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Economic Aspects of India's North-East: Opportunities for Trade through Greater Connectivity

This paper reviews the economic profile of India's North-East region and the initiatives to connect it better with the neighbourhood, and comments on its possible trade potential with the Asian region given the current world-trade scenario.

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In a globalized world, economic prosperity of a region is critically dependent on the ability to trade goods and services with neighbouring regions as well as the rest of the world. The North-Eastern region of India is no exception to this. The States of the region, namely Assam, Arunachal Pradesh, Manipur, Mizoram, Sikkim, Meghalaya, Tripura and Nagaland, while unique in their own ways, have a common share of problems inhibiting economic development. The region shares borders with the South-East Asian nation of Myanmar, South Asian nations of Bangladesh, Nepal and Bhutan, and the East Asian nation of China. With India's increasing trade with East and South-

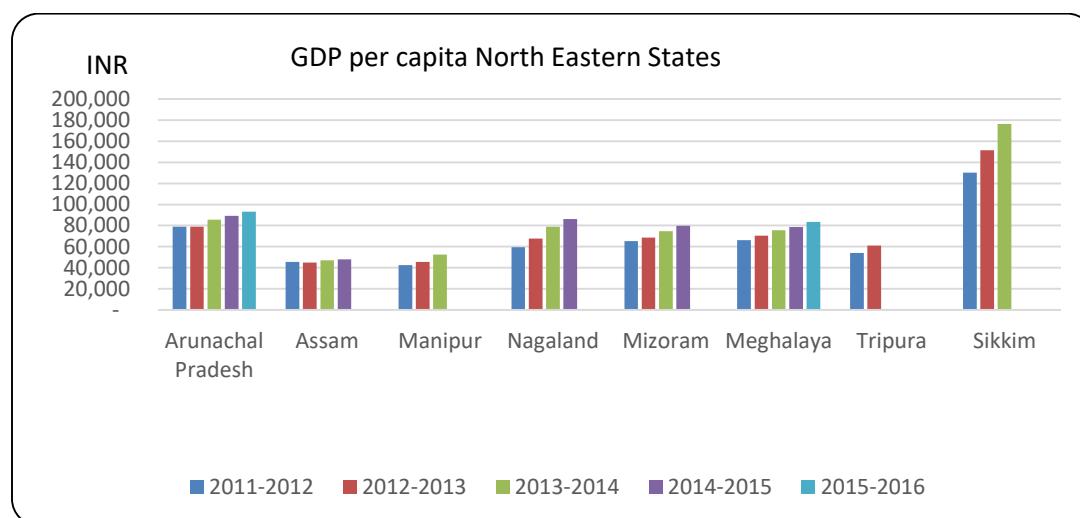
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East Asian nations and in the wake of the Act East policy of the Government of India, the region of North-East holds special relevance on both strategic and economic dimensions.

Looking at the economic profile of the region, as per the 2011 census, the North-East region of India is home to about 4% of its population and accounts for 8% of India's land area. Major industries of the region include Agriculture and allied activities, Tourism, Textiles, Silk, Trade and Repair, Petroleum refining. While crucially dependent on agriculture and related activities, trade and repair has increasingly become an important contributor to the region's total production along with a host of services.

Figure 1 below plots the Gross Domestic Product (GDP) per capita of each of the North-Eastern States as per the available statistics.

Figure 1: GDP per capita of North-Eastern States



Source: Statistics sourced by the author from Indiatat.com

Sikkim is the most prosperous State followed by Arunachal Pradesh. Growth in per capita income has been impressive for Sikkim and to some extent for Nagaland. However, most other States have stable per capita GDP figures.

Trade in goods and services has acted as the means to achieve higher economic growth for various countries in the world. Traditionally, regions of the world which lie between the trading routes of big trading nations, have tended to benefit economically by acting as the passage-way to facilitate

trade. Singapore and Hong Kong have benefited immensely by acting as trading hubs and are the busiest ports in the world. The region of North-East India lies at the eastern extreme of India linking it to Bangladesh, Myanmar and China. Hence it acts as the gateway to South-East Asia and East Asia which are amongst the most vibrant trading blocs of the world today. However trade between India and these regions hardly flows through the North-East of India (approximately 1-2% of India's trade with East Asia and South-East Asia is attributable to the North-East of India). The North-East region remains largely an area which is low on basic road infrastructure and has no access to any sea port.

