal infrastructure from China's eastern seaboard stretching across South East Asia, South Asia, the Gulf, East Africa and the Mediterranean, forming a loop terminating at Piraeus (Greece), Venice (Italy) and Rotterdam (Netherlands) in Europe and Mombasa (Kenya) in Africa. One should also add that the OBOR project also includes a Digital Silk Road and a Silk
Road in Cyber Space. There is a proposal for a cooperative Internet Plus Plan which would link the OBOR countries to a super-fast broadband network (Saran 2015).

The main objectives of the OBOR project are: enhancing policy coordination across the Asian continent; trade liberalization; financial integration; and connectivity including people to people links (Saran 2015). However, because the project has met with skepticism from some of the neighbors (Sekhani 2016), the Chinese Premier Xi Jinping presented in 2015 additional “five-point proposal aiming at jointly building the New Silk Route Economic Belt” (Firdous & Dar 2014, p. 71) to calm partners and to soften own image (Chou & Bryant 2015, p. 4). The Five Principles of Peaceful Coexistence are (Vision and Actions on Jointly Building Silk Road Economic Belt 2015):

1. Mutual respect for each other’s sovereignty and territorial integrity;
2. Mutual non-aggression;
3. Mutual non-interference in each other’s internal affairs;
4. Equality and mutual benefit;
5. Peaceful coexistence.

China is extremely engaged in the project. The proposed OBOR is an approximately US$1.4 trillion project. China claims to be willing to make a huge financial commitment upwards of US$300 billion in infrastructure financing for the project in the coming years, though some multilateral and bilateral pledges may overlap. Underscoring China’s commitment, the official China Daily reported on 28 May 2015 that Beijing plans to invest US$900 billion. The OBOR is planned to be completed over 35 years, in time for the 100th anniversary of the People’s Republic of China in 2049 (Ranade 2016). The main reason for those investments from China’s side is that the Chinese economy needs a new momentum for balanced growth (Sahoo 2015). In fact, the OBOR is therefore part of an economic strategy that will enable China to deal with the problem of massive overcapacity in its industry. The infrastructure to implement OBOR will require vast amount of construction materials and capital equipment, sectors where China has vast unused capacity. There will also be an incentive to export skilled and semi-skilled labor employed in these sectors, also rendered surplus by a slowing Chinese Economy (Saran 2015). The Silk Road Economic Belt is projected to be completed by 2025 (Brown 2016, p. 70). However, the complete realization of the project as estimated will take about 35 years which will mark the 100th anniversary of the foundation of People’s Republic of China in 2049 (Sekhani 2016).

DOUBTS AND PROMPTS

The China’s OBOR initiative has triggered both positive and negative responses. On the one hand, many countries hope to benefit from this project and express their hope to actively participate. The initiative has attracted interest from more than sixty countries and international organizations. However, unlike most of the ASEAN and South Asian countries who have welcomed the idea of OBOR, India has not. The project has several implications for India. The most significant are related to security, trade and economic power (Sekhani 2016).
In the opinion of Sekhani (2016) this is worrisome for India as Chinese will eventually increase their military presence in Indian Ocean and will reshape the economic arrangement in the regions. Further, the planned railway route expected to link Pakistan and China via Pakistan occupied Kashmir will be of strategic importance in the event of conflicts with India and will facilitate China to supply missiles and spare parts to Pakistan. Ahmad (2016) has similar opinion that OBOR could in fact be the vehicle for China’s influence, if not hegemony, across Asia. Junxian and Yan (2016, p. 106) named China’s strategy even stronger, not only as a “new kind of neocolonialism” in the region, but also consider OBOR as part of China’s challenge to US hegemony and the ambition to become the center of the world. In fact, the OBOR initiative requires cooperation among many countries that are politically unstable, corrupt or experience high levels of civil conflict. This creates considerable risks for the implementation and operation of integrated infrastructure projects (Brewster 2015). Security is a very important aspect of BCIM. Aneja (2015) also quotes the opinion that ethnic insurgencies, terrorism, drug trafficking and the accompanying spread of HIV infections, antiques smuggling, as well as cross-border human trafficking, threatened to derail the project.

