INDIA'S LOOK EAST POLICY & THE NORTH EAST- PROBLEMS & PROSPECTS OF REGIONAL INTEGRATION

DISSERTATION SUBMITTED TO NORTH-EASTERN HILL UNIVERSITY
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CERTIFICATE

This is to certify that the Dissertation entitled **India's Look East Policy & The North East-Problems & Prospects of Regional Integration,** submitted by Mr. Trailokya Deka for the Degree of Master of Philosophy to North Eastern Hill University is a bonafide work to the best of my knowledge and may be placed before the examiners for their consideration.

Further, this Dissertation has not been submitted to any other University or institute for any degree or diploma.

6/4/09
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DECLARATION

I, Mr. Trailokya Deka, hereby declare that the subject matter of this Dissertation is the record of the work done by me, that the contents of this Dissertation did not form the basis of the award of any previous degree to me or to the best of my knowledge to anyone else, and the Dissertation has not been submitted by me for any research degree in any other University/ Institute.

This is being submitted to the North Eastern Hill University for the degree of M. Phil in Economics.

06/04/2009.

[Trailokya Deka]
Registration Number: 283 of 15.04.2008

To
My Father
&
Mother

Acknowledgement

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CONTENTS

List of abbreviation:

AEZ	:	Agri-export zones.
APEC	:	Asia Pacific Economic Cooperation.
AFTA	:	ASEAN Free Trade Area.
ASEAN	:	Association of South East Asian Nations.
BRO	:	Border-Roads Organisation.
BIMSTEC	:	Bay of Bengal Initiative Multi-Sectoral Technical and Economic Cooperation.
CMIE	:	Centre for Monitoring Indian Economy.
CECA	:	Comprehensive Economic Cooperation Agreement.
CBMs	:	Confidence Building Measures.
CWC	:	Central Warehousing Corporation.
CIBS	:	Critical Infrastructure Balance Scheme.
COMESA	:	Common Market of Eastern and Southern Africa.
EPA	:	Economic Partnership Agreements.
EFTA	:	European Free Trade Association.
EDB	:	Economic Development Board.
EFTA	:	European Free Trade Area.
FDI	:	Foreign Direct Investment.
FTA	:	Free Trade Agreement
GSDP	:	Gross State Domestic Product.
GCC	:	Gulf cooperation council.
GLCs	:	Government linked company.
GIC	:	Government Investment Cooperation.
ITES	:	Information Technology Enabling Services.

LCS	:	Land Custom Station.
LWP	:	Look West Policy.
LEP	:	Look East Policy.
MDONER	:	Ministry of Development of North Eastern Region.
MGC	:	Mekong-Ganga Cooperation.
MFN	:	Most favored Nation.
NEREC	:	North Eastern Regional Economic Council.
NSSO	:	National Sample Survey Organisation.
NFTA	:	North America Free Trade Agreement.
NSDP	:	Net State Domestic Product.
NE	:	North East
NER	:	North Eastern Region.
NEDFi	:	North Eastern Development Finance Corporation Ltd.
PSA	:	Port of Singapore Authority.
REI	:	Regional Economic Integration.
RTA	:	Regional Trade Agreement.
RTIA	:	Regional Trade and Investment Agreement.
SAARC	:	South Asian Association of Regional Cooperation.
SEATO	:	Southeast Asian Treaty Organisation.
SBF	:	Singapore Business Federation.
STC	:	State Trading Cooperation.
TSA	:	Tourism Satellite Account.
UNCTAD	:	United Nations Conference on Trade and Development.
WTTC	:	World Tourism & Travel Council
WTO	:	World Trade Organisation.

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ASIA

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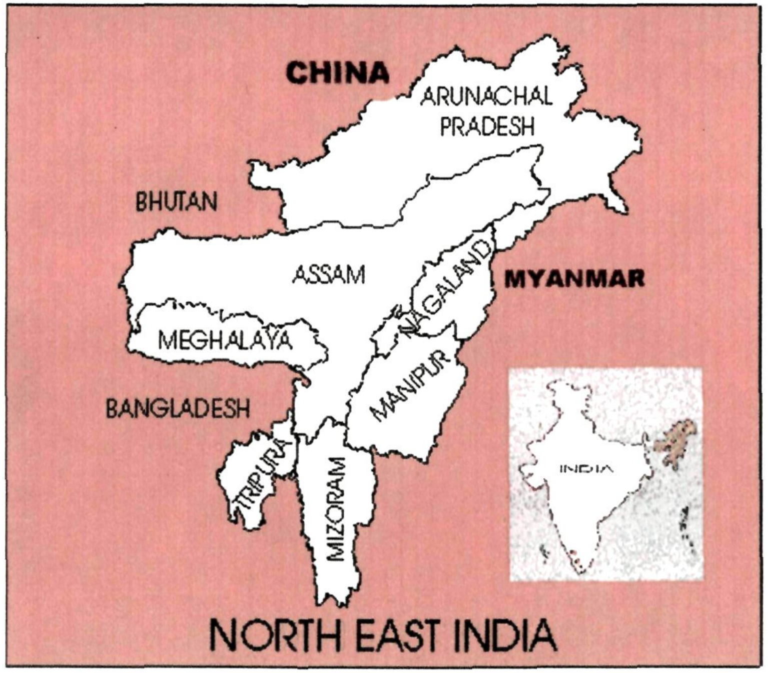
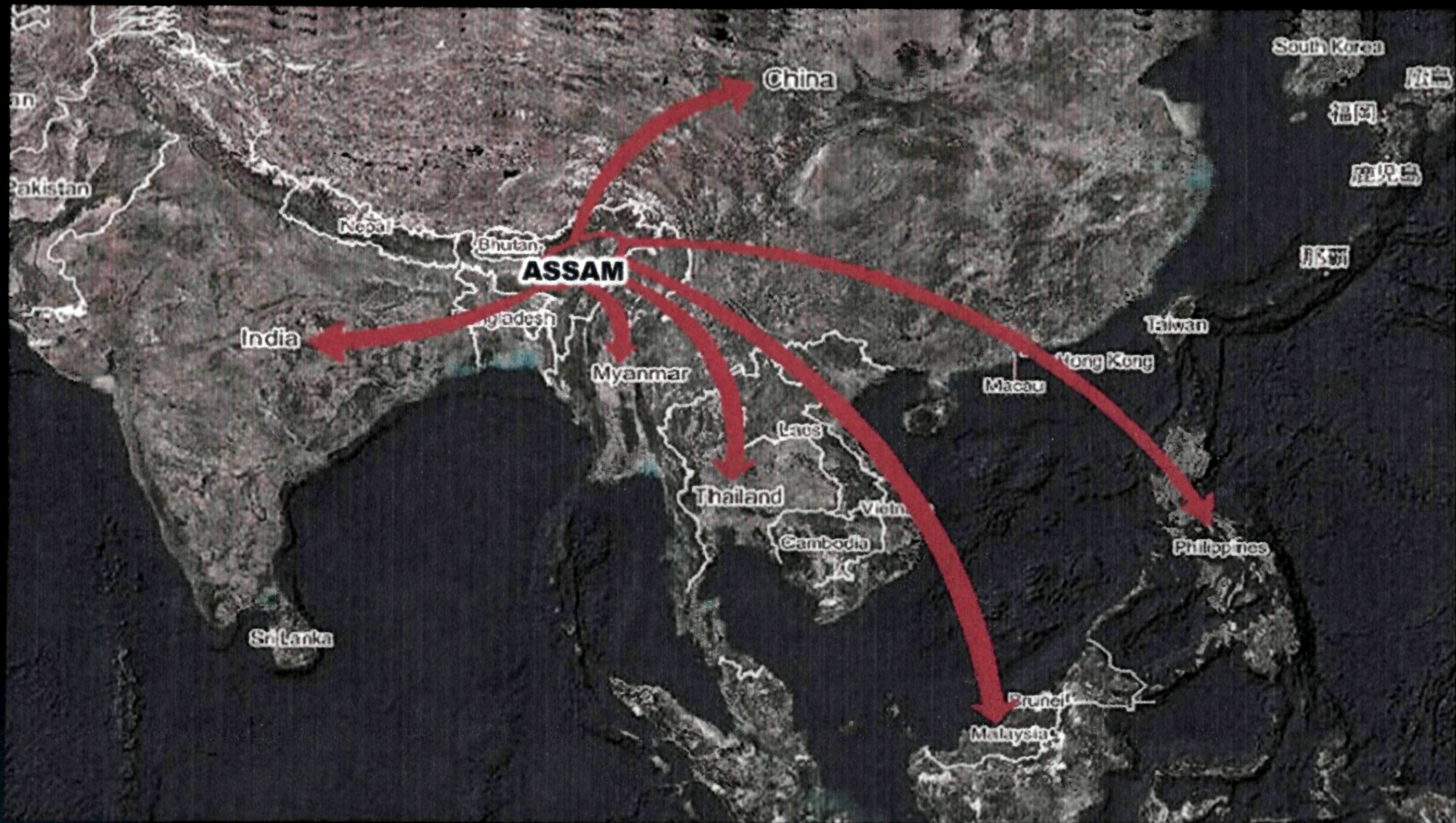
North east location vis-à-vis neighbours