In world trade, sea transport remains the most economical means to trade between countries, followed by railways and finally road ways. However, a combination of modes i.e. inter-modal connectivity is often revealed to be optimal especially when large trading countries are involved. Any effort to improve the trade potential of a region has to start with improving connectivity infrastructure, and facilitating access to ports.

In the recent past there has been significant emphasis on improving the road connectivity of the region especially linking Eastern India to China and South-East Asia. In tandem with the emphasis on road construction, the possible sea connectivity of the North-East region through the motor vehicles agreement linking North-East India to the Chittagong port in Bangladesh has also been attempted. The most notable projects for the increased connectivity of the region are:

- Kaladan Multi Modal Transport project: This comprises four stretches; namely: Kolkata-Sittwe (Myanmar) port connectivity, Sittwe to Paletwa connectivity (by river), Paletwa to Indo-Myanmar Border (by road), border to National Highway (NH) 54 by road.²
- India-Myanmar-Thailand Trilateral Highway: This is a highway connecting Moreh in India to Mae Soet in Thailand. Sixty nine bridges and approach roads for the India-Myanmar-Thailand Trilateral Highway in Myanmar are to be built by the Indian government.³ The highway may become operational by 2018-19.⁴

² For more details see “Kaladan Multi Modal Transit Transport Project” <http://mdoner.gov.in/content/introduction-1>

³ See <http://www.sasec.asia/index.php?page=news&nid=347&url=69-bridges-to-be-built-imt-trilateral-highway>

⁴ For more details see <http://www.thehindubusinessline.com/economy/policy/govt-looking-at-extending-indiamyanmarthailand-highway/article8907574.ece>

- BCIM Corridor: Highway connecting Kolkata (India) and Kunming (China) passing through India, Bangladesh Myanmar and China. Various political and security concerns have delayed the progress of the project.
- BTCWG-BIMSTEC Transport Connectivity Working Group: The draft Terms of Reference (TOR) for the transport connectivity group was finalised in August 2016 with the support of Asian Development Bank (ADB).⁵

Within India itself, road construction initiatives have been a priority in the North-East. Table 1 below highlights the progress of road construction in the North-East. It is revealed that Assam and Arunachal Pradesh have made progress outshining the other North-Eastern States. In the recent years barring 2015-16 more than 10% of the roads built in India were in the North-East region.

Table 1: Selected State-wise Length of National Highways Constructed in India (2008-2009 to 2015-2016) (Length in km)

States/UTs	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Arunachal Pradesh	0.00	16.43	32.00	9.64	49.86	122.40	87.67	80.00
Assam	88.42	229.70	268.41	199.11	188.05	226.34	177.77	86.89
Manipur	19.65	14.20	36.50	56.58	58.93	74.35	45.83	6.40
Meghalaya	0.00	0.00	0.00	59.00	292.91	303.18	88.30	50.10
Mizoram	32.61	18.63	1.85	12.53	23.20	5.11	5.00	14.92
Nagaland	57.00	74.00	67.98	34.85	33.49	0.00	13.00	25.00
Tripura	9.14	5.46	14.00	10.58	19.73	2.51	18.09	0.00
Share in total India	5%	7%	11%	10%	12%	17%	10%	4%

Source: Compiled by the author from Indiastat.com

⁵ For More Details See <http://www.bimstec.org/index.php?page=events-and-activities-details&eid=67>

For a longer-term benefit through connectivity, a vision to connect all the eight State capitals in the North-East through a North-East ring road along with external connectivity with the Asian high way network would be essential. Coupled with this, reaping maximum benefits would require penning motor vehicles agreements with Nepal, Bhutan, Bangladesh, Myanmar, Thailand with further expansion to include Cambodia, Laos, Vietnam and Malaysia. There has been recent success with the signing of the Bangladesh-Bhutan-India-Nepal (BBIN) Motor Vehicle Agreement in 2015.⁶ This has allowed the running of the Kolkata-Dhaka-Agartala bus service reducing the distance from 1650km to 515km. The India-Myanmar-Thailand motor vehicles agreement is expected in some time to take full advantage of the trilateral highway.

