

ROLE OF ACT EAST POLICY IN THE DEVELOPMENT OF NORTH EAST INDIA: EXPECTATION VS. REALITY

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Abstract:

Act east policy has been undertaken to develop the North East region. There is a huge gap between expectation and reality. This paper is descriptive and analytical one. In this paper it is attempted to find out the flaws of the policy. The purpose of the **Look east policy** was to maintain a good relationship with eastern countries namely Japan, Australia, ASEAN countries. India exported U.S. \$ 10.41 billion in 2005-06 to ASEAN which increased to U.S. \$25.20 billion in 2015-16 and imports over the same period quadrupled from U.S. \$10.8 billion in 2005-06 to U.S. \$39.84 billion. This reflects a compound annual growth rate of about 9.2% in exports to ASEAN region and close to 14% p.a growth in imports during 2005-06 to 2015-16. In terms of market share, the share of import in India's total imports from ASEAN went up from 7.3% to 10.5% during 2005-06 to 2015-16. Over the same period the share of export to ASEAN in India's total export fell from 10.1% to 9.6%. A good move was made by the Government of India by signing the Act East Policy because the North Eastern Part of the country couldn't progress at par with the rest of India. Therefore, to remove several bottlenecks in terms of connectivity, market access and investment requirements, the Act East Policy was very strategic.

Keywords: Act East Policy, Policy Lag, Look East Policy, ASEAN, Export.

INTRODUCTION

It was believed that the Act East policy would foster the development of the North Eastern Region. The policy aims to bring economic integration with the South East Asia as far as trade, investment, tourism and connectivity are concerned. The NER has a large share of young population in India which is a clear implication of the prevailing low labour cost. The people of NER are quite familiar to English language with adds to the benefits of the foreign investors for developing a good relationship with the local people. Moreover, North East is endowed with plentiful of Natural Resources like forests and water bodies (hydroelectric potential of the region is also very high).

NER is surrounded from all sides by China, Bhutan, Nepal, Myanmar and Bangladesh. Highly skilled personals are also available here; prominent educational institutions are IIT Guwahati, IIM Shillong, a number of Central Universities, Agricultural and vocational institutions have also come up.

The purpose of the **Look east policy** was to maintain a good relationship with eastern countries namely Japan, Australia, ASEAN countries. Narendra Modi came into power in 2014 and thereafter the Act East policy was announced. The **Act East policy was an upgraded version of Look East policy** because the latter focused entirely on economic strengthening of the country while the former incorporated the issue of security along with economic growth in real terms. The P.M attended the 12th ASEAN-India summit and 9th East Asia summit held in Nay Pyi Taw, Myanmar, 2014. India became sectoral partner of ASEAN in 1992, dialogue partner in 1996 and summit level partner in 2002. East Asia summit (EAS) forum held annually by the leaders of initially 16 countries including East Asian, South East Asian and South Asian countries. Its membership expanded to 18 countries including Russia and U.S at 6th EAS in 2011.

METHODOLOGY

This seminar paper attempts to analyse the reasons for the formulation of the Act East policy and its importance in the growth and development of the North Eastern Region of India. With numerical figures, the trend of India -ASEAN Trade is shown before and after the Act East Policy came into force. The paper is entirely based on secondary data from reliable sources including the reports published by the Department of Commerce, Government of India.

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REVIEW OF LITERATURE

Although no research paper has been published directly citing the achievements and failures of the Act East Policy, but some of published papers are found to state the objectives of the Act East Policy, Prospects of the policy and the related projects undertaken, the trade with the ASEAN countries since the last decade and some more associated facts and figures.

One of such is the PROBLEMS AND PROSPECTS OF EXPORT TRADE OF NORTH EAST INDIAN STATES (NEIS) WITH ASSOCIATION OF SOUTH EAST ASIAN NATIONS by Gouher Ahmed.

Another such paper is INDIA - ASEAN TRADE AND INVESTMENT RELATIONS : opportunities and challenges by Associated Chambers of Commerce and Industry of India (2016).

