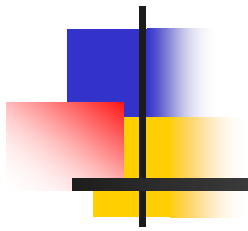


The Look East Policy and the Northeast: New Challenges for Development

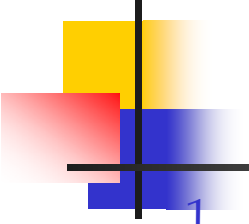


Alokesh Barua

&

S.K. Das

The Main Points

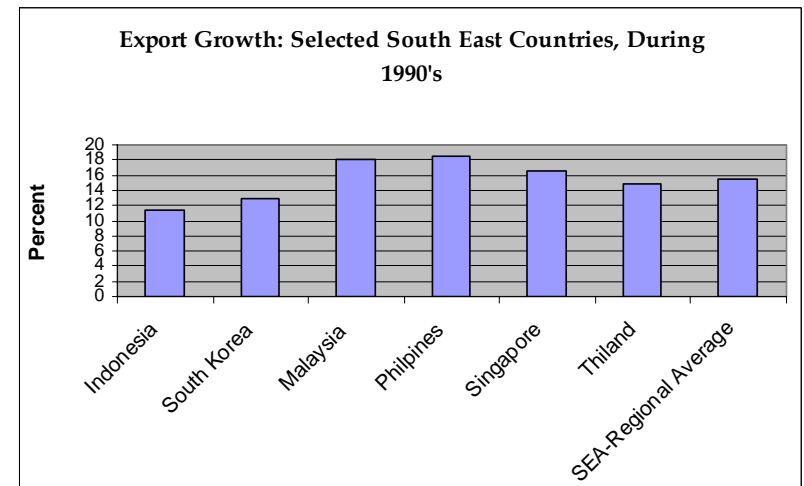
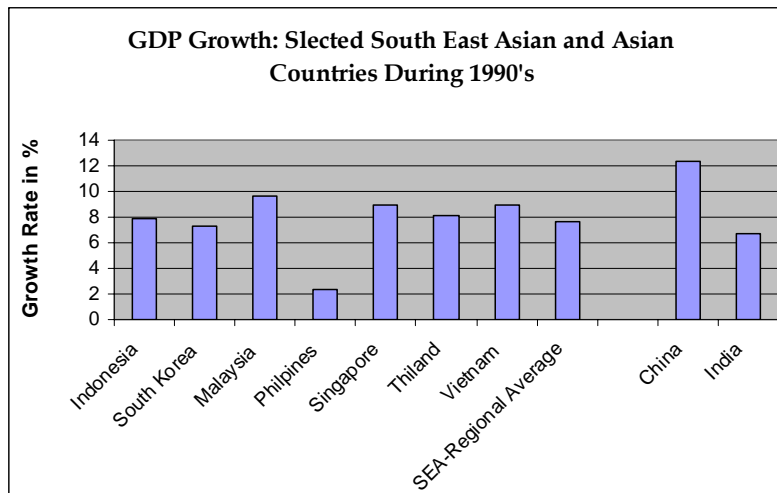
- 
1. This paper attempts to critically review the relevance of India's "Look East Policy" announced by the Prime Minister in 1991 for the economic development of the northeast region.
 2. The look east policy is viewed as post cold war development in the realm of India's foreign policy..
 3. Several factors were responsible for this shift:



