



## India's Northeast and Southeast Asia Strengthening an Integrated Economic Space

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Economic development of the Northeast and its integration with the rest of India has been accorded priority in the recently released northeast vision 2020 document. As a means to achieving these objectives the government has laid considerable emphasis on connectivity of the region with the rest of India as also its neighbouring countries in Southeast Asia.

The hope of invigorating India's northeast by connecting with Southeast Asia through trade is strengthened as post 1997 east Asian crisis the ASEAN nations in search of their lost economic dynamism have needed to look beyond their traditional sources of growth. Looking west towards India for opportunities and economic synergies is a part of this process for Southeast Asia.

This convergence of interests of the two regions thus needs to be both explored and exploited as it can help shape the future of India's northeast. It is imperative and timely therefore to undertake an analysis of the scope for creation of an integrated economic space that stretches from northeast India to Southeast Asia.

### RATIONALE FOR AN INTEGRATED SPACE

The last two decades have been witness to a withering away of economic distance between nations. The growing economic integration at the global level is reflected in the form of increased international trade and movement of capital.

India has also been impacted by globalization. As a consequence of the outward looking economic policies that India adopted in the course of economic reforms initiated in 1991,

India's integration with the world economy is progressing at a significant pace even though not yet complete. India's foreign trade, which was below \$40 billion in the early 1990s, has risen dramatically to US\$ 414 billion by 2007-08. As per the standard measure of globalization, India's two-way trade as a proportion of GDP has increased from 21.2 per cent in 1997-98 to 34.7 per cent in 2007-08. If we consider an expanded measure of globalization that is the ratio of total external transactions to GDP, this has more than doubled from 46.8 per cent in 1997-98 to 117.4 per cent in 2007-08. Of particular importance is the fact that substantial progress is evident in India's trade with other developing countries and Asia. The share of developing countries has doubled to about 30 per cent of India's total trade and a quarter of India's foreign trade now comes from its Asian neighbours.

While globalization has emerged as the predominant force of economic transformation, a simultaneous development over the last half decade has been seen in the form of a shift in the centre of gravity of the integrated global economy to Asia. Asia is rising to emerge as an economic superpower. Stronger economic co-operation between South and South-East Asia can therefore both contribute to and derive benefit from this potential reality. Regional economic integration in Asia has also gathered momentum largely in response to global and regional developments like the emergence of continent - wide trade blocs in the north-significantly the EU and NAFTA, the need for evolving an Asian identity post 1997-98 financial crisis and the slow progress in the process of integration within South Asia that has made it necessary for India to extend its economic vision beyond the confines of its traditional policy and the South Asian region.

In addition to the above developments that have

set in motion a process of economic integration in Asia, there are specific factors that can provide the necessary means to take the process of India's integration with Southeast Asia forward. First among these is India's foreign policy vision wherein the Southeast Asian countries have received a special focus.

## II INDIA'S LOOKEAST POLICY

India officially initiated its 'Look East Policy' in 1991. While the 'Look East Policy' (LEP) had its genesis in the end of cold war and a strategic shift in India's vision of the world and India's place in the evolving global economy, it was simultaneously the outcome of the process of economic liberalization initiated in the country in 1991/92. The LEP sent out strong signals that the region had come to acquire a significant positioning in India's foreign policy and in economic terms it would be regarded as a new source of business opportunity while also becoming an inspiration for economic development. As India's economy continues to grow the LEP has acquired an added dimension of regionalism.

More recently a broadening of India's foreign policy vision has been evident. The development of the northeast region has been dovetailed into the LEP. This has introduced a crucial new paradigm in the development perspective of northeast, a region that shares a majority of its borders with other countries.

The formal institutional relationship with ASEAN too has graduated from sectoral dialogue partnership in 1992 to summit partnership in 2002. The institutional relationship has more recently been taken forward through several regional, sub-regional and bilateral agreements for comprehensive economic partnership between India and the Southeast Asian nations. Some of these agreements are briefly discussed below.

**India-ASEAN:** In the last few years ASEAN has emerged as an important trade partner for India.

*It is being hoped that developing multifaceted engagement of India's northeast with the economically vibrant Southeast through closer transport links will yield substantial economic benefits to the region.*

India's trade with ASEAN, which was US\$ 9.7 billion in 2002- 2003, has increased to more than US\$ 30.64 billion in 2006-07. In 2008 December, the India-ASEAN FTA deal was finalized after 5 years of intense negotiations. The agreement is expected to be signed in the next few months.