Even from the website of Department of Commerce, Govt. of India and NEDFI, we collected the requisite data and information.

Objectives of the Paper

- Detailed study of the factors which resulted the formulation of Act East Policy and its prospects in North Eastern Region of India.
- Study of the trend of India- ASEAN trade before and after the implementation of Act East Policy.
- A detailed comparison of the expectations of Act East Policy Vs. the Reality.

PROSPECTS OF ACT EAST POLICY

The Act East Policy is designed for opening up free trade routes through India, South East Asia and ASEAN Countries to connect NER of India with global free trade. We need to reopen and repair all existing routes across border, viz. Historic Stilwell Road which links Kunming (China) to Ledo (Assam) through Myitkyina (Myanmar) for initiating wholesale trading activities with Asian Countries. There are 4 important trade zones in Indo – China and Indo – Myanmar borders which includes Champai (Mizoram), Namphong (Arunachal Pradesh), Moreh (Manipur) and Nathula - Pass (Sikkim). Trading at Nathula Pass is minimum because the exchangeable items are quite outdated.

Though, the Moreh - Manipur border trade continues throughout the year, but the increased inflow of foreign goods at Manipur are weakening its economy. Moreover, trade is informal to attract huge revenue for NER.

Objectives of the Act East Policy

- To promote economic cooperation, cultural ties and to develop strategic relationship with the countries in Asia–Pacific region.
- North East India is the major focus of the Act East Policy because it provides as an interface between North East India and ASEAN Region.
- Major projects are Kaladan multi modal Transit Transport Project, the Indian Myanmar–Thailand Trilateral Highway Project, Rhi—Tiddim Project etc.
- Closer Cooperation in combating terrorism, collaborating for peace and stability in the region and promotion of maritime security based on international norms and laws are being pursued.

Why the economic integration of NER (India) with South East Asian countries?

- The NER is connected to the mainland India via the ‘Siliguri Corridor’. But, China’s presence has extended up to the Dhoklam region and are chances of political and geographical conflicts between India and China. If China removes the connectivity, the NER will suffer very badly. Therefore, there is a need to develop another route (roadway/railway) for connectivity through Bangladesh-Tripura or Coastal connectivity.
- There are less employment opportunities in the region for which many people may join the insurgency groups or get involved in illegal activities (drug trafficking/human trafficking). So, employment can be boosted up by developing connectivity with South East Asia and NER of India.
- Kaladaan Multi Model Transport Project: It is termed as multi-model since it involves diverse modes of transportation; from Kolkata to Sittwe port of Myanmar and then a railway connectivity to NER of India. So, the project involves railways, roadways and coastal shipping.
- INDIA- MYANMAR-THAILAND highway is also being developed to

bring about a physical connectivity, thus promoting tourism. Tourists from South East Asian Countries may then come to visit Kaziranga National Park, Majuli, Kamakhya Temple etc. and the tourism industry can employ a very large section of people. NER is also popular for horticulture, Meghalaya grows Strawberry which is highly demanded by the South East Asian countries. But, Strawberry like products are perishable; these have to be exported soon which requires once again, a good physical connectivity. If the exports of the region increases, the farmers of Meghalaya will be in an advantageous position. There are also some cultural similarities of the North Eastern part of India with the South East Asian Countries, so the handicraft industry will also get an upward boost.

HIGHLIGHTS

- **Bay of Bengal initiative for multisectoral Technical and Economic cooperation(BIMSTEC):** To strengthen global position and agreement with Bangladesh, India, Myanmar, Sri Lanka, Thailand, Nepal and Bhutan, this agreement was for greater economic cooperation among these countries.
- **Mekong Ganga Cooperation (MGC)** came into force on November 10, 2000 at Vientiane at the first MGC ministerial meeting with six member countries (India, Thailand, Cambodia, Laos, Vietnam). Mekong river flows from Tibet in which China has established a strong control. It is well

knowns that three rivers: Satluj, Brahmaputra and Sindhu flows through the Tibetan plateau. China has already constructed six dams in those regions of Tibet and control all the water. Hence, it has pushed the other neighbouring countries including India in a disadvantage position, Henceforth, India needs Economic and political ties with all those nations to safeguard itself.