ASSAM - THE GATEWAY

TO NORTH EAST INDIA & TO SOUTH EAST ASIA



CHAPTER – I

INTRODUCTION

Chapter-1

INTRODUCTION

1.1 Introduction

The Look East policy (LEP) of government of India has been the talk of the day in the circles of academicians, governments, policy makers, Journalists, diplomats and above all the general public. The LEP is not a fundamental innovation rather it is a rediscovery based on contemporary compulsion of a globalize economy. We had always a vision of India in a close relationship with the rest of Asia. 'Asianism' is not something new in India. As early as the inter war period, some of the spokesmen of the Indian nationalist movement who were proved of this heritage displayed an "Asiatic" identity. For instance, Jawaharlal Nehru expressed a desire to come closer to China and other Asian countries in the name of Common values explicitly in opposition to the west. He had come into close contact with Chinese nationalist leaders as early as 1927, when he had taken part in the Congress of oppressed nationalities in Brussels. During his imprisonment from 1930 to 1933, Nehru wrote letters to his daughter Indira. These letters, which were later published in the book "Glimpses of world History", reveal Nehru's admiration for China and some Asian countries. But he was very critical to Japan. Before India became independent, the first Asian Relations conference held in 1946 was chaired by Pandit Jawaharlal Nehru. This conference drew leaders from all over Asia.

The East and Southeast Asian countries and India are no strangers to one another. Their civilization links stretch thousands of years and are evident in culture, tradition, heritage, monuments, religion and linguistic influences. India's relationship with its Southeast Asian neighbors has been shaped by the events of time and the changing course of world politics and economic necessity.

We know that India was the birthplace of Buddhism. Chinese travelers who came to India from the fifth through seventh centuries emphasized the vitality of Buddhism. Buddhism was spread throughout Asia. Again popularity of 'Ramayana' from South Asia to Southeast Asia also contributed the emergence of "Asianism". In pursuit of such on Asiatic identity, Nehru expressed a desire to come closer to China and other Asian countries. Indians largely promoted the Asianist ideology because it suited their 'national interests'. But we mistakenly assumed that the legacy of social and cultural integration with East and South East Asian nations will automatically promote economic integration. The Chinese betrayal in 1962 put a complete stop to such an idea. This setback marked the beginning of a long period of retreat from Asia that only ended in the 1990.

The Asianist sensitivity once again became visible in India in the 1990. Indian leaders eagerly invoked their cultural & economic affinities with South East and East Asia. India, which had been for so long isolationist as if its huge size of population allowed it to be self-sufficient, started opening up to East and Southeast Asia. It has done so willingly. The BOP crisis of July 1991, which persuaded India to liberalize its economy, certainly proved to be another catalyst in its decision to open up to the world market. Rise of South East and East Asia along with China has contributed to India's effort to emulate its Asian neighbors. Thus, Asianism seems closely linked to the phenomena of globalism and regional economic integration. As India become more globalize, it can expect not merely to cast its vision to the economies of the US and Europe, but increasingly to South East Asia and East Asia too.

The first phase of LEP has surprisingly by passed the North Eastern Region (NER) (Discussed in detail in the subsequent sections). It has brought in reasonably good economic dividends to the southern states of India in terms of trade and investment. However, the government of India as well as state governments of the Northeast has woken up late to the realities of the changing economic and geopolitical situations as well as developmental imperatives and mantras in Asia. Now, the NER is to be dovetailed into the LEP, an arrangement that should have come about 15 years before, when it was conceptualized. Operationalisation of the policy derivatives of LEP poses number of challenges in the north eastern region of India. It is in this context that we undertake this study to understand the whole gamut issues involved.

1.2 History of relation between India and ASEAN countries

Nehru's stress on the special relationship between India and China was mainly aimed at showing Asian superiority over the west. By contrast, his Asianist discourse about Southeast Asia was more intended to support Indian nationalism, by developing the theme that India has been a dynamic and expanding force. Nehru also sometime referred Southeast Asia as "Grater India". Many Indian scholars in 1940s repeated this notion of greater India like Nehru. But these Indian versions of Asianism did not regard all Asian countries in the same way. China was in object of fascination that Nehru considered as India's Peer and partner. Japan was generally poorly thought of because of its westernization. Southeast Asia was often looked upon as an extension of India, the notion of 'Greater India' reflected a sense of nationalist expansion.

Mahatma Gandhi, more than anyone else, expressed the anti-colonial ideology in terms of civilization conflict. He did not try to link India's struggle against western materialism with other Asian cultures, but his nationalism later prepared the ground for a form of Asianism. Indeed, he fought against the west on behalf of values that were presented as being typically Asian, a spiritually based non violent approach to politics and a non-individualistic sense of social harmony. Moreover, he changed his views and eventually advocated the notion of an Asian federation, eulogizing Asia's special international message of spiritual enlightenment.

Again Rabindranath Tagore regarded Asia as the only continent where real civilization was still alive and defined this Eastern mind with the same criteria as did Gandhi- 'Spiritual strength', 'love of simplicity' and 'recognition of social obligation'. These common features, according to Tagore, made the Asian countries one, infact they had been foundation of the unity of Asia in the past. Tagore had also more or less the same opinion as Nehru on Japan. He found in that country the features of material greed, mechanical organization and imperialist aggression as were evident in the west.

Asianism was also flourished under the 'British Raj' because it gave more weight to the nationalist discourse. In March 1947, when Indian Independence had been acquired in principle but had not yet became effective, New Delhi organized a conference on Asian Relations, bringing together 250 delegates from 25 countries, some of them were still under Colonial rule. India then proclaimed itself as the leader of Asia's march towards independence and confirmed this ambition during the special conference on Indonesia, which was organized in Delhi in January 1949 and which brought together 15 countries. Nehru through the doctrine of non-alignment, attempted to keep Asia away from the US and soviet-led blocs, as well as to make India one of Asia's leaders on the basis of shared cultural affinities. This approach was to be applied in particular to India's relations with China. In 1954, Nehru set forth his doctrine of Panchashila in the "Sino-Indian Panchashila Agreement", where India recognized China's sovereignty over Tibet. All the Chinese individuals warmly supported the inclusion of their nation in the 1954 agreement, and the 1955 Banding Conference enthusiastically rallied to it. Parallel to this, New Delhi, which had recognized the people's Republic of China as early as January 1950, lobbied for China's admission in the UN, so that it could be party to great power discussion on setting the Korean issue.

Nehru's conciliatory approach to China was partly due to the Sino-Soviet alliance. In that context, a conflict between Delhi and Beijing would have probably pushed India toward the United States, a move Nehru wanted to avoid at any cost because, at that time, the Americans were close to India's main opponent, Pakistan- which had signed the Mutual Defense Assistance Agreement in May 1954. Besides, India was fundamentally attached to the non-aligned movement. To integrate China into the world diplomatic game, to treat it as a regular and trustworthy member of the international community, was also a means to oblige it to behave itself.

Yet Asianism quickly lost most of its efficacy. Initially, the ideal of Asianism had been shaped against the imperialistic west. After decolonization, the notion of Pan-Asian solidarity did not appear as relevant as it had previously; like Pan-Arabism, Pan Asianism could hardly overcome the diverging interests of the new nation states. To begin with, many Southeast Asian countries harbored a fear of India, especially as

Nehru seemed anxious to transform his nation into a kind of regional leader. During the conference on Indonesia in 1949, he had suggested that India might possibly play a fairly important part in bringing Asian countries together. The Southeast Asian countries, which already had sizeable Indian community feared that New Delhi favored an emigration policy. Besides, many Southeast Asian Countries showed greater interest in China than in India. This inclination was clear in Bandung, where Nehru was almost humiliated by the way Southeast Asian delegates ignored India and tended to rally around China's leadership. Finally, the Indian version of Asianism was not only jeopardized by the rivalry between Beijing and New Delhi for Asian leadership, but also by their bilateral conflict. The action taken by China in 1959 to put down dissent in Tibet and the Sino-Indian war of 1962 put an end to the warm relations between Beijing and New Delhi. China's influence in this zone prevented the countries of this region– with the exception of Malaysia- from supporting India during the 1962 war.