**BIMSTEC:** India and six other nations – Bangladesh, Bhutan, Myanmar, Sri Lanka, Nepal and Thailand have finalized a FTA that will be effective from January 1, 2010. This FTA is expected to impart a new strategic thrust to India's Look East Policy as it is expected to significantly contribute to the development of India's northeastern states through easier access to Southeast Asian markets.

**MGC:** The Mekong Ganga Cooperation project includes Myanmar, Thailand, Laos, Cambodia and Vietnam and aims at furthering cooperation in three main areas of tourism and culture, infrastructure and Information Technology.

**Bilaterals:** The Indo-Myanmar Trade Agreement for the establishment of trade was among the first few bilateral initiatives with the ASEAN nations. The agreement initially provided for cross border trade in 22 products, largely primary commodities. In 2001 a few more items were added to the list of tradable items. In practice, the agreement does not go much beyond according a formal sanction to exchanges traditionally going on between the local populations in the border areas of the two countries. Negotiations are on for the India-Thailand FTA. An Early Harvest Programme with 84 items is already under implementation.

A Comprehensive Economic Cooperation Agreement (CECA) between India and Singapore was signed in June 2005. The agreement which came into effect in August 2005 includes liberalization of trade in goods, services, bilateral investment promotion treaty that ensures national treatment, a double taxation avoidance agreement and an air services agreement in addition to an FTA. Already Singapore is one of the top 5 investors in India and has invested in sectors like Infrastructure development, especially port development and in the knowledge economy sectors for IT park development and telecom.

## III NORTHEAST: THE REGION, COMPARATIVE ADVANTAGE AND COMPLEMENTARITIES WITH SOUTHEAST ASIA

India's northeast region is a reservoir of rich natural

resources and is blessed with biodiversity, huge hydro-energy potential, oil and gas, coal, limestone, forest wealth, fruits and vegetables, flowers, herbs and aromatic plants, rare and rich flora and fauna. Northeast India has all the potential to transform itself into a commercial hub and tourist paradise. Unlike the rest of India, Northeast has an added demographic advantage as it occupies 7.8 per cent of the country's total land space but is inhabited by approximately 3.73 per cent of the country's population. This is a huge untapped, emerging market, which should prove to be of interest to large domestic and international investors.

Individually, all the North-Eastern Indian States have distinct advantages, and provide immense economic and trade opportunities to domestic and international corporates. Manipur has huge potential in sectors like power, agro-based industries, etc. Assam provides huge investment opportunities in sectors like hydrocarbons, oil and natural gas, bamboo, handicrafts and tea. Assam tea is well known for its distinctive quality. Mizoram has the distinction of over 90% literacy and consequently a well-educated and hardworking young population that is potentially an advantage for foreign and also domestic corporates.

Given the distinct comparative advantage of northeast there are many complementarities with Southeast Asia (SEA) that can be potentially exploited for mutual benefit. The fact that these two regions share close cultural ties can only aid the development of strong business relations.

North East India has potential to generate over 40,000 MW of hydro electric power apart from coal and gas based power. If fully harnessed the region could become a major power house for the entire Southeast Asia. The North East of India is also blessed with a large perennial water system comprising the Barak and Brahmaputra rivers, both of which are navigable for most parts of the year. If fully developed the river route could provide a very cost effective means of transportation to and from the region. It could also become a major tourist attraction. Some Thai Companies which have years of experience in managing inland water ways networks could take advantage of the opportunity thus offered. Complementarities can also be identified in the area of agro food processing.

North East produces a large variety of organic agro horticultural products. Thailand's processed food industry is one of the most competitive in the

*Given India's evolving foreign policy perspective and strengthened economic relationship evident in the growing trade volume and trade relations between India and ASEAN, it is important to review the outcome of this process for the north eastern states of India*

international market. The competitive edge of the latter can be of benefit to the former given a chance of collaboration. North East India and SEA are both known for their colourful handloom and exquisite handicrafts. The greater exposure of the SEA handloom and handicrafts industry to international market trends has given it a level of awareness and expertise that offers many opportunities for technical and marketing collaborations between the two regions.