- Modi visited **Seychelles, Mauritius and Sri Lanka in 2015 [Indian ocean Rim association]**. Foreign investors do not want to invest in India directly to avoid very high tax rate. Such investors go to Mauritius and register themselves as a global company. In Mauritius, if there is a global license for a company, tax charged is very less. It is through this Mauritius route that those investors enter India. India does not impose tax twice because it has **Double taxation Avoidance Agreement (DTAA)** with Mauritius. 50% of FDI in India comes from Mauritius route.
- **Oceania Islands (EEZ in oceans)**: Exclusive economic zones is a sea zone prescribed by UN convention. The law of sea over which the state has special rights regarding explorations and use of marine products including energy such as water and wind. If India is economically and politically tied to these countries, then India can also have access to such mineral resources and carry out activities viz. mining and fishing and also generate hydroelectric energy, tidal energy and wind energy.
- **Bangladesh China India and Myanmar Economic corridor (BCIM-EC)**: It is important for North Eastern Region because it aims to develop trade relation with ASEAN countries.
- **Kaladan Multi Modal Transit Transport Project** that will connect Eastern Indian Seaport of Kolkata with Sittwe seaport to Paletwa in Myanmar via Kaladan River boat route and then from Paletwa to Mizoram by road.
- Act East as a part of strategy to counter **'String of Pearls'**: China has established Gwadar Navai Base, Hambantota port in Sri Lanka etc. In short China is surrounding from all sides and no country (Philippines, Malaysia, Vietnam) dare to raise voice individually. If India fetches good relationship with all these South East Asian countries and counter such moves of China.
- Act East policy –Vietnam and China do not bear a good political relationship. So India tries to take that advantage and also sell weapons like Akash ,Brahmos and small naval ships to Vietnam.
- Australia Uranium shipment nuclear deal.

Trade with South East Asian Countries

India exported U.S. \$ 10.41 billion in 2005-06 to ASEAN which increased to U.S. \$25.20 billion in 2015-16 and imports over the same period quadrupled from U.S. \$10.8 billion in 2005-06 to U.S. \$39.84 billion. This reflects a compound annual growth rate of about 9.2% in exports to ASEAN region and close to 14% p.a growth in imports during 2005-06 to 2015-16. In terms of market share, the share of import in India's total imports from ASEAN went up from 7.3% to 10.5% during 2005-06 to 2015-16. Over the same period the share of export to ASEAN in India's total export fell from 10.1% to 9.6%.

INDIA – ASEAN MERCHANDISE TRADE (U.S \$ BILLION)						
YEAR	Indian exports to ASEAN	Share in India's total exports	India's import from ASEAN	Share in India's total imports	Trade balance	Total trade
(1)	(2)	(3)	(4)	(5)	[(2)-(4)]	[(2)+(4)]
2000-01	2.91	6.5	4.15	8.2	-1.24	7.06
2005-06	10.41	10.10	10.88	7.3	-0.47	21.29
2006-07	12.61	10.0	18.11	9.7	-5.50	30.72
2007-08	16.41	10.1	22.67	9.0	-6.26	39.08
2008-09	19.14	10.3	26.20	8.6	-7.06	45.34
2009-10	18.11	10.1	25.80	8.9	-7.69	43.91
2010-11	25.63	10.3	30.61	8.3	-4.98	56.24
2011-12	36.74	12.0	42.16	8.6	-5.42	78.9
2012-13	33.00	11.0	42.87	8.7	-9.87	75.87
2013-14	33.13	10.5	41.28	9.2	-8.15	74.41
2014-15	31.81	10.2	44.71	10.0	-12.90	76.52
2015-16	25.20	9.6	39.84	10.5	-14.64	65.04

Source: Import – Export data bank , Govt. Of India , Department of Commerce.

