

# THE POLITICAL ECONOMY OF NORTH-EASTERN INDIA: PERFORMANCE AND PROSPECTS

## Abstract

Since independence, the Indian economy has undergone a significant transformation and is still adjusting to forces determined by globalization, increasing market connectivity, the rise of e-commerce and the Internet of Things (IoT), all of which have led to the service-sector emerging as a key driver of growth in recent years. The transition from the planning era to the NITI Aayog-based model of development has seen many challenges while some stark contrasts in economic development indicators have been witnessed within the states and regions. This leads to the question of whether the hitherto under-developed parts of India (especially towards the north-east) would see a shift in the scale and terms of economic development or whether the existing bottlenecks would prove to be too strong a force for proper penetration of the benefits promised by the ongoing transformation of the Indian economy. This paper makes an attempt to analyze the inter linkages between the national economic overview of India and regional economic growth in the north-east India. In doing so, it tries to evaluate whether the region needs to be rediscovered under the changing nature of government planning and the altered symbiosis between politics and economics in recent years.

**Keywords:** Indian Economy, North-east India, Development, Industry, Governance, Planning.

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## I. INTRODUCTION

Traditionally, the main focus areas of social science research, particularly with regard to the north-eastern region of India have spanned issues related to colonialism, nation-building, anthropological findings, cultural and linguistic studies as well as gender and tribal studies. Since the early 1990s, the region has found a prominent place in the discourse on development in terms of its economic and social benefits, characterized by increasing connectivity with Southeast Asia. Although it is widely recognised that the northeast is a highly resource endowed region, historically it has not been a significant contributor to the nation's Gross Domestic Product (GDP) due to various constraints in its value and supply chain dynamics coupled with bouts of insurgency-related isolation from the larger development policy apparatus of the government. Cecile Fruman, the Director for Regional Integration and Engagement in the South Asia Region at the World Bank, states that as of 2023, the region contributes only 2.8 per cent to India's GDP.<sup>1</sup> Apart from the north-eastern region's historical legacy as a periphery in the frontier policy of the British in the Indian subcontinent, the existing limitations in terms of connectivity with neighbouring markets has also proven to be a significant bottleneck for arriving at a holistic pattern of development for the region. Recognizing this necessity for enhancing connectivity-based projects in the region, the North Eastern Region Vision 2020 document of the government of India laid emphasis on strengthening infrastructure and connectivity as a major thrust area.<sup>2</sup>

On the one hand, the existence of immense potential in the form of resources (ranging from floriculture, horticulture, energy, piggery and pharmaceuticals to eco-tourism, religious circuit-tourism, adventure tourism, services and healthcare), physical linkages with the ASEAN economies via a land-border with Myanmar as well as the availability of manpower has necessitated a deeper understanding of policy formulation in this regard over the years. On the other hand, the demand-supply and input-output models of economic development gain prominence in any attempt at understanding the potential sectors themselves. Patnaik (2011) argues that while on the one hand there has been an acceleration in the rate of growth of the GDP of the Indian economy, generally since the mid-eighties, on the other, there has been an increase in the magnitude of absolute poverty.<sup>3</sup> In the case of borderlands in the areas connected by the old Southern Silk Road in India and especially in the north-eastern region, a lethal combination of poverty and limited employment avenues has been one of the main factors contributing towards the scourge of insurgency. As a result, private investment has been significantly low, based on market confidence, which has led to further poverty and erosion of the avenues of employment in a region where the average literacy rate stands at 78.5%, against the national average of 73%.<sup>4</sup>

The eight states in the region viz., Arunachal Pradesh, Manipur, Nagaland, Tripura, Meghalaya, Assam, Mizoram and Sikkim make up 8 per cent of India's land area, 3.77 per cent of its population and account for 2.8 per cent of India's GDP, as stated earlier. The

<sup>1</sup>Fruman, C. (2023). In Northeast India, All Roads Lead to Greater Development. *World Bank Blogs*. March 1 2023 Available at <https://blogs.worldbank.org/endpovertyinsouthasia/northeast-india-all-roads-lead-greater-development#:~:text=The%20Northeast%20contributes%20to%20only,surface%20of%20its%20immense%20potential.&text=The%20region's%20strengths%20are%20also,for%20nature%2C%20and%20pristine%20beauty>. Accessed on 17/4/2023

<sup>2</sup>North Eastern Region Vision 2020. Ministry of Development of North-East Region. Government of India.

<sup>3</sup>Patnaik, P. (2011). Growth and Poverty in the Indian Economy. *Social Scientist*. Vol. 39, No. 9/10. pp 19-34.

