

# Act East Policy and Economy of the North East India

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## Introduction:

The look east policy launched in 1992 was an inevitable offshoot of the closing stages of the cold war following the collapse of the Soviet Union. The policy was kick started when the then prime minister Naramsimha Rao visited China, Japan, South Korea, Vietnam and Singapore. This initiative culminated in India becoming a sectoral dialogue partner with ASEAN in 1992. The Act East Policy is an attempt to integrate India with her neighboring eastern economies. Even when India's approach to development was inward looking and state controlled some smaller countries to its east has emerged as strong economies and came to be known as the Asian Tigers. The performance of these economies finally compelled policy makers in India to look eastward for inspiration for rapid economic development. The look east policy is one of the important strategies of India's development. Look East Policy was launched when India had a very fragile economy due to Economic Crisis. India was in a transition phase to a liberalized economy. Present Prime Minister of India Narendra Modi launched the Act East policy in 1914 focusing more on boosting economic cooperation, building infrastructure for greater connectivity, importantly strategic and security tie. Implementation of this policy will certainly impact upon economy of the NorthEast. The North Eastern region of India is geographically isolated area which is linked to the rest of the country through a chicken neck at Siliguri. For better part of the post independence period the region had a peripheral existence in the Indian economy. With the initiation of the Look East Policy this region has become a focal point.

## Backdrop of the policy:

After independence India was attracted to the tremendous development achieved by western countries. It had been recognized that the noteworthy factor behind the rapid economic development of these countries was the process of industrialization. India was inspired by the concept of economic planning which particularly prevailed in the economy of the erstwhile Union of Soviet Socialist Republics (hereafter USSR). Accordingly India initiated five year plans from 1951 onwards, the prime aim of which was rapid economic growth of the country through industrialization. One of the main objectives of planning was to attain self reliance which is possible only when a country is able to produce everything domestically. Two types of trade strategies were sought to be promoted towards this end strategy: import substitution and export promotion. Strategies of import substitution were generally designed to produce those commodities, which were previously imported from foreign countries, domestically. This trade strategy had two major objectives:

- (a) To save valuable foreign exchange due to import of desired commodities.
- (b) To achieve self-sufficiency in the production of as many imported items as possible.

On the other hand export promotion strategies were conceived to expedite the export sector. But due to export pessimism Indian policy makers decided to go for import substitution rather than export promotion. These trade policies were unable to bring any significant contribution towards the economic growth of India. It is well known that in 1980's problems such as growing fiscal deficit, inflationary pressure and balance of payments crises became severe. As a result policy makers felt the need to change the development strategy. In this context the Indian Government introduced economic reform measures in 1991. These reform measures were both internal and external in nature. Through internal reforms the Indian economy was liberalized from excessive state control and a market oriented approach was adopted. On the other hand external reforms paved the way for opening up the Indian Economy to the global market. Thus greater integration of India with rest of the world economies was ensured through globalization. As part of the policy of globalization the policy of looking towards the countries in the east was encouraged. In this context a question arises, why did Indian policy makers not pay any attention to the eastern countries soon after independence? This was because the eastern countries were also underdeveloped like India. Japan was a developed nation and it was treated like any other developed western country. The emergence of Singapore, Taiwan, Hongkong and Korea as powerful 'Asian Tigers' to the east did not inspire India to change her economic policy regime. But the economic prosperity achieved by countries like Thailand, Malaysia and Indonesia nearer home attracted India's interest. The spectacular growth of China's trade and liberation policy since 1980s injected an intense desire to develop the Indian economy. Expanded and stronger trade relationships with the eastern countries were thought to be beneficial by the Indian Government in this regard. As a result policies such as the Look East policy assumed importance.

## Policy Initiatives in Practice

To enhance economic cooperation with the eastern economics, the Government of India is trying to establish closer economic ties through increased trade relations. Accordingly, certain proposals have been made to form regional blocks so that preferred and free trade can be initiated with these countries.