Petroleum oil and meat products accounted for a share of about 15% and 10.5% of India's total exports to ASEAN respectively . Other top export items to ASEAN were with % share in total exports were : transport equipment (8.5%), Chemicals (6.7%), mechanical appliances (6.4%), non- ferrous metals (5.2%), iron and steel (2.9%) and pharmaceuticals

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(2.8%).

India's exports to ASEAN					
	2005-06		2015-16		CAGR
	US \$ million	% share in total	US \$ million	% share in total	2015-16/2005-06
1. Fresh vegetables and fruits	76	0.7	216	0.9	11.0
2. Meat products	193	1.9	2649	10.5	29.9
3. Fish products	97	0.9	1089	4.3	27.4
4. Spices	46	0.4	499	2/0	26.9
5. Sugar	22	0.2	488	1.9	36.3
6. Oil cakes & fodder	527	5.1	225	0.9	-8.2
7. Petroleum products	2463	23.7	3766	14.9	4.3
8. Chemicals	1071	10.3	1698	6.7	4.7
<i>a. Inorganic</i>	84	0.8	130	0.5	4.5
<i>b. Organic</i>	834	8.0	12.34	4.9	4.0
<i>c. Special chemicals</i>	153	1.5	334	1.3	8.0
9. Pharmaceuticals	163	1.6	717	2.8	16.0
10. Plastic and raw materials	148	1.4	348	1.4	8.9
11. Rubber And Products	88	0.8	226	0.9	9.9
12. Precious stones and Jewellery	1590	15.3	1106	4.4	-3.6

13. Paper and Pulp	25	0.2	131	0.5	18.0
14. Cotton	165	1.6	602	2.4	13.8
15. MM Filaments/Fibre	108	1.0	273	1.1	9.7
16. Iron and Steel articles	675	6.5	723	2.9	0.7
17. Non-Ferrous Metals	469	4.5	1322	5.2	10.9
18. Mechanical Appliances	348	3.3	1617	6.4	16.6
19. Electrical and Electronics	280	2.7	798	3.2	11.0
20. Transport Equipment	698	6.7	2150	8.5	11.9
<i>a. Rail Equipment</i>	2		7		
<i>b. Auto and Components</i>	240	2.3	1051	4.2	15.9
<i>c. Aircraft and Parts</i>	3		115	0.4	44
<i>d. Ships</i>	453	4.4	977	3.9	8.0
21. Optical / Photo Instruments	78	0.7	356	1.4	16.4
Subtotal 1 - 21	9330	89.6	20999	83.3	8.5
Total ASEAN	10411	10.1*	25195	9.6 *	9.2

Total Global	103091		262031		9.8
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Note: *share of exports to ASEAN in total exports; CAGR COMPOUND ANNUAL GROWTH RATE.
Source: import-export Data Bank, Govt. Of India, Department of Commerce.

Expectations Vs. Reality

North Eastern Region is thinly connected with the major part of India and therefore only the major states could disproportionately reap the benefits of growth. North Eastern Region is naturally endowed with resources (mineral resources, water resources, forest resources etc.) but these remain largely unexplored or underutilized. Because of the difficult terrain, the major industrialists fear to expand their business in this part of the country because of high transportation cost. Therefore, it was expected that if the Act East policy is implemented, North Eastern Region could come out of the problem of capital deficiency and enjoy the incoming Foreign Direct Investment as well for NER of India shares its borders with the South East Asian Countries. The products which could not find a suitable market would get an international exposure viz. the Silk varieties (Tasar, eri and muga), horticultural products such as scented flowers, orchids etc . Moreover , Assam is also a large producer of Tea and organic tea if branded properly can be charged multiple times of the normal tea leaves. Similarly, with the signing of Act East Policy, it was also expected that the tourism sector would get a boost as there are innumerable places of tourist attraction in the region. Thus, if the economy of the region gets an upward thrust in all these probable fields through the Act East Policy, the region would flourish with enhanced productivity, employment, market access and international investment.