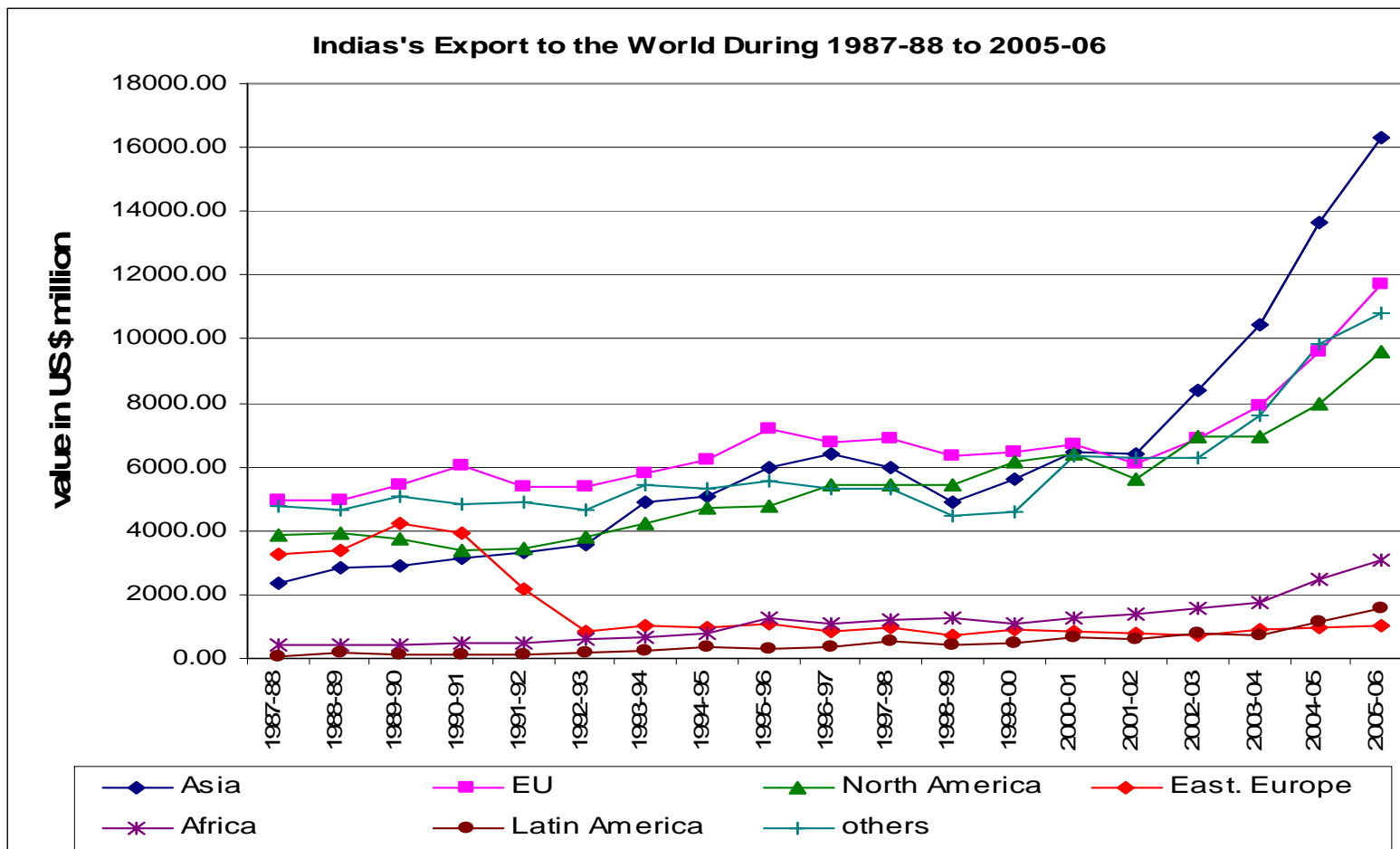
The Main Points

- The end of cold war and the eventual rise of the US as the only super power making the policy of non-alignment virtually redundant.
- The worldwide trend towards regionalism since the eighties posing new challenges before India and considerably weakening India's faith in multilateralism.
- East Asia's exemplary [growth performance](#) under an [outward looking strategy of development](#) contrasting with India's sluggish growth under protectionist and all pervasive government control policy regime.