Leaving aside military threats, it is certain that the implementation of OBOR will have China’s economic dependency of the participating countries. The strategy of disbursing them large sums as loans and aid will enhance the financial power that China already exercises through its trading relationship (Ranade 2016). Qambrani and Qambrani (2016, p. 27) warn that receiving huge financial foreign investments can lead to economic crisis if the foreign financial help will be unreasonably managed. “In order to boost economic development, it is essential to overcome a series of hindrances in way of economic development including long awaited improvement mismanagement, lack of will, interest and initiatives from top to bottom, preference to personal interests on public interests at significant level and ignorance of making effective education system and not taking serious steps to control corruption”. All those warnings concern every country which cannot financially afford the investment in the same amount as a partner (Saran 2015). Additionally, the Bangladesh-China-India-Myanmar (BCIM) corridor is not feasible for India. Opening the BCIM would mean that Chinese goods – neither Myanmar nor Bangladesh produce goods in demand in India – will flood India’s northeast where poor connectivity presently makes access difficult for Indian products and people (Ranade 2016). The same is underlined by Sahoo (2015) who claims that OBOR connections will open new markets for Chinese firms and a chance for underdeveloped part of China to industrialize, develop and modernize (Sahoo 2015).

On the other hand, there are a lot of statements and publications which try to convince India to join the OBOR initiative starting from BCIM project. First, India cannot allow itself to be left behind. Higher output along with quality infrastructure connectivity with participant countries will make Chinese manufactured goods like steel, petrochemicals, telecommunication cement and machinery globally more competitive than ‘Make in India’. There are also other examples, like the Kashagan oil field sale in Kazakhstan 2013 to Chinese energy firms like CNPC and CNOOC instead of an Indian company and termination of international airport contract given to an Indian company by the Government of Maldives. Given that OBOR initiative of China may hamper India’s efforts in increasing its share in global trade and commerce, India needs to have strategy of its own (Sahoo 2015). The question is whether India has enough power to compete
with China. Sahoo (2015) argues that “the best is to join them if you cannot fight them”. The truth is that OBOR is multi-trillion dollars’ project passing through many different countries and China alone cannot lead it without taking India on board. This way India should partner and negotiate to gain maximum economic and geopolitical advantage out of the Corridor.

Sekhani (2016) presents more political arguments for the India’s participation in the OBOR initiative. China is investing huge amounts of money in India’s immediate neighbors. More south–east Asian nations coming under China’s sphere of influence would result in a serious setback to India’s traditional concept of the subcontinent as its privileged sphere. Further, the project, though an informal channel at present, offers an alternative against the US-led Trans-Pacific Partnership (TPP) in the Asia-Pacific and Transatlantic Trade and Investment Partnership between the European Union and United States. Moreover, India and China are members of the BRICS Bank which aims to offer financial support for infrastructure projects and sustainable development. By refusing to be the member of OBOR, India’s infrastructure needs may get neglected.

The main argument of the supporters is to show the example of the European Union’s success. According to Hussain (2015, p. 178–179), the benefits of regional cooperation can be unmistakably seen in that case. Despite economic downturn in certain European Union countries, the total value of goods traded in EU increased by 19.1% from 2005 to 2010, from EUR 6.6 trillion in 2005 to EUR 7.9 trillion in 2010 [the numbers do not show so high after the financial crisis has started]. Farther, Hussain claims that if Europe, with the history they share, can shed all inhibitions and come together, then there seems no logical reason for Asia to not do the same. “It stands to reason that India will cease to be wary of the BCIM just because it was initiated by China”.

