

# ISAS Insights

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## Northeast India: Trade and Development Prospects

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### Abstract

*The idea of building roadways, railroads and a multi-modal transport corridor for linking India through its Northeast states to Southeast Asia is significant in many respects. This paper examines the current state of development in Northeast India and its economic prospects should the idea of building connectivity infrastructure of this kind come to fruition and if trade relations with Southeast Asia were to flourish. Discussed, in particular, is the readiness of the region to open up. Also highlighted are some key issues that need to be borne in mind if Northeast India is to witness development and improve standards of living.*

### Introduction

At a recent Town Hall meeting held in Kolkata, United States (US) Secretary of State, Hillary Clinton said that the idea of establishing transportation connectivity from East India to Northeast India and then onto the countries of Southeast Asia is “the kind of vision that should occupy the minds of the leaders of the region right now”. And indeed this is just what the leaders of the region are doing. Singapore Foreign Minister K Shanmugam, who visited India a few days after

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Mrs Clinton's visit, is reported to have discussed the ongoing efforts during his meeting with India's Prime Minister Manmohan Singh<sup>2</sup>. The issue also formed a substantial part of Prime Minister Manmohan Singh's discussions with the President of Myanmar during his May 2012 visit to Nay Pyi Taw.

The idea of building physical connectivity between India and Southeast Asia gained momentum about a decade ago as part of what India's former Foreign Minister Yashwant Sinha described as the second phase of New Delhi's 'Look East Policy', beginning sometime around the dawn of the new millennium<sup>3</sup>. This was posited as a logical progression of a relationship, which was based on shared experiences of colonialism and cultural ties, now moving to trade, investment and production. ASEAN's (Association of Southeast Asian Nations') own interest in this initiative has been demonstrated by its commitment to developing infrastructure for greater regional connectivity which will also enable the region to connect with neighbouring countries<sup>4</sup>.

The most significant connectivity projects that are in the pipeline include the development of a multi-modal transport project that will link Mizoram in India by road and an inland waterway to the Bay of Bengal through the Sittwe port in Myanmar; road links to connect Northeast India up to the highways of Thailand and beyond; and a rail road from Delhi to Hanoi that will pass through Northeast India. Work on the multi-modal project began in 2008 and is expected to be completed by 2015<sup>5</sup>. The May 2012 visit of India's Prime Minister to Myanmar saw the signing of an agreement to develop a road link from Moreh in Manipur to Myanmar that will eventually reach Moe Soe in Thailand, as part of the commitment to the trilateral highway project. The target date of completion for this is 2016. The visit also saw an agreement to set up a joint committee to explore the possibility of developing rail infrastructure from India, through Myanmar, to the Southeast Asian region<sup>6</sup>.

Simultaneously, there has been an exploration of ways to develop facilities that will link NE India to Bangladesh, a country for which the same arguments, of shared experience and cultural ties, hold true for the development of deeper economic ties.

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<sup>2</sup> Law Minister K Shanmugam visits India's PM, Asia One, 10 May 2012. <http://news.asiaone.com/News/Latest%2BNews/Singapore/Story/A1Story20120510-345189.html>. Accessed on 14 May 2012

<sup>3</sup> C. Raja Mohan, 'Look East Policy: Phase Two', The Hindu, 09 October 2003. <http://www.hindu.com/2003/10/09/stories/2003100901571000.htm>. Accessed on 14 May 2012

<sup>4</sup> See ASEAN's Master Plan on ASEAN Connectivity (MPAC) document.

<sup>5</sup> Prime Minister's address to think-tanks and business community at an event organised by Myanmar Federation of Chambers of Commerce and Industry and the Myanmar Development Resource Institute in Yangon on India and Myanmar: A Partnership for Progress and Regional Development. Ministry of External Affairs, Govt. of India. <http://www.mea.gov.in/mystart.php?id=190019561>. Accessed on 30 May 2012.

<sup>6</sup> Media Briefing by Foreign Secretary in Nay Pyi Taw on Prime Minister's ongoing Myanmar Visit. Ministry of External Affairs, Govt. of India. <http://www.mea.gov.in/mystart.php?id=190019561>. Accessed on 30 May 2012

In the age of internet communication technology and advanced maritime and aviation technology, the issue of physical connectivity holds particular significance for the Northeast states of India. It brings the hitherto isolated region into focus while enabling it to become part of the regional and global economy. As much as this is exciting for NE India, it is also potentially beneficial to the economies of the region.