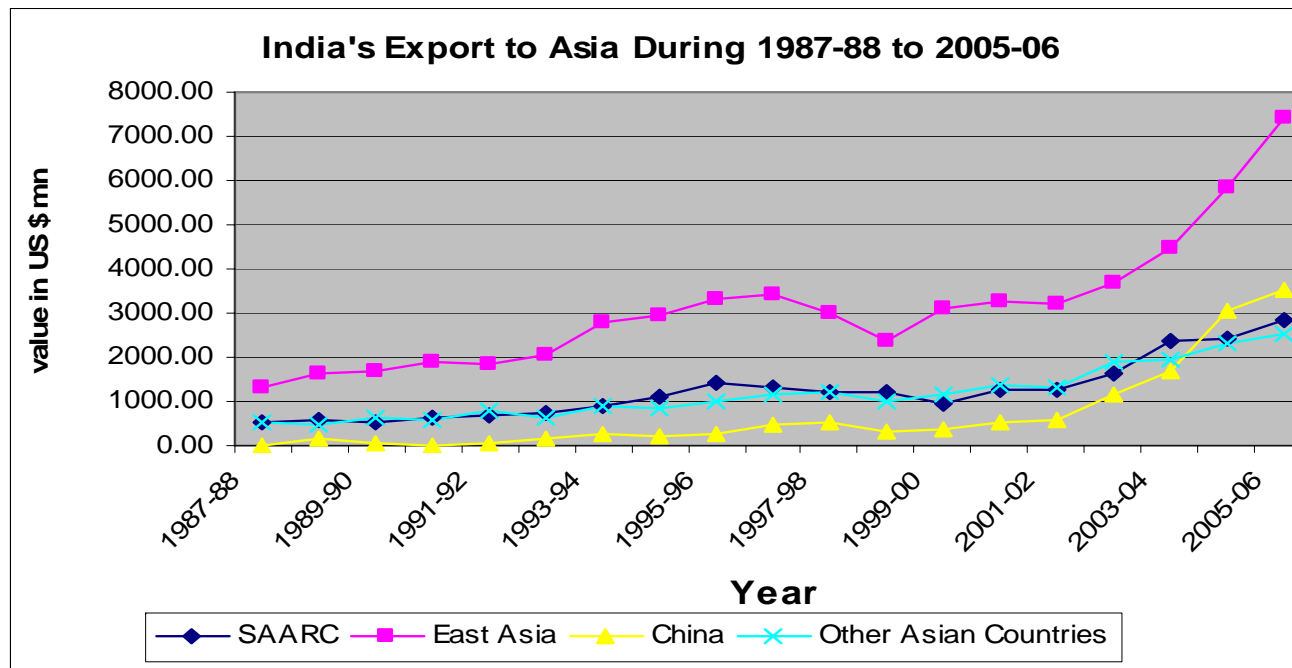
GDP & Export Growth: Selected South East Asian & Asian Countries During 1990's