Other geo-strategic developments tended to cut India off from the rest of Asia. The cold war logic did not leave any room for Asianist partisans inspired by the ideals of non-alignment to maneuver; Asia proved to be the site for some of the 'hotter versions' of this proxy war conducted through intermediary allies. In the name of non-alignment, and because of its opposition to a substantial American presence in Asia, India strongly criticized the entry of several Asian countries (including Pakistan) into strategic alliances of western inspiration, such as SEATO (Southeast Asian Treaty Organization, founded in 1954).

In the 1950 s and 1960s, several South East Asian countries showed themselves open to a rapprochement with New Delhi. The newly born city state of Singapore was among the first countries to take side in favor of India when the 1965 Indo-Pakistan war broke out; Malaysia supported the Indian position in the United Nations. Even so, when Singapore sought India's assistance in setting up its army, New Delhi did not respond. In the mean time the Association of Southeast Asian Nations (ASEAN) was created without India in 1967, and most Southeast Asian countries subsequently resented the strengthening of ties between India and the USSR in 1971. Yet Malaysia served twice as the main arbiter of a more positive approach of the ASEAN toward India, when Kuala Lumpur invited New Delhi to take part in a dialogue with the

ASEAN in 1975 and 1980. The Indian leadership showed indifference, even hostility, towards an association that is ultimately perceived as being the west's Trojan house.

India's position in Southeast Asia was further complicated by the situation in Indochina. In 1980, as India was about to recognize the Hanoi –installed government of Heng Samrin in Cambodia, Indian Foreign Minister Narasimaha Rao declined the Malaysian invitation to participate in the ASEAN Foreign minister's meeting. This last minute decision motivated partly by a concern to strengthen Vietnam vis-à-vis China and partly by a concern not to offend the Soviet Union, alienated India from the Southeast Asian governments. Thus the development of western led alliances, the growing ties between Pakistan and China and the Indo-Soviet alliance all served to cut India off from Southeast Asia for decades.

Thus, Nehru's Asian dream had slowly withered away from the mid 1950s. From then until the late 1980s India was largely isolated from all Southeast Asian Nations except for Vietnam. In the late 1980s and early 1990s, however, India was forced to rethink its foreign policy [and thus the look east policy] because of the collapse of the Soviet bloc and its own domestic economic liberalization. As India liberalized, east and Southeast Asia appeared to be a model of success, and 'Asianism' could be revived under a different garb to serve new purposes. So the LEP of government of India can be partly viewed as an offshoot of this new thought on Asiansim and partly as an inspiration of the changing regional and global economic interdependence.

1.3 Review of literature

As on today, the policy is of eighteen years old. The genesis of the policy can be traced back to the endeavor of the then Prime Minister P.V. Narashimha Rao. Rao articulated the policy in 1990 during his visit to Thailand and laid down roughly its basic contours. The successive Indian Governments supported the Policy and built on it. This policy had its genesis in the end of the cold war following the collapse of the Soviet Union. It 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 [Taiwan, South Korea, Singapore and Hong Kong] had emerged as strong economies and came to be known as the "Asian

Tigers". Performance of these economies and the changing geo-political situation of the World after the end of the cold war regime, finally compelled policy makers in India to look eastward for rapid economic development.

Although the "Look East Policy" has been authored and pursued by the government of India as a co-exist policy with the new economic policy, but its established formal extension is very current. Therefore, literature on the topic is very limited. Some important works published in various newspapers, journals, periodicals and internet sources related with India's LEP are briefly explained bellow. We have divided these works under various sub headings.

1.3.1 Asian favoritism

Mahatma Gandhi [1909], more than anyone else, expressed Asian favoritism in terms of civilization conflicts. In 'Hind Swaraj', published in 1909, he did not try to link India's struggle against western materialism with other Asian cultures, but his nationalism later prepared the ground for a form of Asianism. Indeed, he fought against the west on behalf of values that were presented as being typically Asian, such as spiritually based non-violent approach to politics and a non-individualistic sense of social harmony. Moreover, he changed his views and eventually, advocated the notion of an Asian federation, eulogizing "Asian's special international message of spiritual enlightenment" at the Asian Relations Conference in New Delhi in 1947.

Rabindranath Tagore [1917] regarded Asia as the only continent where real civilization was still alive and defined his 'eastern mind' as Gandhi did. According to Tagore Common features like 'spiritual strength', 'love of simplicity' and 'recognition of social obligation' has made the Asian Countries one. Characteristics of this Asian identity strongly contrast with the west, known for its materialism and its individualistic, anomic society. In fact, the whole Asianist discourse is built in opposition to the west.

Explaining India's leadership and spread of cultural influence, Jawaharlal Nehru [1933] stated that, in South East Asia there are often some contempt for India because of her dependent condition and yet behind all this there is a feeling of respect and friendship for India, for old memories endure and people have not forgotten that there was a time when India was a mother country to these and nourished them with rich fare from her own treasure house. Just as Hellenism spread from Greece to the countries of the Mediterranean and in western Asia, India's cultural influence spread to many countries and left it's powerful impress upon them. Nehru, for instance, expressed a desire to come closer to China and other Asian countries in the name of common values explicitly in opposition to the west.

The declaration made by Rao [In 1994, by the time he was the Prime Minister of India] during his official visit to Singapore clearly reflects the Indian desire to draw inspiration from the East Asian path of development. He was very happy on the opportunity to enunciate his belief regarding the new relationship between India and Asia Pacific. He explained the vision of Asianism which will be realized in the near future and declared the next century as a century of partnership for the Asia Pacific.

Kaji [1995], one of the Managing Director of the World Bank, expressed his view, when he told a gathering of Indian financiers in Bombay that certainly, the East Asian nations are still grapping with some of the same problems as India, albeit on the lesser scale. With right commitment, it is possible to move ahead, with all types of problems. He was convinced that there can be an Indian miracle.

Singh [1995] often repeated that Korea and India had the same GDP per capita in the 1950s and that South Korea could be emulated. In September 1995, he declared, in the same vain "The economic policies of India take into account the dynamism of this region [Asia Pacific], which shall soon be the tiger economy of the world. We want to be participants in this process".

1.3.2 Genesis and meaning of LEP

I. K. Gujral [1996] the first Minister for external Affairs to attend an ASEAN conference expressed the full dialogue partnership with ASEAN as the manifestation of our Look East destiny. According to him we are geographically inseparable, culturally conjoined and now more than ever before, economically and strategically interdependent and complementary. He mentioned that the LEP really means an outward looking India is gathering all forces of dynamism-domestic and regional and is directly focusing on establishing synergies with a fast consolidating and progressive neighborhood to its east in the mother continent of Asia. He further added that India would work with ASEAN as a full dialogue partner to give real meaning and content to the prophecy and promise of the Asian century that is about to draw upon us.

On the birth of LEP Jaffrelot [2003] explained that Nehru's "Asian" dream had slowly withered away from the mid-1950s. From then until the late 1980s India was largely isolated from all Southeast Asian nations except for Vietnam. In the late 1980s and early 1990s, however, India was forced to rethink its foreign policy because of the collapse of the Soviet bloc and its own domestic economic liberalization. To Indian liberalizers, East and Southeast Asia appeared to be a model of success and Asianism could be revived under a different garb to serve new purposes.

Explaining proper coverage of India's LEP the then Foreign Minister Y. Singh [2003] said that in the past, India's engagement with much of Asia, including South East and East Asia was built on an idealistic conception of Asian brotherhood based on shared experiences of colonialism and of cultural ties. He also mentioned that the rhythm of the region is determined as much by trade, investment and production as by history & culture.

Although Rao has been credited with the initiation of India's LEP, one can trace its roots to the initiatives taken by the Indian Navy in the late 1980s. India's LEP aimed at greater economic alignment with and political role in, the dynamic Asia Pacific region in general and south East Asia in particular. Explaining all these Naidu [2004] stated that the LEP was a multi faceted and multi prolonged approach to establish strategic links with many individual countries, evolve closer political links with ASEAN, and develop strong economic bonds with the region. India's LEP began with a lot of fanfare but it was not smooth sailing. One can discern three distinct phases of this policy. The first phase marked enormous enthusiasm and flurry of activity and exchanges. By mid 1990s, there was considerable cooling down of earlier zeal and both sides which got further dampened by the 1997-98 financial crises. The third and the latest phase is the revival of interest once again.