The entry of the eight NE states into the hustle and bustle of trade and commerce would be akin to bringing into being a region, if it were a country, comparable in population and size to Poland with a combined Gross State Domestic Product (GSDP) roughly equal to that of the GDPs of Cambodia, Brunei and Laos<sup>7</sup> put together!

It is, however, not without reason that the landlocked NE India has remained isolated and on the periphery of trade and economics. Insurgency, harsh geographic terrain and the resulting difficulty in building infrastructure have kept the region in a state of under-development which made any economic activity very difficult to accomplish. It is then on this note that the exuberance over new ideas needs to be moderated as it poses questions about the viability of our current vision. It also compels us to ponder on the key question of whether this process will benefit NE India and bring much-needed development as is hoped for. Is the region ready to open up and trade or will it witness immiserising growth and further social unrest. These are pertinent questions that will determine the viability, sustainability and success of the process. What are the current conditions in NE India and is it in a position to reap the benefits of potential trade with SE Asia?

Despite the difficulty of viewing NE India as a collective entity for analysis, mainly owing to the absence of a unified decision-making mechanism for solving economic problems (with every state in the region enjoying autonomous political powers to make decisions), there is an assumption in this paper about certain binding factors, including the shared history and geography of these states, their similar economies (basically agrarian and industrially backward) and their economic and psychological distance from the rest of India.<sup>8</sup>

## **Trade for Development**

It has been suggested that one of the ways in which NE India can overcome underdevelopment and achieve sustained economic development is through trade beyond this region. The

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<sup>7</sup> See figures for Northeast India in Table 3 below. Figures collated from IMF's World Economic Outlook Database. <http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/index.aspx>. Accessed on 15 May 2012

<sup>8</sup> Alokesh Baruah, 'Introduction' in Alokesh Baruh (ed.) India's North-East Development Issues in a Historical Perspective (New Delhi: Manohar Publications 2005) p.15

postulation is that the region can benefit from the economies of scale in its production of primary and secondary goods, if there is access to a larger market, which would in turn create viable conditions for the huge investments needed to develop road and communication facilities. These facilities can first connect the eight states within NE India and then connect the region to the rest of India and then to SE Asia. This is expected to bring NE India into a virtuous cycle of trade and development. This argument is based on the assumption that trade promotes growth and that growth reduces poverty.

While it is indeed encouraging that negotiators at the latest World Trade Organisation (WTO) talks – the Doha Round – were able to position development and concerns of poverty alleviation at the heart of trade, the evidence of trade ushering development and poverty reduction is still tenuous and inconclusive. Studies such as those conducted for East Asia and Latin America show different effects of trade on their communities. For instance, while the income distribution pattern, more specifically wage inequality between skilled and unskilled labour, has been redressed in the former, by contrast it has worsened in the latter<sup>9</sup>.

The debate around whether trade is able to reduce poverty which heightened following the publication of a series of papers by David Dollar and Aart Kraay<sup>10</sup> generated a particularly heated argument – shedding some light on the causal effect trade might have on improving the plight of the poor. Bhagwati and Srinivasan<sup>11</sup> have also strongly supported the hypothesis that trade brings about growth that reduces poverty, citing the case of India and China which saw the most significant reduction in poverty during their periods of high growth where, “it is also relevant that these were also the decades in which both China and India increased their integration into the world economy”<sup>12</sup>. This is in contrast to the previous three decades 1950-1980 when poverty fluctuated around at around 55 per cent.

Arguments at the other end of this debate, led by Harvard economist Dani Rodrik, have been positioned around the evidence which show that the benefit of trade is being reaped by developed countries at the cost of developing countries<sup>13</sup> and that trade has led to growth but

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<sup>9</sup> Maurizio Bussolo and Henri-Bernard Solignac Lecomte, ‘Trade Liberalization and Poverty’, ODI Policy Briefing 6: December 1999

<sup>10</sup> Such as David Dollar and Aart Kraay (2001), ‘Trade, Growth and Poverty’, World Bank Policy Research Working Paper No 2615 and David Dollar and Aart Kraay (2001), ‘Growth is Good for the Poor’, World Bank Policy Research Working Paper No.2587.

<sup>11</sup> Jagdish Bhagwati and T N Srinivasan (2002), ‘Trade and Poverty in the Poor countries’, American Economic Review vol. 92, issue 2, pages 180-183.

<sup>12</sup> Ibid.