Reality:

1. The Kaladan Multi Modal Transit Transport Project was originally scheduled to be completed by 2014 but is expected to be operational by 2019-20. The route of the project around Paletwa and along Kaladan river is troubled with ching conflict , Rohingya conflict such as Arakan army.
2. One of the main objectives of Act East Policy was to develop good trade relationship with ASEAN countries but according to the Department of Commerce, Government of India report, even after adoption of the policy India stood at a **Trade deficit of \$12.93 billion in 2017-18 and \$21.85 billion in 2018-19**. Thus we get a contradictory picture when we compare the expectation and the reality.

India's trade with ASEAN	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
EXPORTS(USD Billion)	33.01	33.13	31.81	25.15	30.96	34.20	37.47
IMPORTS(USD Billion)	42.87	41.28	44.71	39.91	40.61	47.13	59.32
TOTAL (USD Billion)	75.87	74.41	76.53	65.06	71.57	81.33	96.79

TRADE BALANCE (USD Billion)	-9.86	-8.14	-12.9	- 14.75	-9.65	- 12.93	- 21.85
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3. **Tourism:** We have compared the number of foreign tourists of 2005 and 2015 in the North Eastern States and calculated the Growth rate of foreign tourists for each state separately (except Sikkim). Accordingly, we can infer that in most NE states of India, the growth rate of the foreign tourists hasn't increased significantly; there might be some reasons for such a divergence of the numbers for Arunachal Pradesh and Tripura. Here, we end up clearly with the intra - regional (NER India) disparity as regards the tourism sector is concerned. Even, the data of tourists from South East Asian Countries to North Eastern States of India is largely unavailable. All these greatly claim that Act East Policy failed to catch up with the expectations in reality.

State-wise Tourists Arrival Statistics				
<u>State</u>	<u>2015</u>		<u>State</u>	<u>2005</u>
Arunachal	5705		Arunachal	289
Assam	24720		Assam	10782
Manipur	3260		Manipur	316
Meghalaya	8027		Meghalaya	5099
Mizoram	798		Mizoram	273
Nagaland	2769		Nagaland	883
Tripura	34886		Tripura	2677

Source: Union Territory Tourism Dept.

Source: GOIMOT :
<http://164.100.24.219/rsq/quest.asp?qref=115542> retrieved on 30/01/07

States	2005 (Foreign Tourists)	2015 (Foreign Tourists)	Growth Rate
Arunachal Pradesh	289	5705	$\frac{5705 - 289}{289} = 18.74$
			24720 - 10728

Assam	10782	24720	$\frac{24720}{10782} = 18.74$
Manipur	316	3260	$\frac{3260 - 316}{316} = 9.31$
Meghalaya	5099	8027	$\frac{8027 - 5099}{5099} = 0.57$
Mizoram	273	798	$\frac{798 - 273}{273} = 1.92$
Nagaland	883	2769	$\frac{2769 - 883}{883} = 2.136$
Tripura	2677	34886	$\frac{34886 - 2677}{2677} = 12.03$

CONCLUSION

A good move was made by the Government of India by signing the Act East Policy because the North Eastern Part of the country couldn't progress at par with the rest of India. Therefore, to remove several bottlenecks in terms of connectivity, market access and investment requirements, the Act East Policy was very strategic. Moreover, signing of such a policy with South East Asian Nations also enables India in developing its foreign relationship with those countries and strengthens the political ties among them. But, from the seminar paper we could make it clearly visible that even after the Act East Policy was formulated, the Balance Of Payment position of India's hasn't shown considerable improvement. India stood at a Balance of Trade deficit of \$21.85 billion in 2018-19 which poses a serious question on the success of the Policy. Similarly, the projects undertaken under the said policy couldn't be completed in the scheduled time. Again, the North Eastern Region of India hasn't experienced the influx of foreign tourists in great numbers and there is divergence in the growth rate of the number of foreign tourists in these North Eastern states of India (except Sikkim). This raises another question - whether the developments taking place within these states so disproportionate. Hence, although the objectives are good but implementation of the policy is poor indeed.

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