India's Prime Minister M. M. Singh [2005] clearly explained that India's LEP is not only an external economic policy but also is a mark of strategic shift in India's vision of the world and its place in the evolving global economy. According to him it is about to reaching out of our civilization neighbors of East and Southeast Asia.

Phanjoubam [2007] explained that the LEP is a way of unwinding to the extent possible without disturbing any international diplomacy equilibrium. Some of the claustrophobic confinement that the NE has been condemned is certain brand of politics of a certain area. Trade is only one important part of the story, for there is also an equally important strand of the same story that tells of a way to get the NE breathing freely in its organic environment, and in the process restoring some of its lost inner spiritual self.

Mukherjee [2007] explained that more than half a century ago, Pandit Jawaharlal Nehru visualized India as being the pivot around which issues relating to economies and security in South East Asia would have to be considered. India's "LEP" which began unfolding in the early nineties, is informed by this vision. He again mentioned that developing ties with ASEAN is the prime objective of our LEP.

Explaining the birth and depth of India's LEP, Singh [2007] mentioned that the architect of India's LEP was the then prime minister P.V. Narasimha Rao, who felt that this economic power house in it's backyard was being ignored by India at a huge cost. He embarked on the LEP which is now bearing fruit. India's engagement with ASEAN as a part of the LEP began with a sectoral dialogue partnership in 1992 that was upgraded to a full dialogue partnership in 1995 and a member of the ASEAN Regional Forum in 1996. The first summit level interaction in November 2002 in Cambodia was a milestone in this growing partnership. India's LEP was perhaps a response to the growing recognition that Asia was emerging as the centre of gravity rapidly.

1.3.3 Regional economic integration

Explaining the partnership with Asian countries 'The Hindu' [2002] published that enhancement of capital flows, creation of project based funds, funding of specific projects, exchange rate stabilization & co-operation and integration of capital markets are the example of regional integration. It also mentioned that an important development in this area includes the creation of Asian Bond Fund as part of Asian Co-operation Dialogue.

.Explaining the link between Integration and economic development Lamy [2002, European Commissioner for trade (from 1999-2004)] said that regional economic integration is a fundamental part of national development strategies because it smoothes the path to a gradual and harmonious integration into the world economy.

Explaining the desire of India towards deeper regional economic linkages with ASEAN countries, Mohan [The Hindu, 2003] stated that partnership with India has been conceived as an ongoing effort to create interdependence and linkage with a country, with a large and liberalizing market as well as a democratic and pluralistic polity which could respond positively to ASEAN's aspirations. According to him India's proposal to collaborate with ASEAN free trade area [AFTA] reflects its desire towards deeper regional economic linkages by initiating bilateral and sub-regional dialogues.

By integrating at large extent Asian countries can really remove it's various problems from the path of development. Kuroda [2005, president of Asian Development Bank] explained that deepening and broadening integration is one important way to contribute to sustained rapid growth and greater poverty reduction. The end result of integration should be greater inclusiveness among Asian countries and Asian people.

On regional integration and it's benefit to NER, Ramesh [2005] forcefully argued that political integration with the rest of India and economic integration with East and Southeast Asia particularly is certainly one direction that this region must be looking to as a new way of development.

Barua and Das [2006] have explained the integration for NER in a different way. According to them increased regional and international trade can shape the future destiny of the NER 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.

Explaining the integration within the same geographical region Ki-moon [2007, the Secretary General of the United Nations] said that for developing countries, the most important challenge is to translate recent gains into lasting progress through successful integration into the global economy. At the regional level collective and coordinated responses can offer additional possibilities for improving growth and structural change in the globalizing world. By working together more closely and building on common complementary interest, partners in the same geographical region can significantly strengthen their efforts to meet the challenges of globalization.

Explaining importance of economic integration Sarma [2006] said that government of India's commitment to the vision of Northeast India's economic integration with it's geographically, historically and ethnically closer East and Southeast Asian countries has to be firm for the simple reason that the capital cost involved is enormous, leaving aside several other hurdles.

Explaining the extent and deepening of integration Museveni [2008, president of Republic of Uganda] said that integration is not about paying assessed contributions. The primary purpose of integration is uniting our human resources for greater potential.

1.3.4 Benefits under the policy

Stating the advancement of Asia Pacific former External Affairs Minister I.K. Gujral [1996] explained that our imagination is now riveted on the Asia Pacific century that is knocking at the door of human kind. Pan-Asian regionalism will take some time to emerge as a stable international phenomenon, when it does, it will truly change the world. He added that Jawaharlal Nehru foresaw even in the late forties and the early fifties has started this great historical turn-around casting its silhouette on the horizon. Gujral also added that for three and a half centuries Europe and America have dominated the world; almost the whole of Asia was a colony. Now in the 21^{st} century Asia and the Pacific Rim are likely to be the west's true peer in wealth, in technology and in skilled human resources.

Explaining potential with Myanmar Singh and Goswami [2000] explained that Myanmar is an industrially backward country with low level of infrastructure and technological development. Albeit rich in natural resources, they are remained unexploited and underutilized. It's exports are mostly of primary goods and imports are mostly of capital and consumer goods. Despite it's long boundary with India, the share of India's exports to Myanmar are minimally low. Moreover India's exports to Myanmar are mostly through Calcutta port and also, a large amount of Indian goods are enrooted to Myanmar via Singapore and Thailand. After the globalization of the Indian economy since 1991, the growth of industrial product has been increasing more than 10 percent. Thus, India has got high potential of border trade with Myanmar.

Bedekar [2004] explained that LEP is an India's attempt to strengthen trade and investment relationships with the rest of the world, also contemplated a special emphasis on strengthening economic ties with the southeast and northeast Asian countries within the framework of Asianisation of its economy. In this LEP, priority has been sought to be given to the member states of the ASEAN.

Asher and Sen [2005] opined that India has persistently and purposefully pursued the LEP initiated in 1991. It has operationalised bilateral trade agreements with Sri Lanka and Thailand, and has negotiated a comprehensive pact with Singapore and ASEAN. India has decided to upgrade all current FTAs to FTA plus, covering non-merchandise trade areas as well. This policy is to be followed in all current and future such negotiations.

Explaining coverage and importance of India's LEP, Ghoshal [2007] explained that India's LEP in recent years has assumed a greater economic dimension than a parallel political, strategic or even cultural one. Given India's economic reforms and the attendant efforts to integrate with the regional and global economy, it is but natural that Indian diplomacy, particularly in it's relation with ASEAN countries, will focus more on economic issues like trade, investment, goods and services.

Kumar [2007] has also stated the rapid integration with East Asia, as a part of the LEP followed by India since 1991. The LEP has made the region as the largest trade partner of India ahead of the EU and the US. The share of East Asian countries in India's trade has increased from 17 percent to 26 percent over 2000-06.

Explaining about the benefits of LEP Rajan [2007] has mentioned that the LEP is paying good dividends to India. Under it's impact no doubt, the country's growth rate has been impressive- average 9% in last three years. Externally, trade with ASEAN nations are steadily growing from US$ 2.4 billion in 1990 to US$ 23 billion in 2005. Similar has been the case with India's trade with East Asia Summit partner countries from US$ 8billion in 1990 to US$ 67.6 billion in 2005.

Describing the way of benefit within the same geographical region UNCTAD [2007] report enlists that trade within the same geographical region can often be more conducive to diversification, structural change and industrial upgrading than overall trade.

1.3.5 LEP and the Northeast

Explaining the importance of LEP for the NER, the high level commission Report to the Prime minister [1997] explained that with the articulation of LEP in the early nineties, a new vision for North East as a gate way to dynamic East and Southeast Asian economies is taking shape. The underlying thrust on 'a new Asia' makes one think of 'a new Northeast' too. A vision for Northeast India is absolutely necessary simply because there was none in the past.

Explaining negative effect of NER-Myanmar trade, Das [2000] explained that while NER-Bangladesh trade is acting as a vent for region's surplus, facilitating the extraction and use of minerals, and consequently generating income and employment and thereby gradually unfolding the future scope for trade, commerce and industry, this growth effect is negligible in case of NER-Myanmar trade. The later, being mingled with drug trafficking and in some cases controlled by the various extremist groups, is largely responsible for the fast degeneration of social environment along the NER-Myanmar border.