### **BIMSTEC**

As an endeavor to forge regional economic cooperation, a sub-regional grouping BIMSTEC was established on June 6, 1997 in Bngkok among the countries along the Bay of Bengal-Bangladesh, India, Sri Lanka and Thailand Economic Cooperation. Myanmar was an observer but joined this organization as a full member at a special ministerial meeting held in Bangkok on December 22, 1997 upon which the name of the organization was changed to BIMSTEC. In 2003 Bhutan and Nepal joined this group. This association seeks to increase economic cooperation between member countries in certain important areas such as trade, investment, fisheries, agriculture, transportation and human resource development. Its first summit was held on July 31, 2004 in which the grouping was renamed the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation. It was expected that the two Southeast Asian nations-Thailand and Myanmar would provide necessary linkages to other member nations to increase economic cooperation to the Association of South East Asian (hereinafter ASEAN) and the East Asian countries. Effective implementation of India's Look East Policy depends upon closer relationship between India and the ASEAN. Greater economic ties with ASEAN can be ascertained through a good relationship between the Northeast and Myanmar since geographically this region and Myanmar share a common international border.

### **Kunming Initiatives**

Another effort to enhance regional cooperation with the eastern countries was the Kunming Initiative. A conference on regional cooperation between Bangladesh, China, India and Myanmar (hereafter BCIM) was held on August 17, 1999 in Kunming, the capital of Yunnan province in the southwest China. An agreement for improving communication link among these countries called the Kunming initiative was signed. The main thrust of the agreement was to request the concerned governments to develop adequate road, rail, waterway and air communication facilities between the southwestern region of China and northeastern region of India. An attempt had also been made to revive the ancient southern silk route between Assam and Yunnan. As the northeastern region is located at the corner of India it can become the gateway of the country to the east expediting international trade between India and rest of the developing economies.

### **The Mekong-Ganga Cooperative Project**

This project is another significant attempt to increase regional cooperation among India and Southeast Asian nations. The project was approved between India and five Southeast Asian nations, namely Thailand, Vietnam, Laos, Cambodia and Myanmar on November 10, 2000 in Vientiane, the capital of Laos. The main aim of this project was to develop overland trade, tourism, communication and transport linkages including the east-west corridor projects and the Trans-Asian highway.

### **Importance of Myanmar**

From India's point of view policies and cooperation of Myanmar have assumed importance for realizing the goals set up in the above mentioned initiatives. This is because of Myanmar's special geographical position as a meeting point between East and South Asia. Trade across the Indo-Myanmar boarder is not only significant to accelerate trade relations between India and Myanmar but to also help in creating closer economic ties with countries lying east and southeast of Myanmar. Though attempts have been made to expedite trade relations with Myanmar through initiatives such as reducing trade barriers some difficulties still exists from Myanmarese role. The economic and commercial policies of the then ruling military junta is out of touch with the liberalized economic regimes of the countries surrounding it. For instance Myanmar's currency kyat, is grossly overvalued as per the official exchange rate. Since informal trade operates on the basis of the market driven unofficial exchange rate, such trade especially the import part is unviable at the official rate. So unless Myanmar's currency is revalued more realistically, moving from informal to formal trade channels will be difficult.

### **Economic consequences for the Northeast**

The northeast region is now considered an asset by the rest of India rather than excess baggage as perceived in the past. The important question before the Government of India is how to utilize this asset with proper planning. The pre requisite to use the region as an asset is to develop infrastructural facilities because the existing facilities are not adequate. However the Northeast region of India is facing developmental challenges due to its landlocked condition. As pointed out by B.G. Verghese this region is South Asia's third landlocked state along with Bhutan and Nepal. Due to this landlocked condition the Northeast is lagging behind in terms of connectivity and market access to its neighboring countries. Prior to the advent of the British the Northeast was connected with other countries through routes like Silk Road. Northeast India was on the southern trails of the Silk Road which connected the western region of China through Central Asia to the Mediterranean. The present Government of India has given focus on

development of the Northeast region. Japan is helping India by providing funds for different infrastructure projects. India's Act East Policy is based on four c's namely culture, commerce, connectivity and capacity building. Act East Policy has a greater strategic and political angle to the cooperation. Relationships with Japan, South Korea, Vietnam, Malaysia, Australia have been upgraded to a strategic partnership to counter the dominance of China in the entire region. Successful implementation of the Act East Policy depends on undertaking various developmental projects by the Government of India to establish better communication and transportation network in the region.