<sup>4</sup>NER Facts. Ministry of Development of North Eastern Region. Government of India.

regional economy is largely agrarian in nature with over 70 per cent of the population engaged in agriculture for livelihood and this is followed by the service sector. The manufacturing sector is still at a nascent stage. The partition of India in 1947 has had a significant impact on the economy of the region, virtually cutting it off from rest of the country. With East Bengal becoming East Pakistan (1947-1971), the traditional trade and communication routes of the rest of India with the north-eastern region were almost immediately snapped. Additionally, the region became truly land-locked as the earlier frontier routes with Myanmar and China were eventually closed. This is in contrast to the pre-independence economic scenario in the north-eastern region when it had been 'one of the fastest growing and well connected-integrated economic geographies of India.'<sup>5</sup>

**1. Research Methodology:** This paper explores the trajectory of planning for and development of the north-eastern region of India, as well as some of the intricacies involved therein, through a qualitative assessment of plan documents published during the course of the erstwhile system of five-year plans in India. It also looks at some of these findings quantitatively in order to structure the arguments coherently and since planning involves monetary allocation, quantitative techniques become unneglectable.

## 2. Aims and Objectives

This paper focuses on the following three objectives:

- to understand the history of economic planning for the north-eastern states of India
- to explore and analyse the impact of regional initiatives to promote the economic development of these states.
- to examine the potential areas of economic development of India's north-east.

## II. THE BACKGROUND OF PLANNING FOR NORTH-EAST INDIA'S ECONOMY

Ever since India's independence, the priorities of economic policies were focused on states which showed significant growth potential. The North-eastern region therefore, was not significantly represented in this plan, mostly due to the fact that it did not yet exist as it does today. The Fourth Plan (1969-74) took a more comprehensive view of the factors responsible for the backwardness of certain states and proposed that a multidimensional area development approach should be adopted in order to accelerate the development of backward areas. Moreover, given the peculiar situation where each backward area represented multiple layers of deprivation, it was recognized that an umbrella policy of development could not be successfully conceived and imposed from the central government level. Accordingly, in the Fifth Plan (1974-79) it was felt that formulation of location-specific strategies was essential in order to achieve accelerated rates of growth. Thus, the Fourth and Fifth Plans grouped backward areas broadly into two categories:

- Areas with unfavourable physio-geographic conditions, terrain, and regions including drought-prone areas, tribal areas and hill areas.

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<sup>5</sup> See 'North East Region Vision 2035: 3<sup>rd</sup> and Final Draft (Prepared by Professor Mahendra P. Lama)'. Planning Department. State Government of Meghalaya. Available at <https://megplanning.gov.in/circular/3rd%20&%20Final%20Draft%20NER%20Vision%202035.pdf> Accessed on 21.2.2023

- Economically backward areas marked by adverse land-man ratios, lack of infrastructure and inadequate development of resource potential.

This exercise was a precursor to the changes in the development strategies/policies during the 1970s, multiple programmes based on the theme of Area Development and Target Group approaches were launched. The aim was not only that of providing income and employment opportunities to the people of backward areas but also of arresting the widening of inter-regional disparities within India. Important among these programmes falling in the first category were Drought Prone Area Project (DPAD), Tribal Area Development Project (TADP), Hill Area Development Project (HADP), Command Area Development Project (CADP), etc. The HADP was discontinued in some districts of north-east India with effect from 2015-2016 onwards. However, in June 2017, then Minister for Development of North Eastern Region (DoNER) Dr. Jitendra Singh announced the launch of the Hill Area Development Programme for the north-east in Imphal (Manipur). The programme, he said, is 'inspired with a serious research and deliberation of factors including infrastructure, quality of roads, health and education etc.'<sup>6</sup>

It is interesting to note here that a significant proportion of the least developed countries in the world are geographically land-locked, meaning that their access to world markets depends largely on the availability of a trade corridor and transit systems elsewhere, most preferably in their neighbor/s. With this in mind and particularly in the case of the north-eastern region of India, scholars have often argued that the business and donor community should participate in the push towards the implementation of comprehensive facilitation strategies, primarily at the national level. Furthermore, such lobbies could also lend technical expertise in planning the design of robust and resilient transport and transit regimes in such areas. Given the land-locked nature of most of the states in the region, these pre-requisites gain paramount importance for any fruitful economic gains in the future. This is further highlighted by the fact that the regional economy of north-east India is physically much closer to the Southeast Asian markets than with the main centres and arteries of trade in India itself.