Explaining the nature of Indo-Myanmar trade via NER, Singh and Goswami [2000] explained that the border trade agreement besides attempting to improve India's market share in Myanmar, aims at strengthening the economies of northeastern states by leading to establishment of export oriented industrial infrastructure facilities in the region. With this objective in mind, government of India and government of Myanmar have agreed to open borders.

Explaining trade between countries and it's importance for the NER, Bezbaruah [2007] has rightly mentioned that with it's geographical remoteness, inherent deficiency in infrastructure and the bad publicity for recurrent ethnic strife and militant activities, the region obviously could not become an attractive destination for private capital investment. But in the period in which closer cross-border economic ties are being forged in many parts of the world, border trade has come to be looked upon with a lot of expectations in this region as a means for breaking free from the shackles of geographical isolation.

In order to prepare NE for strengthening the LEP Das [2007] has mentioned that it is the vision and concentrated effort in various thrust areas after micro studies and appropriate Project formulations that can bring NE to a standard in which it will be able to stand the challenge of the LEP and will also be able to fully participate in the new milieu. Only then NE can hope to be a part of the bridge connecting India and East-South East Asia.

Describing the potentiality of the policy for the NER, Panda [2007] explained that opening up the NE under the LEP shall lead to higher economic growth leading to more of employment growth, more of employment creation in the region via increased industrial production and activity diversification. This will come through increased economic exchange in the form of trade and market expansion. According to him the other catalysts of the envisaged higher growth under this policy are tourism, labor movement and trade in services like higher and technical education. The LEP is a great opportunity for the northeast as mentioned by him.

Explaining the importance of LEP for the NER, Phanjoubam [2007] has mentioned that LEP can work like a lift in the backward NER to find an economic leg and close in the development gap that exist between it and the rest of the country. The new shift in the vision must not be just about building an economic bridgehead between India and the ASEAN, but also of providing real, tangible opportunities to the communities in the northeast.

1.3.6 Constraints

In order to take advantages of the policy, Baruah [2000] explained that all the border trading states of the northeastern region must take adequate stapes to improve the provision of infrastructural facilities like transport and communication system, banking and insurance, warehousing and better hotel facilities at the transit points etc. But the most important infrastructure required for healthy growth of border trade and it's consequent effect on the economic activities of the states of the N.E. region according to him is the social peace which calls for immediate solution to the insurgency problem of the region.

Explaining the responsibilities of government, Bhattacharyya [2000] said that in order to boost trade with neighboring countries and to certain illegal trade along the border, government should provide necessary infrastructural facility at different trade routes, establishment of railway linkages, free flow of road traffic, improvement of telecommunication links and most importantly free border trade in local produce.

Marka [2000] explained that the basic economic strategy in the NER will be to encourage trade and investment resulting in overall economic development. It is a life and death question involving the destiny of thousands of men and women. Individually and with collaborative effort, the states of the NER have to review and formulate their economic policies so as to promote such trade and investment and to take advantage of the geographical opportunities offered to this region through our common border with so many countries.

Explaining various problems of Indo-Myanmar trade, Mero [2000] explained that, lack of infrastructure, particularly good road communication remains, the main problem for exports from NER to Myanmar. All the exports facilitating roads leading to various Land Custom Stations are in deplorable condition. Lack of weigh bridges, dumping ground, truck parking space in the various Land Custom Stations is another problem. In addition to this, most of the Land Custom Stations located in the border area are without facilities like drinking water, electricity, medical and tale-communication facilities. Absence of warehouses and cold storage facilities remain the problem for the exporters of perishable items.

1.4 Necessity of the present study

Opening up the northeast under the LEP of government of India shall lead to higher economic growth, leading to more of employment creation in the region via increased industrial production and activity diversification. Policy makers, Economists, Political scientists, Journalists and others have all made contributions to the issue of LEP. But till now no systematic work has been done with regard to it's initiation and implications. Thus there is big research gap. A cursory look to the contributions on India's LEP suggest that non-economists are rather euphoric about it while Economists seem a little cautious in their expectations of the North East linkage with East and Southeast Asia as driver of its economic resurgence. However, all most all the studies explained in the above limited review of literature, particularly the one's relating to the NER are very general in nature. They are devoid of any kind of rigorous, systematic and logical analysis. Moreover, these studies have dealt with the different issues concerning the NER dimension of this LEP in piece meal approaches. Since, the government of India (MDONER) is going to give maximum importance to the LEP in days to come and want to dovetail the development path of the NER into this; a systematic, analytical and comprehensive study of the LEP in the context of the NER is the need of the hour. This is the reason for which the present researcher wants to undertake this proposed study. However, as the study is going to be undertaken by this scholar for his M. Phil dissertation, the usual constraints of resources and time prevail. Considering all these, the researcher wants to undertake the study to the best of his capability.

1.5 Objectives of the study

In line with the sprit of above statement of the problem, the following are the objectives of the present study-

1) To analyze the genesis and importance of LEP.
2) To analyze the impacts of LEP on the Indian Economy.
3) To analyze the impacts of LEP on the North East.
4) To explain the various problems and prospects of proposed economic integration of the NER with East and Southeast Asia.

1.6 Hypotheses

During the course of the study following hypotheses have been formulated to be tested-

1) The operation of LEP till date has benefited the country as a whole but not meaningfully the NER.
2) Increased regional integration under LEP with South East Asia and East Asia eventually benefits the NER.

1.7 An outline of the study

The problem raised, it's analysis, findings and policy implications based on it have been presented in five chapters in the dissertation starting with the present chapter. **Chapter 1** gives a brief introduction of India's LEP as well as the historical relation between India and ASEAN countries. Review of literatures related with Asian favoritism, regional integration, genesis and meaning of India's LEP, benefits under the policy and policy's relevance with the North Eastern Region are explained by this first chapter. This chapter also introduces the research problem, states the objectives and hypotheses of the study.

Chapter 2 explains the source of Data and methodology used for the entire study. It also gives demographic and economic profile of the north east in brief.

Chapter 3 discusses the genesis and progresses of India's LEP for the country of India in general. It includes various kind of benefits accrued to Indian economy in terms of external trade, tourism, FDI and manpower flows. It also enlists some of the limitations and constraints involved in the extension and continuity of the policy. This chapter divides India's LEP into two phases.

Chapter 4 gives implications of India's LEP for the north east. It enlists government initiatives already taken for the promotion of LEP in the region. Regional economic integration and Comparative cost doctrine of International Economics are also explained here with regard to the country as a whole and the northeastern part of the country in particular. Prospects and problems of India's LEP in the NER are also discussed here.

Chapter 5 explains the conclusion and policy implications of the entire exercise. It also mentions the limitations of the present study as well as the scope for further study.

1.8 Summary

The review of existing literature provided in the preceding section brings out various aspects of India's LEP. It has explained about Asian favoritism, working of Asian favoritism for regional integration, genesis and meaning of LEP of government of India, various possible and probable benefits of the policy and it's implications for the north eastern part of the country. It has also discussed how problems in the path of extension of the policy can be removed or minimized. The review suggests that before independence all the great Indian leaders including Mahatma Gandhi, Rabindranath Tagore and Jawaharlal Nehru were strongly in favor of establishing relations with Asian countries. Spiritual strength, Love of simplicity and recognition of social obligation are the common features of all Asian countries. But western countries are known for it's materialism, individualistic nature and anomic social structure. Asianism was formed in opposition to the west. India is geographically inseparable, culturally conjoined to the Asian countries. Century of partnership began for the Asia pacific with the initiation of LEP of government of India. Former prime minister of India P.V. Narasimha Rao was the architect of LEP. Present Prime minister of India Dr. M.M.Singh explained LEP of government of India as a strategic shift of India's vision of the world and it's place in the evolving global economy. Extensive economic and political relation with East and ASEAN countries is the manifestation of our Look east destiny. Since north eastern part of the country is the gateway to the dynamic east and Southeast Asian countries, hence one can think of a new north east too with the LEP of government of India. But due to geographical remoteness, inherent deficiency in infrastructure, and the bad publicity for recurrent ethnic striate and militant activities, the region obviously could not become a proper attractive destination for economic revolution. A few have also mentioned about the required preparedness that the NER should undertake before it embarks upon this policy in a full-fledged manner. In order to have proper understanding about the initiation and working of India's LEP we have taken some objectives and hypotheses and discussed under five chapters.