<sup>13</sup> Vlad Spanu (2003), ‘Liberalization of the Trade and Economic Growth: Implications for both Developed and Developing Countries’, Harvard Center for International Development (CID) Trade Paper. <http://www.cid.harvard.edu/cidtrade/Papers/Spanu.pdf>

with a negative effect on income equality in Chile, China and Poland<sup>14</sup>. The common ground and near-consensus both these schools of thought find themselves in is on the point that growth otherwise reduces poverty, but even then scholars like Jayati Ghosh say that growth per se is no guarantee for the improvement in the condition of human poverty<sup>15</sup>. The debate then raises the pressing question about the how of generating growth, through trade, that reduces poverty.

Indeed, the difficulty of linking trade with reduced poverty, independent of other variables, is itself an enormous challenge. And while there continue to be differences on the measurement process, previous studies that found differing results (of trade on poverty) have pointed us towards the prevalence of different initial conditions leading to different development experiences<sup>16</sup>. This affords a clue through which we might be able to see what effect trade may have on North East India. Among these initial conditions are the varying levels of poverty, human capital development, inequality and infrastructure that will facilitate the participation by and access to benefits, in a time of growth, for the widest sections of society.

## **Current Conditions**

Despite the decision by the Government of India, when headed by H D Deve Gowda, to allocate 10 per cent of the total budgets of ministries/departments for projects/schemes of development in the northeast region, including Sikkim, the region still lags behind on many fronts. The allocation is disproportionate to the size of the region. In terms of size, at 262,230sq km, NE India forms 8 per cent of India's total area and constitutes about 3.75 per cent of India's population. Yet, income poverty has increased in five of the eight states at a time when the rest of the country has seen significant reduction in poverty levels for the period 2004-05 to 2009-10. Other than in Arunachal Pradesh and Sikkim, per capita income is lower than the national average. And, signs of the 'trickle-down effect' of India's growth dividends are barely noticeable.

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<sup>14</sup> Dani Rodrik, 'Growth Versus Poverty Reduction: A Hollow Debate', Finance and Development :A quarterly magazine of the IMF, December 2000, Vol 37, No.4

<sup>15</sup> Jayati Ghosh (2010), 'Poverty Reduction in China and India: Policy implications of recent trends', DESA Working Paper No 92

<sup>16</sup> For different initial conditions and factors in East Asia and Latin America see Maurizio Bussolo and Henri-Bernard Solignac Lecomte, 'Trade Liberalization and Poverty', ODI Policy Briefing 6: December 1999. For other cases see Hyun H Son and Nanak Kakwani (2004), 'Economic Growth and Poverty Reduction: Initial Conditions Matter', UNDP International Poverty Centre Working Paper No.2. And, Anne Booth (1998), 'Initial Conditions and Miraculous Growth: Why is South East Asia different from Taiwan and South Korea', SOAS Dept. of Economics Working Paper. <http://www.soas.ac.uk/economics/research/workingpapers/file28887.pdf>.

**Table 1: Population, Poverty Line and Per Capita Income**

State	Population '000	Poverty Line (Tendulkar Methodology) % of persons		Per Capita Income (in Rs.)
		2004-05	2009-10	2009-2010
All India:	1210193	37.2	29.8	46492
Arunachal Pradesh	1383	31.4	25.9	51405
Assam	31169	34.4	37.9	27197
Manipur	2722	37.9	47.1	27332
Meghalaya	2964	16.1	17.1	43555
Mizoram	1091	15.4	21.1	45982
Nagaland	1981	8.8	20.9	45353 (2008-09)
Sikkim	608	30.9	13.1	68731
Tripura	3671	40	17.4	35799

**Source:** 1. Data Table. Planning Commission of India, Govt. of India. Retrieved from <http://planningcommission.nic.in/data/datatable/index.php?data=datatab> on May 15, 2012

2. NEDFi Databank, Retrieved from <http://db.nedfi.com/content/capita-income> on May 15, 2012

Juxtaposing this with the relatively higher levels of human development is interesting. Literacy rate is higher than the national average, except in Arunachal Pradesh and Assam, and the infant mortality rate is better than the all-India average, except in Assam and Meghalaya. On the face of it, in keeping with classical models like Arthur Lewis', greater human capital development should enable large number of the population to benefit from increased job opportunities. But one of the salient features of India's growth is one with no significant change in employment opportunities<sup>17</sup>!