India's Export to the World, 1987-2006

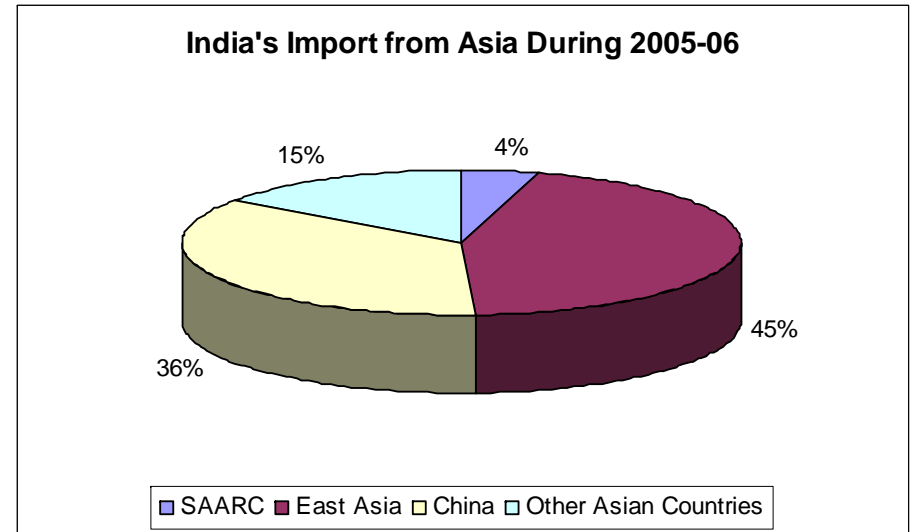
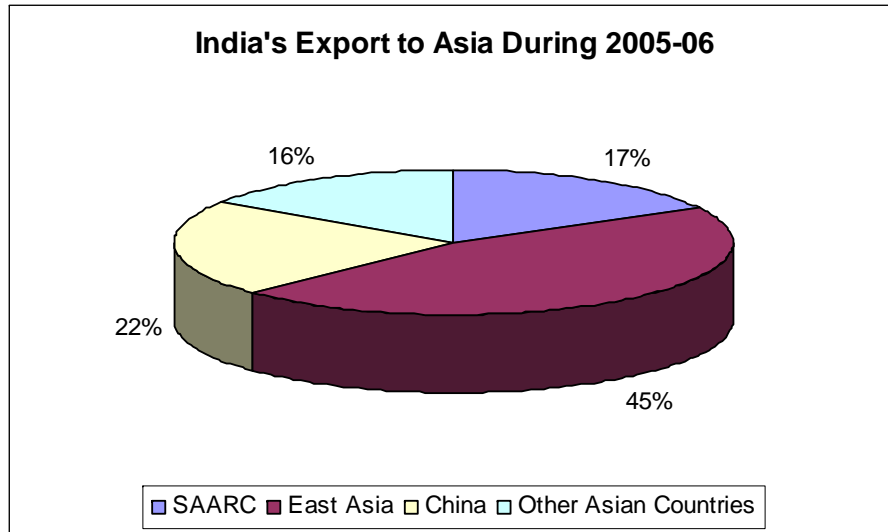


India's Export to Asia, 1987-2006



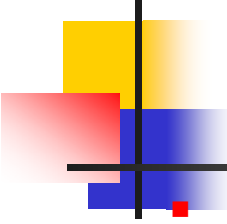
Here East Asia includes, the big five: HongKong, South Korea, Singapore, Malaysia & Thailand

India's Export to Asia-Region Wise, 2005-06



Here East Asia includes, the big five: HongKong, South Korea, Singapore, Malaysia & Thailand

Main Points...(Cont.)



The “China factor” - China was seen as the principal source of insecurity and the greatest potential threat to India’s long-term interests. Closer links with the East and the Southeast Asia were thus considered to be possible ways to “set limits on China’s influence” or perhaps to “balance” China’s expanding power in the region.

4. The idea of the inclusion of the “**northeast development concern**” as an important component of this policy came up in 1997 following a report - *Transforming the North-East: High Level Commission Report to the Prime Minister, 7 March, 1997.*
5. The emergence of the look east policy as a role model of development for the northeast is often dubbed as the ***new development mantra*** or a ***new paradigm of development*** in the northeast development perspective. The reasons that could explain for this new emphasis can be summed up as under:



New Paradigms of Development

- *Security concerns as determinant of the northeast development* – the security concerns are both external and internal: As for the external concerns, the China factor again emerges as the crucial one. China even today does not openly accept Tawang as part of India.

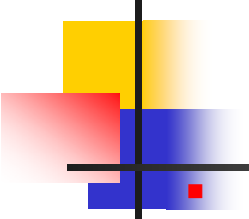
- The *internal security* problems relates to the northeast having serious international dimensions:
 - (i) the extremist/insurgent outfits are internationally well connected
 - (ii) the porous borders are frequently used by the extremists/outfits to escape from the Indian army;
 - (iii) These outfits have their hide outs in the neighboring countries;
 - (iv) the Pakistan via the ISI is also involved in fomenting trouble in this region using Bangladesh as a base.