Some other economic arguments are shown by Sahoo, Bhunia and Dhankar (2016). It is obvious that India’s North East and China’s Yunnan province are underdeveloped regions of India and China and that these two regions can benefit from BCIM project. It could lower transportation costs by 30% and escalate already growing Sino–Indian trade through the BCIM Corridor. International trade is a two-way traffic and when India and China open up to each other, both will benefit from the increased trade and commerce, along with the bridge nations – Bangladesh and Myanmar” (Hussain 2015, p. 185). Additionally, among the many sectors that BCIM could look at for cooperation is the energy sector. India has already announced it would supply 100 MW of power from the Palatana power plant to Bangladesh as a hallmark of cooperation with Bangladesh, which ensured the smooth passage of heavy project equipment and turbines to Palatana through its territory by road and waterways from Haldia port in West Bengal (India China Bangladesh Myanmar economic corridor planned 2014). Sub-regional cooperation can collectively utilize hydrocarbons in Bangladesh, hydel and mineral resources in North Eastern India, natural gas reserves in Myanmar, and coal reserves in East Indian states like Odisha, Chhattisgarh, Jharkhand and West Bengal (Sahoo, Bhunia & Dhankar 2016). The only question is whether India really needs the Chinese umbrella to strengthen the collaboration in the region.

According to Kumar (2016) India plays a significant role in the region and has some unique attitudes which China misses. India should use its power in negotiation with China. Up to now India has done a lot to make sure that the China international policy is not inhibiting its interests and trade. For example, India has secured the Chabahar port...
in Iran, which allows India easier access to oil from the Gulf states. Additionally, it is in a better strategic location to the Chinese port of Gwadar near Karachi, undermining the CPEC (China-Pakistan Economic Corridor). The other connectivity project with which India is associated is the International North-South Transit Corridor (INSTC). The INSTC had initially brought together India, Iran and Russia in an effort to create multi-modal links (ship-rail-road) from India to Europe, via the Gulf, Central Asia and Russia. The partnership was later expanded to include Turkey and the other Central Asian republics (Ahmad, 2016). India has strengthened alliances with the Maldives and Sri Lanka. Both countries have agreed to not build Chinese bases and Maldives have let India build a naval and air force base instead. India has spent heavily in Naval investment, and has buffered up defenses significantly in the Andaman and Nicobar Islands, which is a narrow passageway around which the String of Pearls are, allowing India greater capability to resist Chinese aggression. India has initiated deep co-operation with Vietnam by providing Vietnam with radar and naval assets, in exchange for a port and oil refining capability for ONGC in Vietnamese waters. India improved relationships with Bangladesh and Myanmar and with other South-East Asian countries as part of its Look East policy, as these countries have a deep historical and cultural alliance (Kumar 2016). Asia is a continent that is rich in resources but unable to move these to markets where they are required. Both countries, China and India, accept the importance of expanding connectivity inside and outside the region. But only if connectivity projects were to be negotiated among the various stakeholders and decisions taken in accordance with the cooperative spirit, the strategic value of the projects would increasingly give way to their more important economic value, which would be the true “win-win” that Chinese policymakers have been emphasizing lately. This would open the space for an active Indian role in respect of projects that serve its interests (Ahmad 2016).

CONCLUSION

The playing out of this story has major implications, because in case China succeeds with the global strategy underlying OBOR, India may well be consigned to the margins of both land and maritime Asia or become, by compulsion or by choice, a subordinate component of the Chinese-dominated network (Saran, 2015). In Saran’s (2015) opinion, India is only one country which has the potential to catch up with China and even overtake it. From an Indian perspective, it is apparent that the One Belt One Road initiative of China will seriously hamper India’s efforts in increasing its share in global trade and commerce, if India chooses to stay out. India should therefore not miss the bus and strive to gain maximum economic and geopolitical advantage out of the Corridor. To begin with, India should seek to add more Indian nodes in the existing plan of the OBOR Scheme. It is evident that India needs to actively engage in the development of the project, right from the beginning. The OBOR project provides India a perfect opportunity to attract foreign capital, to tap new markets and make good economic returns by investing in infrastructure and industrial corridors along the Belt and the Road. India can also enhance her international prestige by playing the role of an international mediator between an aggressive China and a suspicious West (Sekhani 2016).
One thing is certain. If India waits too long with making a clear decision and taking specific actions in relation to the OBOR initiative, China might solve India’s problem in other way and gain too much competitive advantage in the Eurasian market, which India will not be able to make up for.

REFERENCES