### III. ADDRESSING THE OBSTACLES

One of the main bottlenecks in achieving an upward economic growth trajectory in the north-eastern region as well as other areas such as the northern parts of West Bengal connected by the old Southern Silk Route and perhaps the main impediment to a successful reopening of these linkages so far has been a result of onerous logistics coupled with the slow pace of industrial development in the region. Given the north-eastern region's combined potential given the potential linkages with the Southeast Asian as well as the Chinese markets across the border, the commencement of trade with these economies show immense potential for the land-locked region. This is where the political aspect of 'political-economy' needs to be managed and crafted carefully. Concepts such as dry ports and smart borders have often been discussed in this regard but are yet to see the light of day in the region. As of this

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<sup>6</sup> "Hill Area Development Programme" announced for Northeast. The Times of India. June 6 2017. Available at <https://timesofindia.indiatimes.com/centre/hill-area-development-programme-announced-for-northeast/articleshow/59012751.cms> Accessed on 27/4/2023

writing, most of the emphasis in terms of economic connectivity and planning is laid on the further development of Integrated Check-Posts (ICPs) at international land borders in the region.

In the Third Five Year Plan of India, the concept of a balanced regional development was discussed in detail. Particular emphasis was laid on selection of industrial location (both for public and private sector), use of large projects as nuclei of regional growth, technological development, education and training and labour mobility.<sup>7</sup> A sign of acceptance of the fact that the North-eastern region needed special incentives and institutions for development came in the form of the North Eastern Council (NEC), which was established in 1972. Furthermore, under the sub-plan approach of the Sixth Five Year Plan (1980-85), greater emphasis was placed on Special Tribal Plan, Hill Area schemes and the programmes handled by the North Eastern Council. Until the Ninth Five Year Plan (1997-2002), the Council was instrumental in promoting regional institutions in the North-eastern states, such as Lokpriya Gopinath Bordoloi Regional Institute of Mental Health (Assam), North Eastern Regional Institute of Water and Land Management (Assam), North Eastern Electrical Power Corporation Ltd. (Meghalaya), Regional Institute of Medical Sciences (Manipur), Cane & Bamboo Technology Centre (Assam), Regional Institute of Pharmaceutical Science & Technology (Tripura), Regional Institute of Paramedical & Nursing Sciences (Mizoram), etc. A thrust towards institution-building in the north-eastern region may therefore, be witnessed towards the mid-1970s. These institutions, however, have been unable to address most of the problems in economic development in the region and therefore, towards the mid-1990s, any scope for integration with the regional economy through Myanmar, began to be explored.

#### IV. REGIONAL INITIATIVES

A significant policy-shift with regard to connectivity and grass-roots development of the region came in the form of the Look East Policy, announced by the P.V. Narasimha Rao administration and renamed as the Act East Policy in 2014 with certain upgradations. Geographically, this policy relies on the development of trade-facilitating border infrastructure in the North-eastern region of India as well as in the northern parts of Myanmar. Therefore, at least two governments have to agree on synergizing trade-flow across the shared border. Economic and political analysts at the North Eastern Development Finance Corporation Limited (NEDFi) have been brainstorming about prerequisites for successful integration of the north-eastern region of India with the Southeast Asian markets of Cambodia, Lao PDR, Myanmar, Vietnam and Thailand (CLMV+T) and the scope of attracting investment from these countries. Of late, such efforts have breathed new life into and contributed towards the emerging discourse on novel avenues of economic development in the region. However, there are significant hurdles that need to be overcome peacefully. The differing nature of land and investment laws among the eight states of the region can be considered as an example in this regard. This is one of the many sensitive issues which in many ways preserve the uniqueness of the ethnic composition in the region, while also acting as a significant roadblock to proper investment from private players from international markets.

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<sup>7</sup>Sachdeva, G. (2018). "Preparing the Northeastern economy of the future." In Oinam B. & Sadokpam D.A. (Eds). *Northeast India: A Reader*. Routledge. New York. pp.391-405.

The Bangladesh-China-India-Myanmar (BCIM) Economic Corridor is another initiative of significance for the NER owing to the complementarities with the development goals of China - to unlock the potential of its relatively backward western regions and of India - to develop an economically backward and landlocked north-eastern region. The year 2013 was crucial in the development of BCIM initiative as a car rally from Kunming to Kolkata (K2K) was organised with great success. However, this could not bring about significant changes in the economic relations between the member-states and the absence of alternative geographical routes may have been a crucial factor for this. The 1,360 km long India-Myanmar-Thailand (IMT) Trilateral Highway to establish road connectivity from Manipur border to Thailand through Myanmar, inaugurated in 2001 was yet another significant initiative aimed at improving connectivity between South and Southeast Asia. Here again, infrastructural development in the bordering states of the north-eastern region of India has proven to be a crucial factor for the success or failure of such regional projects. For example, Mizoram's geographical placement as one of the four states in the North-eastern region of India which share international borders with Myanmar, bestows immense potential for the state. To further convert this growth into tangible benefits for the region, sectoral development based on current potential has to be initiated by the local administrative bodies as well as by the central government. Highlighting the potential of the agriculture sector, for example, in its 32<sup>nd</sup> Annual Report (2013-14), the North Eastern Regional Agricultural Marketing Corporation Limited (NERAMAC) states that the Corporation achieved a turnover of Rs.54.13 Crore during 2013-2014 as compared to Rs.43.70 crores during 2012-13. During the year 2013-14 the Company earned a gross profit of Rs.1.88 crores as compared to that of Rs.1.66 crore during the previous year.<sup>8</sup>