New Paradigms of Development

- The admission of Myanmar to the ASEAN Club in 1997 could be another reason since the Myanmar is strategically situated between India and Indochina; gives an alternative way to reach out to the East and Southeast Asian markets.
- The northeast being a “top priority” for the government of India today, this seems to be a justifiable reason for the inclusion of northeast in the look east policy. *Clearly, this demonstrates a development concern for the northeast;*
- This new development paradigm in a way was the result of the failure of the ‘**Old development paradigm**’ where the major thrust of development policy as articulated by various packages of development under the aegis of successive Prime Ministers since Deve Gauda was to pump in as much money as possible for the development of this region.
- The region becomes a high consuming state - too much money becomes a new problem. Yet there is acute shortage of money for many development projects.

Main Points



Economic growth was entirely generated by unsustainable public expenditure resulting in: **Too much dependence on agriculture** for a large segment of the populace, **low productivity of agriculture** due to flood and **lack of technological up-gradation, lack of industrialization**, a very high incidence of **poverty and unemployment** and **rising income inequality** - these are some of the characteristics of the economy.

6. But this new paradigm of development will have if at all only a very limited on the development of the region.
7. The region was exposed to a massive scale of international trade during the 19th century but its impact if any on the economy was very negligible. This is a sad lesson from the past history of the region.
8. The main reasons for the failure were:
 - (i) the tea plantation was developed into enclave production without having any linkage with the hinterland,
 - (ii) appropriation of land by the agents of the Company without any compensation being paid to the owners of land,
 - (iii) the railway network passing through the deep jungles connecting the tea plantation to the river/sea port and thereby leaving the entire hinterland in the outskirts as a result of which market formation was prevented and
 - (iv) lack of a technological revolution in rice plantation.



Problems of Development

9. The crux of the problem of development is therefore not the lack of integration with the booming East and the Southeast Asian markets.
10. The crucial problems of development faced by the region are
 - (i) the lack of intra-regional as well as intra-state connectivity
 - (ii) infrastructure and
 - (iii) the issues of security and governance.
11. The new paradigm of development seems to ignore these issues by diverting attention to an issue (like connectivity with the outside world) which may have if at all marginal impact upon the economy.
12. The correct strategy of development should therefore be to address the latter issues more seriously instead of focusing upon connectivity with the outside world.
13. The region should have both short term and long term visions of development where the ultimate objective should be to increase the size of the market by allowing scope for trade and specialization within the northeast through the improvement of intra-regional connectivity, creation of infrastructure and maintenance of proper security and governance and by initiating a participatory development process with the grass root levels of participation in order to increase agricultural productivity.



Main Points

14. The failure of the old paradigm of development set the tone of the new mantra or the new paradigm of development - integrate the northeast region with the booming markets of the East and the Southeast Asia through the so called “The Gate way of India” - a possible land route from the northeast to the China and the other east Asian markets - an attempt to rediscover the Old Silk Route.
15. The basis of this argument is that integration will allow increasing trading opportunities for the northeast region with the promising markets of the East and the Southeast Asia.
16. International trade is expected to play the role of an “engine of growth” so as to transform the northeast into a highly modernized industrial region and also as an alternative route to reach out the outside markets as entrepot trade facilities for the hinterland.



economic integration with the East and East Asian markets

17. The fallacy of the new mantra emphasizing upon economic integration with the East and East Asian markets as an alternative development model whereas there lies the [vast India market with which the region is quite well integrated by land route](#). What extra gains could be achieved by integrating with the East and the Southeast Asia against the possible gains which could be accrued from the economic integration with the vast Indian markets?
18. [The real issue is not lack of integration which caused slow growth in the northeast but insurmountable developmental constrains resulting in the failure of the region to integrate with the rest of India.](#)
19. The northeast had been having relatively very high levels of border trade with the neighbouring countries which will continue to exist irrespective of any policy. But such border trade was mainly determined by scarcity and surplus situation in the geographical proximity of the subsistence village economies, and not market economies where production is mainly for market surplus.
20. The distance to be covered from the “gateway to the East and the Southeast Asia” is very long covered by uneven topography causing high transportation cost, uncertainties and perhaps too many border to cross.
21. No wonder why India’s entire trade with this region is still carried by maritime transport. Undoubtedly, the “gate way” can never be an efficient [entrepot for the exporters located in the hinterland](#).