India and Thailand are two of the largest producers of natural rubber and there exists great scope for cooperation between Thailand and the North East to enhance mutual competitiveness in this industry. Tourism, an industry that can thrive in the northeast has much to gain from the Southeast Asian experience. SEA attracts a large number of international tourists and this number is only expected to rise in the coming years. Cooperative efforts in this direction would go a long way in assisting development of the untapped potential in northeast.—Economic Indicators

Notwithstanding the rich natural resource base of northeast India, existing complementarities between India and southeast nations and the ongoing economic cooperation initiatives, as also the growing volumes of trade and investment between India and ASEAN nations, economic indicators for northeast reveal a story of a region that has remained untouched by these developments. It would not be incorrect to argue that the Northeast has been marginalised in this story of economic expansion. India is looking east, but obviously not through its contiguous north-eastern borders. In fact it is well documented that in recent years the region has missed out on the economic growth acceleration witnessed in much of India. Overall growth rates in northeast have remained low. Average per capita income (PCY) is 30% lower than the national average even though it varies across the region. Even though Sikkim and Mizoram have PCY levels that are comparable to a number of states outside the region, Assam is among states with lowest PCY in the country.

Many reasons have been cited for this lack of

development in the region. The region's agriculture is declining and diversification into services and manufacturing has been inadequate. The incidence of poverty is high, especially in Assam. There is evidence of depletion of the very assets that offer the maximum scope for international linkages and development of the region. Additionally, there have been other problems that have restricted the development of northeast. While bio-diversity is undoubtedly an asset for development of the region, there are as yet enormous knowledge gaps regarding distributional patterns and population dynamics of the flora and fauna of the region. Factors that would contribute to what could be biological corridors have not been appropriately researched or developed. Furthermore, both flora and fauna in NE is under threat because of practices like deforestation, mining and quarrying and over-harvesting of medicinal plants.

The greatest economic impediment to the region's economic development is its low connectivity with the rest of India. This however is an area that is increasingly receiving the policymakers focus and we may sometime in the future see a network of roads and highways connecting it to the rest of the nation. The East-West corridor project, which will connect Silchar in Assam to Porbandar in Gujarat and is scheduled to be completed by 2009 will go a long way in improving connectivity and transforming the region into a vibrant economic zone. Also, inland water transport could benefit some areas. The government's renewed focus on development of inland water transport as evident in the development of the NW-2 can develop into an efficiently functioning waterway with adequate infrastructure. With further development of the NW-2, a multifold increased cargo is projected to be transported by 2020. Supplementary economic activity in turn is estimated to lead to job creation and increased trade with neighboring countries as between Nagaland-Myanmar and Tripura – Myanmar.

So that while it may not be inappropriate to seek the development of northeastern states through establishing linkages with southeast Asian countries, it may be wise to first lift the northeastern states out of their current low economic equilibrium. International economic synergies may be more successful if the northeast is first made capable of undertaking cooperative ventures. Otherwise the consequences may be similar to the present where India's strengthened economic linkages with the Southeast Asian nations have bypassed the region. Clearly what is required in this direction is prior development of

northeast. Listed below are a few points of action that may contribute to this process

#### IV CONCLUSIONS: AGENDA FOR ACTION TO DEVELOP NORTHEAST

Agriculture development in terms of both production and productivity has to be the first and immediate priority for the region. The gap between potential and actual yields is high in most farming systems. At present the region produces about 5.8 million tonnes of foodgrain as against the requirement of about 7.5 million tonnes. While the horticulture mission has led to an increase in the area under most fruits and vegetables, the productivity remains low. The yield gap needs to be bridged since most holdings are small and there is need for greater marketable surplus if trade is to be the engine of growth for the region.

Alongside, processing industries need to be set up to manufacture quality goods which can be offered in international markets at acceptable prices. Construction of infrastructure and revamping the entire network of roads, railways, communication and air transport is the other necessary action. For the region to be a tourist hub, hotels, restaurants and resorts will have to be built for sophisticated tourists. Finally, cooperation across states is an underlying necessity for the region to develop and experience high standard of living. The states of the region need to undertake coordinated efforts at research and information sharing, joint development of ecotourism and joint water resource management.

It needs to be emphasized that regional development is also a function efficient institutions. While the northeastern states have been recipients of the central government's generosity, the public delivery system has failed in many respects so that the huge grants have not translated into development of the region. Maybe therefore it is time to design and implement alternative approaches involving local population and communities for development of the region.



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