

# Impact of Belt and Road Initiative on India-South Asia Regional Trade Integration

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## Abstract

Belt and Road Initiative (BRI) is a standout amongst the latest and remarkable regional economic integration strategies of Chinese government. This initiative incorporates South Asia which is a piece of Asian territory. From past researches we came to know that regional trade intensity among south Asian nations is low. The majority of the analysts finished up by computing the general list at beneath 0.5. Notwithstanding various multilateral and reciprocal Free Trade Agreements (FTA) exchange coordination did not increment attractively. India has reciprocal FTAs with every south Asian nation. Also this sub region is among the significant exchange accomplices of India. There are double suppositions of India about Chinese BRI initiative. In this research we found an answer of an inquiry that, regardless of whether BRI has sway on trade coordination among India and south Asian nations. We utilized a blended gravity model equation from Hayakawa et.al (2015) and Weerehewa (2009) inquire about papers to assess the aftereffects of variables.

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**Index terms**— belt and road initiative (BRI), free trade agreement (FTA), trade integration, strategic outcome, bilateral trade.

## 1 Introduction

South Asian countries have more or less same cultural, economic and social background. To foster the regional economic, social and cultural relationship there are some multilateral, bilateral initiatives among countries. Formation of SAARC (South Asian Association of Regional Cooperation) in 1985 was a flagship initiative of Bangladesh to enhance regional integration among south Asian countries. South Asian Preferential Trade Agreement (SAPTA) in 1995 aiming to promote and sustain aiming to promote aiming to promote and sustain mutual trade and economic cooperation within this region. Afterword, South Asian Free Trade Agreement (SAFTA) came into force on 2006 (Rasul, 2009). This treaty proposed 20% reduction of tariff rates at first place then zero tariff rate for developing countries to liberalize international trade. According to World Trade Organization TAO (Tariff Analysis Online) database China is among the top major trade partners of south Asian countries. Moreover, China is an observer country in SAARC agreement. The most recent noteworthy regional trade enhancement initiative was initiated in 2013 by Chinese Government. South Asian countries and China signed a memorandum of Understanding (MOU) with China about the establishment of Asian Infrastructure Investment Bank (AIIB) and Silk Road Fund. This project "Silk Road Fund Company Limited" is funded by Chinas US\$4 trillion foreign exchange reserves, the China Investment Cooperation, Export-Import (EXIM) bank, Bank of China and China Development Bank. This initiative is named as Belt and Road Initiative and Maritime Silk Road. This initiative planned to connect south Asia and China with three economic corridors namely Bangladesh-China-India-Myanmar Economic corridor (BCIM), China-Pakistan Economic Corridor (CPEC), Trans-Himalayan Economic corridor. BCIM corridor is expected to connect Bangladesh, India (Kolkatta), China (Kunming) and Myanmar in a connected road transportation. CPEC corridor connects Pakistan, China and Afghanistan with Middle East and Europe. Gawder port in Pakistan has become the hub for easing oil

transportation from Middle East. Trans-Himalayan economic corridor is expected to connect Nepal and China with some neighboring countries. The main focus of this regional corridor is to expand the power generation capacity.

Because Nepal, Bhutan are potential countries to generate power. Among all south Asian countries, India has Free Trade Agreements with all of the south Asian countries (Chung, 2018). The present article, the author uncovered the strategic and economic outcome of Chinese BRI (Belt and Road Initiative) in enhancing intraregional trade among India and south Asian countries.

## 2 a) Theoretical and Conceptual Framework

### 3 i. Regional Trade Analysis

There are huge regional trade agreements in the world. While discussing about the theoretical aspects of regional trade agreements Bacchetta et al. (2016) mentioned several methods to estimate the impacts of regional trade agreements. Some methods are shortly described in the following. a. Regional Intensity of Trade It lists measure, based on existing exchange streams, to what degree nations exchange with one another more seriously than with different nations, along these lines giving data on the potential welfare impacts of a regional integration agreement.