CHAPTER – II

SOURCE OF DATA AND METHODOLOGY

Chapter-2

SOURCE OF DATA AND METHODOLOGY

2.1 Introduction

India's Look East policy (LEP) is a corollary to the New Economic Reform process. It's formal extension to the North Eastern part of the country is very recent. First phase of the policy has more or less by passed the region. Second phase is just covering some parts of the region. So, literature on the topic relevant especially with the north eastern part of the country is limited. There is deficiency of both quantitative as well as qualitative data and information. The main objectives of this chapter are to provide an account of the sources of data and method of analysis used in the study and also to provide a profile of the North eastern part of the country.

2.2 Source of data

Most of the data have been collected from secondary sources. The main sources of secondary data that we considered are Export-Import data bank, Dept of commerce, Government of India; Centre for Monitoring Indian Economy (CMIE), ASEAN-Trade statistics data base, ASEAN-Tourism data base, Bureau of Immigration (India), World Development Bank and Asian Development Bank. Beside this, some information are also collected from various published and unpublished data sources that are available in different journals, News papers, NGO publications, Government reports, internet sources and abstracts.

In order to study the basic demographic and economic features of NER, various data have been collected from census of India (2001), NEDFI quarterly data bank (various issues), NER-vision 2020 document and economic survey of Assam (various issues),

issues of statistical hand book (Assam) and reports of North Eastern Council. Above all, it also used sources like journals, news papers, published and unpublished reports and abstracts of government bodies and individuals

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2.3 Methodology

India's LEP was initiated in 1990. Already it has crossed the first phase and now running in the second phase. In order to discuss it's various progresses we take help of statistical tables, graphs and diagrams. Averages and growth rates are also considered for the observation of growth trends. Prospects of the policy for the country as a whole and the north eastern region in particular are studied on theoretical backgrounds of Economics.

2.4 Demographic profile of NER

North Eastern Region begins from the foothills of the Himalayas in the eastern range. The region is surrounded by Bangladesh, Bhutan, China, Nepal and Myanmar. The NER extends to north and east of the narrow Siliguri corridor and comprises Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura. These eight states cover an area of 2,62,189 square Km. constituting 7.98% of the country's total geographical area and account for only around 3.79% of the total population of the country (2001 census). The eight NE states consist with a population of about 40 million. Over 68% of the population of the region lives in the state of Assam alone. The density of population varies from 13 per square Km. in Arunachal Pradesh to 340 per square Km in Assam. Level of population growth and density for the eight north eastern states and it's comparison with the all India level is shown by the following table-1.

Table-1: Population Growth and Density

States	Population (lakh)			Decadal Growth (%)		Density	Urban Population (%)
	1981	*1991*	*2001*	*1981-91*	*1991-01*	*2001*	*2001*
Arunachal Pradesh	6.3	8.6	11.0	36.8	28.0	13	20.4
Assam	180.4	224.1	266.6	24.2	18.9	340	12.8
Manipur	14.2	18.4	22.9	29.3	24.9	108	23.9
Meghalaya	13.4	18.8	23.2	32.9	30.8	103	19.6
Mizoram	4.9	6.9	8.9	39.8	28.8	42	49.5
Nagaland	8.8	12.1	19.9	56.1	64.5	120	18.8
Sikkim	3.2	4.1	5.4	28.5	33.1	86	11.1
Tripura	20.5	28.6	32.0	34.3	16.0	304	18.0
India	**6833.3**	**8464.2**	**10288.4**	**23.9**	**21.5**	**324**	**28.8**

Source: Office of the Registrar General of India, Ministry of Home Affairs.

The predominantly hilly terrain in all the states except Assam is host to an overwhelming proportion of tribal population ranging from 19.3% in Assam to 94.5% in Mizoram. The region has over 160 scheduled tribes and over 400 other tribal and sub-tribal communities and groups. It is predominantly rural with over 84% of the population living in the countryside. According to the 2001 census, the total literacy rate of the population in the region is 68.5%, with a female literacy rate of 61.5% which are higher than the country's average of 64.8% and 53.7% respectively. Of course, there are significant variations in the literacy rates among different states with Assam, Arunachal Pradesh and Meghalaya below the national average. Again Mizoram is the north eastern state with the position of second literacy all over India.

Some of the demographic profiles of the region are also explained by the following table no-2.

Table-2: Demographic Profile of the Region (percent)

State	Literacy Rate			Sex Ratio*	Scheduled castes in total population	Scheduled tribes in Total population	Population below the poverty Line
	Total	Male	Female				
Arunachal Pradesh	54.8	64.1	44.2	901	0.56	64.22	33.5
Assam	64.3	81.9	56.0	932	6.85	12.41	36.1
Manipur	68.9	88.9	59.8	988	2.88	34.20	28.5
Meghalaya	63.3	66.1	60.4	985	0.48	85.94	33.9
Mizoram	88.5	90.8	86.1	938	0.03	94.46	19.5
Nagaland	68.1	81.8	61.9	909	0.00	89.15	32.8
Sikkim	69.8	86.8	61.5	885	5.02	20.60	36.4
Tripura	83.8	81.5	65.4	950	18.38	31.05	34.4
India	65.4	86.0	54.3	933	16.20	8.20	26.1

Source: 1. www.censusindia.net/results/index.html
2. NEDFI Databank Quarterly, April 2005.
Notes: 1. *sex ratio is number of females per 1000 males.
2. All figures are for 2001, except for the BPL population which is for 1999-2001.

This region is a "rainbow country, extraordinarily diverse, colorful and mysterious when seen through parted clouds." Thus by observing the population composition, it would be erroneous to consider the region as a homogenous entity. The significant linguistic, ethnic and cultural diversity, not only among the people of different states but also within each state in the region, is an important feature that needs to be taken into account in designing policies and programmes. Each of the states has its own history and the tribal groups in the states have their own culture, tradition and governance system.

2.5 Economic profile of NER

The whole region is a treasure house of exceptional natural beauty, flora and faunal biodiversity and abundant mineral, water and forests resources. The forest cover in the region constitutes 52% of its total geographical area. Thus a large part of the area of the region is used for providing global public goods, which limits the availability of arable land and enhances the cost of delivering public services to the sparse population. Complete picture of natural resource of NER is shown by the following table-3.

Table-3: Comparative Natural Resources of NER, 2000-01 (percent)

STATES	Forest/land	Net area sown/land	Area sown more than once/net area sown	Net area sown/ Total cropped area.	Area sown more than once/ total cropped area	Permanent pastures & other grazing lands/land	Land under misc. trees & groves not included in net area sown/land.	Cultivable waste land/land	Fallow lands other than current fallows/ land	Current fallows/land
Arunachal Pradesh	94.0	3.0	60.0	62.0	38.0	0.1	0.8	0.8	0.9	0.5
Assam	25.0	35.0	49.0	68.0	33.0	2.1	3.0	1.0	0.8	1.4
Manipur	28.0	6.0	49.0	68.0	33.0	-	1.1	-	-	-
Meghalaya	43.0	10.0	20.0	83.0	18.0	-	8.0	19.8	8.3	2.9
Mizoram	88.0	4.0	-	100.00	-	1.1	1.5	6.0	8.4	1.8
Nagaland	54.0	19.0	5.0	96.0	4.0	-	8.9	4.1	5.0	5.8
Sikkim	36.0	13.0	33.0	85.0	25.0	9.8	0.8	0.1	1.3	0.6
Tripura	58.0	28.0	53.0	65.0	35.0	-	2.6	0.1	0.1	0.1
North East	52.0	18.0	43.0	80.0	30.0	1.1	2.8	3.2	2.2	1.4
India	23.0	46.0	33.0	85.0	25.0	3.6	1.1	4.5	3.3	4.8

Source: Statistical Abstracts of India 2003-04.

Note: Figures are fractions of total available land unless otherwise specified.

Similarly, reserves of petroleum and natural gas in the region constitute one fifth of the country's total potential. The region is covered by the mighty Brahmaputra-Barak river system and their tributaries. But still now water has been a source of misery rather than a resource. Erosion of river banks caused by floods has been an annual feature involving enormous loss of life, property and livelihood. The Brahmaputra and Barak basin, particularly in Assam, have earned notoriety for the awesome hazards of annual floods and erosion that create mayhem every year, brining misery to the people and shattering the fragile agro-economic base of the region. Assam represents one of the most acutely hazard-prone regions of the country, having a total flood prone area of 3.15 million ha. As against a total flood prone area of 3.58 million ha for all the eight states in NER. The flood prone area of the north eastern states is given by the following table-4.