The following observations could be considered potential benefits that the northeast could derive from the implementation of India's Act East Policy.

(a) Northeast India's participation in merchandise trade with its neighboring countries may not be very encouraging. But there is considerable scope of improving trade in certain local products such as tea, spices, handloom, bamboo and cane handicraft. Improvement of quality is the necessary condition for these products to capture the foreign market and derive benefit from enhancing trade activities.

(b) It is observed that substantial volume of informal trade is taking place along the Indo-Myanmar border. Illegal trade along the border has resulted in huge loss of revenue for the Government of India as well as for the state governments of Northeast. The Look East Policy will help in legalizing informal trade along the border and encourage the trading partners to expand their business. In addition, legalization will also enable the concerned governments to earn revenue through collection of duties on imports and exports. If trade is to be encouraged the rates of such duties have to be modest. However if the volume of trade increases the revenue collection can be substantial. Currently this potential for generating revenue for the government is being pocketed by agents and corrupt officials in return for facilitating the illegal informal trade.

(c) There are immense possibilities for the Northeast to enjoy the spin off effects from trade by developing certain service sectors like hospitality, transport and communication, storage, banking and insurance.

(d) There is ample scope for entrepreneurial development among the local people of the region which in turn will create a favorable environment for the establishment of hotels, restaurants and dhabas along transportation routes. To meet the increased demand for food items, establishment of animal husbandry and fishery farms will be accelerated. The prospect of developing the motor vehicle servicing industry and fuel agencies with state of the art amenities to cater to the needs of passengers and transportation vehicles will also be encouraging.

(e) A favorable impact may be expected from India's Act East Policy on the existing unemployment problem in the Northeast. Unemployed people will find profitable jobs in the above ventures that will help in solving to a certain extent the acute unemployment problem faced by the region.

(f) In the process of implementing the Act East Policy trade relations between India and other neighboring countries will expand. This expanded trade may take place either through the sea route or through the land route, northeastern states will not be able to derive any gain from trade. Realization of economic benefits by these states depends on trade taking place through the land route.

(g)

## CONCLUSION

Improving the transport and communication system is an essential condition for successful implementation of the Act East Policy. Construction of all weather roads, connecting highways, rail stations and airports are the need of the hour. The Indian government and the state governments of the Northeast should take initiatives to develop roads and other infrastructural requirements. Coordination among the four transportation systems- road, rail, river and air is also necessary for deriving significant economic gain from the Act East Policy. India's Act East Policy is a significant step for economic development of the Northeast in particular and the country in general through better cooperation and the closer trade relationship with the countries to the east. The region will face both opportunities and challenges in its development. As far as the opportunities are concerned, states of the Northeast may become major beneficiaries by producing quality local products having a high demand in the foreign market. At the same time the improvement of the various service sectors such as hospitality, transport and communication, storage, banking and insurance, motor servicing and fuel agencies are also supposed to provide relief to the poor economic condition endured by the region. The improvement of the service sector may also address to the severe unemployment problem faced by this region to a certain extent. There is a possibility of properly utilizing the region's endowed and untapped natural resources. However India may face security challenges from pursuing liberal and free trade relations with the eastern countries. Apart from the China factor and insurgency, roads through Myanmar may be used to bring drugs, illegal migrants, infectious disease may worsen India's HIV/AIDS crisis. Though there are negative implications to the implementation of the Look East Policy, yet the policy has the potential to transform India's Northeast to a region of peace and economic prosperity by assessing and managing the risks that are associated with the policy. To realize this possibility the Government of India and the state governments of the region should come forward with a positive outlook and actively participate in making the policy a success.

The present government of India is engaged with the emerging political challenges in East Asia. Under the previous governments, India's Look East policy did recognize the importance of maritime security and defence sector cooperation with the neighboring countries. This will definitely help the northeastern states for their development.



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