**Table 2: Social Indicators**

State	Infant Mortality Rate 2010 (per 1,000)	Access to safe drinking water (in per cent), 2001	No. of hospitals (and beds in '000)	Literacy Rate %, 2011	Dropout Rate 2009-10 (%)
All India:	47	90	11613 (540)	74.04	28.86
Arunachal Pradesh	31	90.7	161 (2)	66.95	41.35
Assam	58	70.4	135 (8)	73.18	35.89
Manipur	14	59.4	28 (2)	79.85	36.48
Meghalaya	55	73.5	38 (3)	75.48	57.60
Mizoram	37	47.8	20 (1)	91.58	46.03
Nagaland	23	42.3	48 (2)	80.11	39.95
Sikkim	30	97.1	30 (1)	82.20	18.58
Tripura	27	85.8	31 (2)	87.75	25.48

<sup>17</sup> Amitendu Palit, India's Jobless Growth Problem, The Financial Express (12 April, 2012).

**Source:** 1. Data Table. Planning Commission of India, Govt. of India. Retrieved from <http://planningcommission.nic.in/data/datatable/index.php?data=datatab> on May 15, 2012

2. India Statistics, Ministry of Statistics and Programme Implementation, Govt. of India. Retrieved from [http://mospi.nic.in/Mospi\\_New/site/India\\_Statistics.aspx?status=1&menu\\_id=14](http://mospi.nic.in/Mospi_New/site/India_Statistics.aspx?status=1&menu_id=14) on May 15, 2012

While literacy rate is high, the adjoining column (Table 2) displays a worrying trend. Dropout rates are much higher than in the rest of the country and the standard of the few years of education is low. Continuation of this trend will necessarily pose difficulties as greater elasticity of labour will be affected as and when the engine of growth moves from agriculture to manufacturing, in the Kaldorian sequence, or even if it were to jump straight to the services sector as it has done in the rest of India. This is likely to negate any benefit that might accrue as suggested in the model previously mentioned and puts the region at a risk of multidimensional inequality.

As the agriculture that is practiced in NE India is mostly subsistence agriculture, the possible increase in food price that affects regions newly opened to trade can affect a majority of the population. It will be of utmost importance for the government to continue directed public spending on food subsidies and health, while aligning education policies to meet the demands of the new economic circumstances.

**Table 3: Growth**

State	State-wise Growth Rate (Annual Average in %) of Agriculture Sector in India(Avg 2004-05 to 2008-09)	Growth Rate (%) of Net State Domestic Product in Industry State-wise (Avg. 2004-05 to 2008-09)	Gross State Domestic Product (GSDP) at Current Prices (as on 15-03-2012) Rupees in crores) 2011-12
All India:	3.06	8.54	8279976
Arunachal Pradesh	4.49	2.85	9357
Assam	1.51	3.61	115408
Manipur	1.31	4.55	10118
Meghalaya	5.06	13.18	17459
Mizoram	2.85	5.58	6058 (2010-11)
Nagaland	4.92	7.73	1206
Sikkim	3.64	4.86	5652 (2010-11)
Tripura	3.74	17.34	19731

**Source:** Data Table. Planning Commission of India, Govt. of India. Retrieved from <http://planningcommission.nic.in/data/datatable/index.php?data=datatab> on May 15, 2012

The current level of unemployment and the prospects of employment are of particular concern because the prevailing insurgency makes the unemployed youth prone to persuasion from the

insurgents operating in NE India. The lack of industries or organised agricultural practices has meant that the government and the public sector are the main employment sources and there can only be minimal government jobs for the entire population. Unemployment along with increasing inequality could continue to provide stimulus for social unrest.

**Table 4: Employment**

State	Estimated employment in the public and private sectors ( in '000)2007-08	Total Employment ('000), 2005
All India:	27549	100904
Arunachal Pradesh	N/A	110
Assam	1173	2208
Manipur	80	236
Meghalaya	82.6	242
Mizoram	40.8	107
Nagaland	76	175
Sikkim	N/A	68
Tripura	160	386

**Source:** India Statistics, Ministry of Statistics and Programme Implementation, Govt. of India. Retrieved from [http://mospi.nic.in/Mospi\\_New/site/India\\_Statistics.aspx?status=1&menu\\_id=14](http://mospi.nic.in/Mospi_New/site/India_Statistics.aspx?status=1&menu_id=14) on May15, 2012

In terms of infrastructure, the region has poor facilities. Transport linkages within the region and with the rest of India are still primitive. Bhagwati and Srinivasan concede that if growth is modelled in a way where it does not affect a segmented pool of the poor and if there are areas not linked to the mainstream or inner cities which are structurally delinked from the main city where growth is occurring, then growth will pass the poor by<sup>18</sup>. Trade in the absence of poor interlinking facilities may exacerbate regional and intra-regional inequality.