Table-4: Flood Prone Areas in NER

S. No.	State	Geographical area (mha)	Flood prone area (mha)
1	Arunachal Pradesh	8.37	-
2	Assam	7.85	3.15
3	Manipur	2.24	0.08
4	Meghalaya	2.24	0.02
5	Mizoram	2.11	-
6	Nagaland	1.66	-
7	Sikkim	0.71	-
8	Tripura	1.05	0.33
	Total	**26.23**	**3.58**

Source: Compiled from vision document of NER

Geographically, apart from the Brahamputra, Barak and Imphal valleys and some flat lands in between the hills of Meghalaya and Tripura, the remaining two-thirds of the area is hilly terrain. Driven by expanding global trade and investment, the region was in the forefront of development almost 150 years ago. Global trade was conducted through the sea-route. In fact, the railway network between Dibrugarh (Assam) and Chittagong (East Bengal, now Bangladesh) was one of the earliest projects in India implemented by the British in the late nineteenth century. The natural transportation route through East Bengal not only reduced the physical distance but also provided emotional closeness. The rapid spread of tea gardens followed the establishment of the first tea garden in 1835 at Assam and the export of the first consignment of tea to London in 1838. The discovery of oil in Makum and establishment of a refinery in Digboi in 1890 laid the foundation for the development of an undivided Assam in the region.

2.5.1 Per capita income level

Per capita income broadly represents the overall level of living of people. An analysis of NER shows that i) the per capita income level in the region is significantly below the average of the country, ii) the divergence in per capita income between the country and the region has shown a steady increase over the years; and iii) there are significant differences in the levels of living between different states, between the people of urban and rural areas and between people in the plains and hill areas of the region. The per capita income in the undivided state of Assam was higher than that of the country's average on the eve of independence. Even during the 1950s and the 1960s it was higher than the average of the country, but the trend was reversed in the 1980s and the divergence continued to widen thereafter. Thus in 1995-96, per capita income of the region at 1993-94 prices (Rs. 6890) in the region was 80 percent of the national average (Rs. 9804). In 2004-05, as the country's average per-capita income increased to Rs. 14031, the region's income increased only to Rs. 8869 constituting just about 62 percent of the national average. In other words, while the per capita income in the country in real terms increased at the average annual rate of 3.89 percent, the region's per capita income increased only at 3 percent. In fact some of the states like Arunachal Pradesh, Assam, Mizoram and Nagaland registered a decline in their per capita incomes during 1995-2000.

2.5.2 Structure of state income

As in the rest of India, an overwhelming proportion of the population of the northeast depends on Agriculture for it's livelihood, but a large majority of the people engaged in agriculture have subsistence living. The population residing in the rural areas of NER in 2001 constituted 84.39 percent of the total, but the income generated from agriculture on average during 2000-2004 was just about 26 percent, while the contribution of the primary sector as a whole was 34 percent. This is marginally higher than the contribution of agricultural and primary sectors in the country at 20.2 percent and 24.4 percent, respectively. In contrast, the share of the secondary sector at 16.9 percent was much lower than that of the country (23.4 percent). The contribution of the service sector at 49 percent in NER was marginally lower than that of the country at 52.2 percent. Within the service sector, NER had a significantly higher share of public administration (10.6 percent) than that of India (6.3 percent).

Thus, the NER is characterized by low levels of manufacturing and non governmental service activities resulting in the population's overwhelming dependence on the agricultural sector. This general observation, however, obscures inter state differences within the region. The dominance of Assam in the economic landscape of NER replicates the picture. In Assam and Nagaland, the contribution of the primary sector was over one-third, but in sikkim it was lower than the national average. Services share was higher than the national average in Mizoram and Sikkim. However, public administration contributed 21 percent in Mizoram and 17.5 percent in Sikkim. It is also seen that over time, there has been a gradual decline in the share of the primary sector in almost all the states in the region except Nagaland and Tripura.

The region lags behind the rest of the country not only in terms of per capita GSDP but in several other development indicators as well. People do not have access to basic services in adequate manner. Some development indicators such as road length, access to healthcare, and power consumption in the region are below the national average. Some basic indicators of the region are depicted with the help of the following Table-5. The region generates less than 8 percent of its 63,257 MW

Table-5: some relevant economic indicators of NER

State	Area (sq.km), 2001	Population (lakh persons), 2001.	Infant mortality rate (per '000) 2005-06	Poverty ratio based on MRP - consumption 2004-05	Per capita GSDP(Rs.) 2004-05	Forest coverage (%) 2003	Per capita electricity consumption (kwh) 2004-05	Road length (km/1000 sq.km area) 2002
	1	2	4	5	6	7	8	9
Arunachal Pradesh	83,743	10.98	61	13.4	21,919	61.55	144.8	219.3
Assam	78438	266.55	66	15.0	15661	34.45	85.3	1140.9
Manipur	22327	22.94	30	13.2	16299	78.01	70.05	512.1
Meghalya	22429	23.19	45	14.1	20775	42.34	352.2	426.5
Mizoram	22081	8.98	34	9.5	30357	75.71	133.7	229.8
Nagaland	16579	19.90	38	16.5	26129	52.05	87.2	1267.9
Sikkim	7098	5.41	34	15.2	26215	82.29	397.7	284.4
Tripura	10486	31.99	52	14.4	24984	60.01	113.1	1554.1
NER States	262179	389.84	45	13.9	18032	54.52	110.4	660.9
India	3287240	10287.37	57	23.6	25944	23.57	411.1	755.4

Source: Compiled from Vision document of NER.

Of hydroelectric power generation potential and its per capita power consumption at 119 Kwh. is almost a fourth of the national average (411 Kwh). In Assam, Manipur and Nagaland, the per capita power consumption is as low as 85 Kwh, 70 Kwh. and 87 Kwh. respectively.

2.5.3 Agriculture

Agriculture is the mainstay of the economies of the northeast. This sector accounted for close to 30 percent of the region's NSDP in 2002-03, and is a major source of employment and livelihood for around 80 percent of the population. However, agricultural growth has been uneven across regions and crops. NER continues to be a net importer of food grains. In spite of covering 8.8 percent of the country's total geographical area, NER produces only 1.5 percent of the country's total food grains production. Agriculture accounts for a major share of the economies of all the north eastern states, from 47 percent in Arunachal Pradesh to 26 percent in Nagaland in 1993-94. However, the share of agriculture has been declining in all the states (except Nagaland), indicating that these states have undergone significant structural changes. Agriculture in NER grew at a much higher rate (3.8 percent) than the average for the country (0.6 percent) between 1993-94 and 2002-03. Growth rates differ among different states of the region- Arunachal, Sikkim and Mizoram show negative growth while growth performances of Nagaland, Manipur, Meghalaya and Tripura are impressive. Only Assam's growth rate, though slightly higher than the Indian average, is far below the NER average. Nagaland's exemplary growth rate of 13 percent can perhaps be ascribed to remarkable dynamism based on policy initiatives taken by the government and possibly technology up gradation and it's adaptation by farmers.

2.5.4 Industry

The growth performance of the manufacturing sector in the three states of Manipur, Tripura and Meghalaya, has been better than the national average. However, the growth performance of the manufacturing sector in the remaining states of the region has been poor. In Arunachal Pradesh manufacturing sector has been virtually stagnant. The poor performance of the manufacturing sector seems to be one of the prime causes of the relatively poor performance of GDP growth of the region. Unfortunately, the share of manufacturing in the GDP of NER was only 4.71 percent in 1993-94 compared to the national average 17 percent. Further, the share decreased over time from 1993-94 to 2002-03. The share however varies across the states. It ranged from 3 percent in Nagaland, Arunachal Pradesh, Meghalaya and Tripura to 8 percent in Assam 1993-94. Thus, the pattern of industrial development of NER has not been in conformity with the standard historical trend even with respect to India. That is, industrialization has failed to take off in the region. This failure to achieve a significant increase in the share of manufacturing in GDP has reflected in the poor growth rates both in GDP and per capita GDP in NER. There is very little large scale manufacturing activity in the region. The total number of large factories in the region is merely 1.56 percent of the total large scale factories in India. Assam is the industrial hub of the region. It alone has 88 percent of the factories in the region which provide 86 percent of the employment and generate 90 percent of the output in the region. Next to Assam is Tripura in terms of the number industrial activities. Interestingly, Tripura does not have a single rubber plant despite being the second largest producer of natural rubber in the country. In responding to the need for rapid industrialization of the NER, the government of India had introduced the north east industrial policy, 1997 which offered a slew of fiscal incentives and subsidies to industry for a period of ten years.