Main Points

22. What are then the constraints? Connectivity within the region and absence of internal security and governance. Non-existence of markets and absence of a common market. The following quotation from a recent document published by the Planning Commission (1997) clearly reveals the state of transport cost and law and order in the region:

“A moving truck load of goods from Moreh to Dimapur, a distance of 316 km, costs Rs 50,000. Part of these charges may be due to the fact that the truck was carrying illegally traded goods. Yet the number of “tax collectors” is likely to collect something from trucks carrying legally traded goods too. These “taxes” must act as a significant disincentive to any one thinking of setting up an industry in the North-East to meet North-East demand. This refers to Manipur and Nagaland. The situation in Assam is much better. We have noted that carrying a truck from Guwahati to Kolkata over a distance of 1,100 km costs Rs 22,000. Yet the high transport costs in other NE States restrict market reach of industries located in Assam. Traders claim that to move a truck from Imphal to Guwahati (487 km) cost Rs. 35, 000.”

23. Trading in what? To put it other words: Given the present pattern of India’s trade with the East and the Southeast countries, do we find any array of goods that are being produced in the northeast and in the production of which the northeast can possibly realize comparative advantage? The answer is an absolute no.



Main Points

24. Lessons from history: India experienced a spectacular 10 per cent cumulative annual rate of growth in tea exports over the period 1858 to 1901 and Assam's contribution to India's exports of tea was nearly 90 percent. *Why then such a massive trade could not play the role of an engine of growth for the region?*
25. An answer to this question may clarify several misgivings or misperceptions about the view shared by a section of elite that the ultimate path of salvation for the northeast lies in trade! The exponential growth in the expansion of tea plantation was also accompanied by a massive scale of investment in plantation and infrastructure amounting to nearly 20 per cent of the national income of the region. Yet, the region had miserably failed to grow in response to such vast scale of trade and investment.



Main Points

26. There were of course many reasons, including the colonial suppression of local entrepreneurships. But perhaps the more important fact is the transport networks, which were designed to connect the production point (mainly tea) with the destination of river ports to ship tea to sea port. The railway lines were passing through the deep jungles instead of through human habitation. The tea plantation was developed as an “enclave’ without having any linkages with the hinterland.
27. The lesson that could be drawn from history thus is that unless [production clusters located within the region](#) could develop adequate linkages with the villages within as well as between the regions no market formation will take place. Production will be disjointed and the economies will be of the self-sufficiency types.



Conclusion:

- Increased regional and international trade can shape the future destiny of the northeast region by providing the scope for industrialization and growth. But mere facilitation of trade through the region with the neighboring countries will have only marginal impact on the economy unless the region can be converted into a production hub.
- For this the Central Government and the various State Governments of the region must adopt proactive role. Instead of providing tax holidays for investment in the region, the Governments should provide infrastructures, political stability and good governance. They should adopt more outward rather than inward looking policies for development.
- The economic integration of the states of the region is necessary to maximize the benefits from investment in various economic activities. Special export processing zones should be created in the region such that investors find sufficient inducement to invest in locating production plans in the region.



Conclusion:

- Greater participation of the local people in production and distribution activities, the education sector should be given the prime importance.
- However, the vast rural masses have to be brought into the process of industrialization for political viability of the trade as a strategy of industrializing the region. For this the utmost importance should be given to raise the agricultural productivity in the region with proper flood control measures and other steps.
- As it had happened in the past, without a parallel agricultural revolution in the region, trade alone will not be sufficient to transform the region into a sustained development path. The growth in trading activities will only benefit those people who possibly are from outside the region and who are also economically more powerful to exploit the resources of the region.