A vast majority of previous empirical studies on regional trading arrangements have placed more emphasis on economic variables while the role of socio-cultural and political factors in trade have not been addressed extensively. Yet, both these sets of variables have been known to have a significant role to play in trade.<sup>9</sup> In terms of a suitable model for study in this regard, the gravity equation offers a systematic framework for measuring the normal pattern of bilateral trade. This model aims at examining the extent to which trade within each region can be explained by economic factors such as gross national product that proxies for the size of the economy, per capita income which represents the level of development, population of countries and distance between them. Accordingly, income, distance and population are the most common variables included in empirical estimates of the gravity equation since these variables tend to have a direct and significant impact on trade flows between countries. Certain empirical studies in the past have demonstrated that higher income levels and population density affect trade flows positively and significantly while a larger physical distance between trading nations translates to higher transportation costs and has a significant negative impact.

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<sup>8</sup> 32<sup>nd</sup> Annual Report 2013-14. North Eastern Regional Agricultural Marketing Corporation Limited (NERAMAC), Guwahati, Assam.

<sup>9</sup> Shrestha, H.K. & Upadhyay, M.P. (2004). Political Economy of Regional Trading Arrangements in South Asia, *Journal of Economic Integration*. Vol. 19, No. 3. pp.427-446.

## V. CONCLUSION

Regarding the role and nature of political factors in trade and connectivity, a major study of bilateral trade within and across trade blocs was conducted by Frankel, Stein and Wei in 1997.<sup>10</sup> Their study examined the existing trade patterns throughout the world and found different magnitudes and trends of the bloc effects for different parts of the world. The study showed the strongest effects of regional blocs on the Association of Southeast Asian Nations (ASEAN) and Mercado Comunal del Sur (MERCOSUR) or Southern Common Market, as compared to other blocs elsewhere and suggested that the expansion of European Community in 1973 and 1983 boosted intra-EC trade by 65 per cent. Some gravity models estimate the impact of trade policy, such as tariff rate, black market exchange premium and direct exchange control. This model therefore, may prescribe the creation of a common market in the north-eastern region of India along European lines. This idea has also been explored by many scholars engaged in analyzing the technical problems associated with tapping the resource potential of the region effectively and in a sustainable manner. Their findings generally point towards the need for a promotion of the idea of some form of common market in the region which comes with its own set of regulatory mechanisms including but not limited to an expanded basket of trade, enhanced security measures at the border points, new avenues of employment as well as a proper utilization of the perishable resources of the region, which otherwise, have very little to no value due to the absence of facilities such as cold-storage systems. So far, many of the models for the economic development of the north-eastern region of India have not been able to achieve the set-out targets. With new avenues of growth emerging in the regional economy, planning for the future growth of the region inevitably would have to include these realities. This would entail identifying or re-identifying of emerging technologies in the regional arena which would be suited to the topography of north-east India. From a bottom-up perspective, the role of regional institutions such as NERAMAC and NEDFi in fostering further research and innovation in such technologies needs to be explored, since these institutions are equipped with the necessary infrastructural and human resources necessary to undertake such initiatives.

Furthermore, there is still a dearth in the sectoral research on potential areas of grassroots development including but not limited to its water and forest resources, international market potential for local goods such as orchids from Arunachal Pradesh, Lakadong Turmeric from Meghalaya (with curcumin content of over 7%), YarshaGunba (Caterpillar fungus) from northern parts of Sikkim (still an unregulated market locally but commanding prices as high as \$50,000 per 500 grams in the international market), Muga and Eri variety of Silk in Assam, etc. It is pertinent to encourage institutional collaborations between regional, national as well as international bodies in this regard as the technical know-how is largely scattered across multiple locations in and around the north-eastern region. For instance, along with a study of the prospects for export of these local goods, a simultaneous focus on their market potential in the region (including Myanmar, Thailand, Cambodia, Vietnam and Lao PDR) needs to be emphasized. Identifying these gaps would be a precursor to the successful implementation of development and planning initiatives.

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<sup>10</sup> Frankel, J. A., Stein, E., & Wei, S. J. (1997). Regional trading blocs in the world economic system. Peterson Institute.

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