### 4 b. Trade Complementarity

Trade Complementarity indices presented by Michaely (1996) measure the degree to which two nations are "common exchanging accomplices" as in what one nation sends out covers with what the other nation imports.

### 5 c. Real Effective exchange rate

This is a proportion of the local economy's cost intensity opposite its exchanging accomplices. The development of the REER is regularly a decent indicator of approaching parity of-installments emergencies.

### 6 d. Terms of Trade

Terms of Trade are the relative cost, on world markets, of a nation's fares contrasted with its imports. On the off chance that the cost of a nation's fares rises with respect to that of its imports, the nation improves its buying power on world markets. The two most regular markers are bargain terms of exchange and salary terms of exchange. We should dissect them thus.

### 7 e. Comparative Advantage

The most famous demonstration of the gains from trade with this concept has appeared in David Ricardo's Principle of Political Economy and Taxation book. If two countries have same absolute advantages of producing textiles and clothing product but at the end the country having comparative advantage of that product will gain in trade by producing this product (Navarro, 2019) The system concession to SAPTA was finished and marked in 1993 by SAARC member nations (Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka). The SAPTA came into power in December 1995 after finish of first round of exchanges in April 1995. Four rounds of exchange dealings had occurred under the aegis of the SAPTA and it has graduated into South Asian Free Trade Area (SAFTA) in 2004, which happened in 2006 with the target of making a FTA to incorporate eight South Asian nations. Afghanistan was given the participation of SAARC in year 2005. It was concurred that SAPTA is a venturing stone to larger amounts of exchange progression and monetary co-activity among SAARC member nations. The Agreement mirrored the craving of the part states to advance and support common exchange and monetary participation inside the SAARC district through the trading of concessions.

### 8 Indo-Sri Lanka free Trade Agreement (ISFTA)

The Indo-Sri Lanka Free Trade Agreement was marked in 1998 having the goal of advancing economic relations among India and Sri Lanka through the extension of exchange and the arrangement of reasonable states of rivalry for exchange among India and Sri Lanka. The point was to expel boundaries to exchange accomplishing agreeable improvement and extension of world exchange. The contracting parties additionally consented to build up a Free Trade Area with the end goal of free development of merchandise between their nations through disposal of taxes on the development of products.

### 9 Bhutan-India Free Trade Agreement

Bhutan India FTA was marked in 2006 with the target of growing two-sided exchange moreover, joint effort in financial improvement of part countries in India and Bhutan. It came into force in July 2006 and plan to stay in power for a time of ten years.

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## 10 India-Afghanistan preferential Trade Agreement

India-Afghanistan PTA was marked in 2003 for fortifying intra-local financial participation through expulsion of obstructions to exchange and the amicable advancement of national economies. It is in power since 2003.

## 11 India-Bangladesh Trade Agreement

The first reciprocal exchange understanding among India and Bangladesh was marked in 1980 for a multiyear time span. The revised understanding between was marked in 2006, perceiving the need and prerequisite of part countries to investigate all conceivable outcomes, counting monetary and specialized collaboration, for advancement, assistance, extension and enhancement of exchange between the two nations based on correspondence and common advantage.

## 12 India-Nepal Trade treaty

This PTA was marked in 1991 and in power since 1991. The goal of the understanding was to Volume XXI Issue I Version I 10 ( ) countries and consequently build up their economies and to be persuaded of the advantages of common sharing of logical and specialized learning and experience to advance common exchange.

## 13 Bay of Bengal Initiative for Multi-Sectoral Technical

and Economic Cooperation (BIMSTEC) Free Trade Area BIMSTEC was developed in 1997 as a linkage among South and Southeast Asia. The member nations were Bangladesh, India, Sri Lanka and Thailand. Previously this was known as Bangladesh, India, Sri Lanka, Thailand Economic Cooperation (BIST-EC). Nepal, Bhutan additionally took their enrollment in 2004. The understanding was shaped for strengthening monetary collaboration inside the nations and to completely understand the capability of exchange and improvement for advantage of their countries. BIMSTEC go about as a stimulus to the reinforcing not just monetary collaboration among collaborators yet additionally bring down the costs, increment intraterritorial exchange and venture, increment financial proficiency, make a bigger market with more noteworthy openings and bigger economies of scale for organizations of the gatherings and upgrade the engaging quality of the accomplices to capital and ability.