Availability of power is still a huge problem. Household access to electricity is very low. And the inability to develop and harness the hydro-power potential in the region has meant inadequate power supply, stalling the development of much-needed irrigation facilities and the development of industries.

<sup>18</sup> Jagdish Bhagwati and T N Srinivasan (2002), Trade and Poverty in the Poor countries, American Economic Review vol. 92, issue 2, pages 180-183



**Table 5: Irrigation, Hydro & Electricity**

State	State-wise Irrigation Potential ('000 ha)		Hydro Potential Status (MW)		Access to Electricity (% of Population)
	Potential	Utilized	Identified Capacity	Developed	
All India:	139893	85222	148701	30947	55.85
Arunachal Pradesh	168	87	50328	424	54.69
Assam	2870	720	680	375	24.90
Manipur	604	155	1784	105	60.04
Meghalaya	168	54	2394	185	42.74
Mizoram	70	15	2196	0	69.63
Nagaland	85	72	1574	99	63.60
Sikkim	70	26	4286	84	N/A
Tripura	281	126	15	15	41.84

**Source:** 1. Data Table. Planning Commission of India, Govt. of India. Retrieved from <http://planningcommission.nic.in/data/datatable/index.php?data=datatab> on May 15, 2012  
2. Statistical Abstract of India, 2003 in Samir K Mahajan, 'Attainment of Human Development: A Study of North East India', Delhi Business Review, Vol 10, No.2 (July-Dec 2009).

### **Moving Ahead**

Despite the challenges, the need to facilitate trade within the region, with the rest of India and with the countries east of the region is a proposition that is difficult to run down. Besides the income from trade there are related potential revenue generators for NE India. Of great significance are those in the development of hydro-electricity and tourism. Cost of consumer goods coming from as far as Bangkok and Guangzhou, which are very popular in NE India, will come down drastically and the idea of greater access between families and kinsmen along borderlands (including India-Myanmar; Myanmar-Thailand etc) in itself reflects the social and emotional aspirations of the people.

But, in light of this discussion, opening up and development of connectivity infrastructure may not necessarily lead to a fairy-tale situation. NE India could see itself worse off than before, given its proneness to insurgency and social unrest if measures to enable the region itself to benefit from trade are not put in place. The challenges are enormous and some work needs to be done in the region first.

The diversity as well as the unifying factors of NE India point towards the need for intraregional cooperation amongst the eight states in some areas but also different approaches in each of the states in other matters. Central and regional planners in India need to have a better appreciation of the social and economic problems posed by each state but also need to build on the areas

where each state can benefit from such cooperation. For instance, the region and indeed some of the states within it have different needs in terms of the focus on education compared with the rest of the country. While in the rest of India literacy rate needs to be brought up to mark across the board, the focus in the region needs to be one of improving quality, providing skills-based training and looking at ways to improve retention rates. The NE states of India can work together to manage water resources and cooperate to harness hydropower potential. The social context for centrally-designed poverty-alleviation schemes needs to be taken into account. In Delhi, policymakers need to ask questions such as the possible long-term social impact of a policy that seeks to engage a traditional agricultural society in construction activities. And so on and so forth. In turn, relevant state government officials must provide necessary contextual input based on the feedback they get from the grassroots. Integrated development of NE India must feature in any planning process that looks at linking the region to Southeast Asia or using this northeast arc as a link between the rest of India and SE Asia.

In a recent article, the development economist Dani Rodrik cheered upon the good news of the increasing convergence of different traditions of development practitioners in favouring diagnostic, pragmatic, experimental, and context-specific strategies<sup>19</sup> for the different approaches they advocate. Nowhere is the need to see this in practice greater than in the NE India region, if it is to see an improvement in the standards of living. And if the grand idea of connectivity is to occupy the minds of the leaders of the region, in India and South East Asia, they must also, first, concern themselves with the local context and dynamics affecting the regions and ensure that measures that will enable the widest sections of society to participate and benefit from trade are in place. This in turn will ensure that the building of qualitative and durable highways and railway tracks is worth the investment.

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<sup>19</sup> Dani Rodrik, 'Doing Development Better', Project Syndicate. May 11, 2012 <http://www.project-syndicate.org/commentary/doing-development-better>. Accessed on 15 May 2012.