Amongst railway connectivity initiatives, the Agartala-Akhaura link would be important in allowing access to the Chittagong port and the Ashuganj river port. In order to improve the North-East region's sea connectivity, the recent signing of the agreement for transit through Chittagong and Mongla ports in Bangladesh, the inauguration of the waterway transit through Bangladesh following the revision of the India-Bangladesh protocol on Inland Water Transit & Trade (IWTTP) would be essential.⁷ The implementation of the revised agreement after dealing with concerns would be helpful. The transport infrastructure, once in place, would be a big boost to the trade potential of the North-East and also its ability to act as a transit route for goods shipped from elsewhere in India.

In addition to the infrastructure, developmental efforts in the North-East would welcome new investments in the region. In order to facilitate investment, a proper investment promotion policy for the North-East is the need of the hour. The suspension of the 'North East Industrial and Investment Promotion Policy' (NEIIPP) containing incentive packages for investments in the North-East has been discouraging. Initiatives to re-introduce the same, plugging the erstwhile loopholes could be beneficial. The transport infrastructure in conjunction with investment in areas of advantage for the North-East like tourism, medicinal plants, processed agriculture, silk textiles, trade and repair would improve economic prospects in a sustainable fashion.

⁶ See <http://www.thehindubusinessline.com/economy/logistics/bbin-motor-vehicles-agreement-implemented/article7829675.ece>

⁷ See <http://economictimes.indiatimes.com/news/economy/infrastructure/india-bangladesh-business-set-to-grow-through-ports-waterways/articleshow/47599967.cms>

While various projects to enhance connectivity with East Asia and South-East Asia are beneficial, adding to the accessibility of the North-East region, it may be wise to be apprised of the challenges facing India as a whole in its endeavour to grow trade with the Asian region. These would apply to the North-East region's potential unequivocally. First, in recent times India's trade with the Association of Southeast Asian nations (ASEAN) has stagnated. Figure 2 below plots the trends in this regard. After 2011, trade between India and ASEAN has not grown and in fact Indian exports have decreased. This is true for Indian exports in general as well.

Figure 2: India-ASEAN Goods trade



Source: Compiled by the author using World Bank World Integrated Trade Solution (WITS) database

Second, global trade is yet to pick up and in the recent past, trade in the ASEAN region has itself struggled to pick up.⁸ For the North-East region to grow trade through growing external demand, this is crucial. Third, within the ASEAN region itself, there is an increased momentum towards finalizing negotiations for the ASEAN Economic Community (AEC): an initiative to help develop the CLMV nations i.e. Cambodia, Laos, Myanmar and Vietnam through an accord to facilitate freer movement of investment and labour within the region. This would lower India's potential to increase trade by linking with value-chains in the region. Finally, while the India-ASEAN FTA

⁸ See http://asean.org/storage/2016/06/table17_as-of-30-Aug-2016-2.pdf

has shown limited effects in terms of increasing trade, the East Asian and ASEAN regions are significant members of multiple mega regional trade agreements. Four ASEAN members, namely: Brunei, Malaysia, Singapore and Vietnam are part of the Trans-Pacific Partnership (TPP) which is the most liberal agreement till date awaiting implementation. The standards of liberalization once implemented are far higher than what India would be ready to negotiate in any of its agreements. However, India is a part of the Regional Comprehensive Economic Partnership (RCEP) which is an agreement under negotiation within Asia including all ASEAN members and East Asian members. While this is a less ambitious agreement at this point, this will nevertheless be influenced by the standards set by TPP. India as a negotiating partner in the RCEP has to use the opportunity to judiciously carve out its opportunities to link with selected value-chains in the region, and in doing so, one must keep in mind the advantages of trading through the North-East region as well as industries in which it has potential.

In sum, India's North-East region has a lot of economic promise, and with the infrastructure development projects nearing conclusion it would become an ideal destination for investment and business development. However, since multiple neighbouring countries are involved, the signing and efficient implementation of motor vehicles agreements, after ironing out security and strategic concerns, would be important in determining if the available connectivity infrastructure would facilitate sustainable development of the region. In the near future, India's trade with East Asia and South-East Asia would be influenced by the mega regional trade agreements which most nations in the region are a part of. India's efforts to negotiate a successful RCEP, keeping in mind the possibilities of increasing trade through the North-East, would help facilitate sustainable development in North-East India.

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