## 14 Asia Pacific Trade Agreement

APTA was shaped in 1975. Initially it was known as the Bangkok agreement. It is the most seasoned particular exchange agreement among neighboring nations in the Asia Pacific Region. Bangladesh, China, India, Republic of Korea, Lao PDR and Sri Lanka are the members in this understanding. It goes for advancing local exchange through trade of commonly concurred concessions by the member countries.

## 15 II.

## 16 Methodology

In this present research, authors followed the quantitative research methodology. Table 1 summarized all the variables for this present research. The present researcher used gravity model analysis to find the impact of BRI on intra regional trade integration among south Asia and India. We can see that in table 1 there are two articles for variable sources and the last column is database for respective variable. Besides these variables present researcher used some dummies (SAPTA, and APTA) as estimated by Weerehewa (2009). The present researcher added BRI (Belt and Road Initiative) dummy to estimate impact of this noteworthy initiative on trade integration with south Asia and India. For estimating variables author used STATA software.

## 17 Empirical Model Specification

Gravity model equation could be used to find impact of regional trade integration. This model firstly proposed by Tinbergen (1962) and Poyhonen (1963). Ma Jiliang and Balezentis Tomas (2017) used their gravity model to estimate the impact of BRI on trade of central Asian countries with China. Their analysis revealed that one more initiative year will increase agricultural trade with central Asian countries and China by 8.8%. For the present study researcher used two gravity model equations. Equation 1 is developed by Hayakawa et al. (2015). They used this model to estimate impact of RTA dummy on regional trade creation. Their estimated result pointed out tariff reduction by RTA has positive and significant impact on regional trade creation. Equation ?? For the present study, research choose the following equation 3 to estimate impact of Belt and Road (BRI) initiative on trade integration among India and south Asian countries (Bangladesh, Pakistan, Afghanistan, Nepal, Bhutan, Maldives, and Sri Lanka).  $\ln \text{Imports}_{ijt} = \beta_0 + \beta_1 \ln \text{MFN}_{ijt} + \beta_2 \log \text{ExGDP}_{jt} + \beta_3 \log \text{ImGDP}_{it} + \beta_4 \ln \text{Exchange}_{ijt} + \beta_5 \log \text{Dist}_{ij} + \beta_6 \text{APTA}_{it} + \beta_7 \text{SAPTA}_{it} + \beta_8 \text{BRI}_{it} + \epsilon_{ijt}$  (Equation ??)

Here,  $\text{Imports}_{ijt}$  is bilateral trade between India and each of south Asian countries, MFN is the Most Favored Nations tariff rates,  $\text{ExGDP}_{jt}$  is exporter countries GDP,  $\text{ImGDP}_{it}$  is importer country's GDP,  $\text{Dist}_{ij}$  denotes distance of each countries of south Asia with India, and lastly, APTA (Asia Pacific Trade Agreement), SAPTA (South Asia Preferential Trade Agreement) and BRI (Belt and Road Initiative) are dummy variables.

IV.

## 18 Data Analysis

Table 2 summarizes the coefficients of estimated variables. In this present research dependent variable is bilateral imports (Imports  $ijt$ ) with south Asian countries and India. The present researcher choose eighteen years data from 2000-2017. According to World Integrated Trade Solutions (WITS) database, raw materials product line is among most traded products among south Asia and India. In this present research we choose this one product. According to the Hausman test p-value (0.0001), we did the fixed effect analysis to estimate variables. From results, we can find that, tariff rates (MFN simple average), distance has negative and significant impact on bilateral imports. These results comply with Weerehewa (2009) and Jiliang (2017). They argued that if countries have long distance from each other then they will trade less because of higher transportation cost. The same is true for tariff rates. Higher tariff rates reduce trade volume and lower tariff rates increase in opposite. Dummy variables, SAPTA (South Asian Association of Free Trade Agreement), and BRI (Belt and Road Initiative) have positive and significant impact on import trade. For these, significance level p-value falls below 5%. On the other hand APTA (Asia Pacific Trade Agreement) has positive but not significant impact on bilateral imports. Lastly, exchange rate has a positive and significant impact on trade. According to Ayakawa et al. (2015) this variable should have negative and significant impact on trade. Though this result does not comply with the literature but for south Asian countries all of them has depreciated currencies but bilateral trade has very positive trend. So, we can say that this might be true for this sub region. Moreover GDP (Gross Domestic Product) of importer and exporter countries have positive and significant impact on bilateral trade. So, from the results we can say that BRI (Belt and Road Initiative) of China has positive and significant impact on regional international trade creation among India and South Asia. V.

## 19 Discussion

The aforementioned data analysis and theoretical base show the pathway that regional trade agreements have positive and significant impact on trade. In this research we attempted to estimate the impact of BRI on bilateral regional trade with India and south Asian countries. In this subsection present researcher has discussed the present updates about regional trade and influence of BRI.

## 20 ? Infrastructure rebuilt

Major projects of Chinese government in BRI initiatives are sea ports and airports. Gawder port construction is a notable infrastructure among all of the sea ports. On the other hand Colombo port and Hambantota port in Sri Lanka facilitated this country to be a hub nation among south Asian countries. Restructuring of these ports are costly and some researchers talked about the losses of government of Sri Lanka. But recent initiatives of Sri Lanka to initiate Economic and Technology Cooperation Agreement (ECTA) and Multi-Country Consolidation (MCC) are marks to increase trade among south Asian countries, East Asia and other developed countries as well (The Economic Times, 2018). Recent investment of China in Bangladesh to reconstruct the Chittagong port is also a strategic and economic benefit for Bangladesh and south Asian countries. Now this sub region is formulating the look east policy to enhance inter regional trade connectivity. Maldives is a nation of natural beauty and tourism (Chung, 2018). Previous researchers mentioned that in Maldives every year huge tourists visit. BRI investment in this country focused on rebuilding tourism sectors.

## 21 ? Strategic opportunities

BRI initiative of Chinese government has created more strategic opportunities for south Asian countries. Besides the improvement of infrastructures of this sub region several opportunities opened as well. From literatures we came to know that, India has a very strong influence in all south Asian countries. According to the hub and spoke theory the nation which has more FTAs with the regional countries could be named as hub nation. Furthermore, hub nations are also influential in that sub region also. On the other hand Pakistan and India also has some bilateral disputes with each other.

The BRI initiative could reduce the dominance of India over south Asian countries (Chung, 2018). Moreover could ensure several opportunities for international trade as well. Bangladesh is considered as the transit nation for Chinese BRI initiative to enter into the eastern Asia. In this case Bangladesh can be strategically connected with eastern Asia and also collect tolls from the friendship road. Besides all opportunities there are some loopholes also. For protecting national interest nations should decide the best option with optimum national welfare. ? Strengthening regional FTAs BIMSTEC was formed among regional countries during 1997. But the negotiations started in 2014 among countries to rejuvenate the multilateral relationship in this sub region. After the BRI initiative in 2013 this negotiation has started. The major initiator country of this negotiation is India (The Economic Times, 2018). On the other hand several bilateral FTAs also signed among south Asian countries after the BRI initiative.

## 22 ? China-India strategic relationship

Scholars of this field are partitioned in two sections. One section believes it's great in international trade then again this relationship is considered as not excellent. Srikanth Kondapalli, a specialist at the Center for East Asian Studies of India's Jawaharlal Nehru University, believes that China just professes to collaborate with Pakistan, Bangladesh, Nepal, Myanmar, and Sri Lanka so as to contain India through the belt and street activity (Chung, 2018). India has played a main remote approach job in South Asia and the northern Indian Ocean area. To keep China from debilitating its impact in the region, Modi promoted 'Project Mausam' in June 2014, which, however still on the planning phase, expects to reinforce participation with the nations in the Indian Ocean area, and covers East Africa, the Arabian Peninsula, Iran, Sri Lanka, and South-East Asia Shiv Shankar Menon, India's National Security Advisor, at that point declared on March 7, 2015, that Seychelles and Mauritius had united India's maritime course of action with Sri Lanka and Maldives in another Indian Ocean security gathering that some have called the 'IO-5' (Rafique, 2015, p. 4). IO-5 will share data and creative capacities to counter oceanic psychological oppression, theft and unlawful angling (Chand, 2014). Notwithstanding, up 'til now, IO-5 is no counterpart for China's 'string of pearls' or 'Maritime Silk Road' as far as the size of vision and monetary speculation.

## 23 VI.

## 24 Conclusion

The specific objective of this present study was to estimate the impact of Belt and Road Initiative (BRI) of China on bilateral trade with South Asian countries and India. South Asian countries have huge resemblance with each other. Among all countries India has the largest GDP and population (WITS, 2019). Despite several bilateral disputes this sub region has several multilateral and bilateral trade agreements. In this present research we applied the gravity model equation to estimate variables. According to the estimated results present research came up with the positive and significant impact on bilateral trade between India and south Asian countries. From the elaborate discussion of the findings present researcher included several recent initiatives and opportunities of south Asian countries to enhance trade with India. On the other hand as we know that Chinese BRI initiative will increase the access of China in the Indian Ocean. To regain and rejuvenate trade relationship with south Asian countries Indian government is initiated several projects like BIMSTEC, several bilateral agreements. To fulfill these trade agreements countries of this sub region also utilizing renovated infrastructures by several plans likewise Economic and Technology Cooperation Agreement (ECTA) and Multi-Country Consolidation (MCC). Renovated ports and airports by Chinese investments also contributing to reduce transportation cost as well.

## 1

Variable identification	Variable sources	Databases
Tariffs for traded commodity	Hayakawa et al.	World Integrated Trade Solutions (WITS)
GDP of importer and exporter country	(2015)	World Development Indicators database
Real Effective Exchange Rates among Countries		World Bank staff calculations based on DataStream and IMF International Finance Statistics data. Website of Central Banks
Export and Import with South Asian Countries and India	Weerehewa	UNcomtrade
Distance	(2009)	CEPII database
		Source: Compiled by author

## III.

Figure 1: Table 1 :

has developed by Weerehewa (2009). Author estimated trade facilitation measures to analyze the impact on food and agriculture trade among south Asian countries. Researcher concluded by saying bringing down trade costs by over 17% and improvements in LPI (Logistic Performance Indicators) by 0.72%, resulting in an increase in the value of agriculture trade of 18% and 27% respectively.

[Note: Imports]

Figure 2:

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Independent Variables	GLS Importijt	OLS Importijt	OLS Importijt
MFN simple Average	-0.001 (0.58)	-0.001 (0.58)	-0.001 (0.58)*
logImGDP	0.051 (0.75)	0.051 (0.75)	0.051 (0.75)**
logExGDP	-0.078 (0.99)	-0.078 (0.99)	
logdistance	-0.323 (2.14)**		
APTA	0.007 (0.14)	0.007 (0.14)	0.007 (0.14)
SAPTA	0.080 (2.26)**	0.080 (2.26)**	0.080 (2.26)**
FTAit	0.008 (0.66)	0.008 (0.66)	0.008 (0.66)
BRI	0.074 (2.46)**	0.074 (2.46)**	0.074 (2.46)**
Exchangerate	0.002	0.002	0.002

Figure 3: Table 2 :

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