However, only 3 percent of the small-scale units in the country are located in the north east of which, more than 60 percent are in Assam. Sikkim is the state with the least number of Small and Medium Enterprises (SMEs) units. The growth of SMEs has been by far the highest in Nagaland (28 percent) followed by Meghalaya (8 percent), Assam (6 percent) and Mizoram (6 percent).

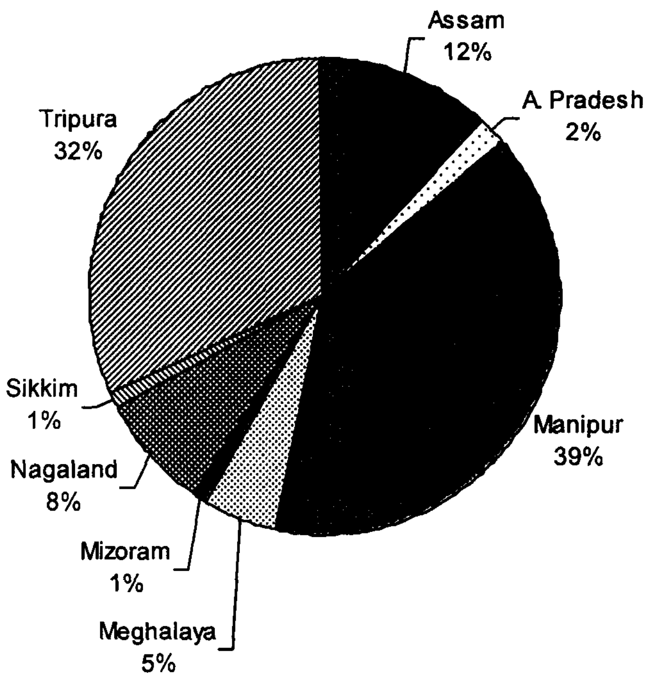
2.5.5 Non-farm activities

Enhancing rural incomes will also depend on making available multiple, livelihood opportunities by increasing non-agricultural employment based on local strengths and resources, strengthening capital formation in the primary sector and, in the process, harnessing the inherent strengths contained in the rural economies of NER. The region has a huge potential in developing the rural industrial sector because of its large natural resource base and labor force in the plains. The addition of value to products produced locally will increase employment and income generating opportunities. The major rural non-farm activities include handicrafts and handlooms, bamboo-based activities and processing of dairy products [into butter and cheese], poultry, fish and other livestock and agro and horticultural products.

2.5.6 Handicrafts and Handloom

Handicrafts from NER are famous all over India. The major crafts of this region are based on resources such as cane and bamboo, wood, terracotta, textiles, bell metal and brass. Cane and bamboo based crafts are available in almost all the NE states. The total number of handicrafts units operating in NER is roughly 20 per cent of the total number in India, which provides employment to 22 per cent of the total handicraft artisans in the country. Complete scenario of Handicrafts and Handloom of the region can depict with the help of the following figure-1

Figure-1: Handicrafts in NER as Handloom Census, 1995-96

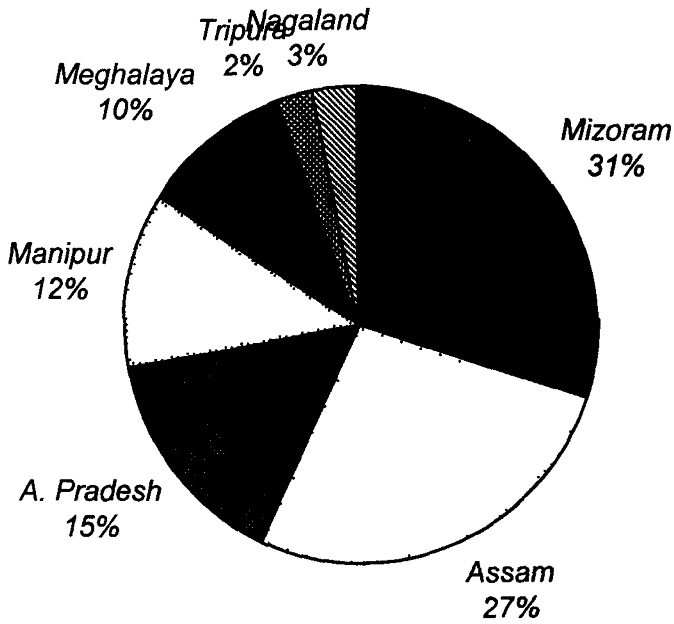


Source : NEC Data Bank, according to the Census of Handicrafts conducted by NCAER during 1995-96.

2.5.7 Bamboo Based Activity

Bamboo plays an important part in the lives of the people of the NE states. It is an integral part of the socio-cultural and economic traditions of the region. Bamboo grows in natural forests, and is cultivated in homesteads, groves and on private plantations. Bamboo can be used for multiple purposes, as building and reconstruction material, for food and medicinal products, handicrafts, for energy production through gasifies and in the paper industry. It plays a very important role in shaping the economies of the NE states by providing large employment opportunities. More than 60 per cent of country's bamboo resources are available in the NE states and 20 per cent of the word's resources are grown in the region.

Figure-2: Bamboo Growing Area of NER (Sq.km)



Source: National Bamboo Mission (2003), Ministry of Agriculture, Govt. of India.

2.5.8 Banking

It is fairly well known that NER has been deficient in the use of banking capital. One indicator of this is the credit deposit ratio (CD) i.e. the ratio of credit extended by the banks to the deposits generated in any region. A low ratio indicates the lack of off-take of credit either because of lack of demand (due to low level of commercial activity) or low credit worthiness of borrowers. CD has been consistently low in all NER States as compared to the all-India average. Furthermore, two States – Assam and Tripura – do not show any improvement in this ratio since the mid-1990s. Thus, while for Assam the CD ratio had been stagnant at about 33 per cent since 1996-98, Tripura witnessed a decline from 34 per cent in 1998-99 to 29 per cent in 2004-05. In 1996-98 it had the highest CD ratio of all the NER states at around 59 per cent but this declined to 41 per cent in 2004-05. Nagaland, Sikkim and Mizoram show significant increases between 1999-2000 and 2004-05 with the ratio almost tripling for

Meghalaya and doubling for Sikkim and Mizoram. For Sikkim, in particular, the increase banking activity is quite visible.

2.6 Summary

The main objective of this chapter is to describe the various sources of data and methods of data analysis used in the study as well as to provide a demographic and economic profile of the NER. In the first section we have described the sources of secondary data used in our study. In the next section we have discussed about the methodology to be followed.

The section of demographic and economic profile of NER gives the clear indication that NER is an isolated part of India. It's characteristics are different from any other parts of the country. The region is rich in natural as well as human resources. The region is yet to harness the vast development potential of these resources for the benefit of it's inhabitants. The vibrant growth in the states of the region would require significant structural changes to expand the role of the market and the private sector in determining their economic activities. People in the region, like those in the rest of the country, have a vision of achieving prosperity and happiness for their children, if not for they.

CHAPTER – III

LOOK EAST POLICY AND THE INDIAN ECONOMY

Chapter-3

LOOK EAST POLICY AND THE INDIAN ECONOMY

3.1 Introduction

Asia is emerging as a vibrant economic space in the new millennium and gradually reviving it's earlier position as a dominant global economic power as exhibited at the beginning of the nineteenth century. In this new episode of Asia's resurgence in the twenty first century, the integration of some of the East-Asian countries has played an important role in inducing other Asian countries to engage in the high growth process. Consolidation of ASEAN countries in the 1990s, and their efforts in the roping-in 'plus' countries in regional economic integration, have triggered rapid economic growth in Asia during the last decade.

Integration of India's economy with the world economy in the process of globalization became more discernible after 1990. Until 1990, India's development strategy had been industrialization through import substitution. The pursuit of self-reliance with minimum external resources led to high tariffs, licenses and quotas being used to control imports and foreign investment and to further the development of India's indigenous industries. Furthermore, political goals and ideological pursuits set the boundary and direction for India's international economic relations. It's international economic policy was a means to achieve its political and ideological objectives in the international arena, be it de-colonization or non-alliance. With reform under the new economic policy (1990), India has gradually liberalized its economy by reducing tariffs and relaxing controls over foreign direct investment, imports and exports. India has become a free market. Government controls on foreign trade and investment remain, but they have become less rigid, which has facilitated rises in both foreign trade and investment. More Indian firms also invest overseas. The initial focus of reforms on industrialization, exchange rate, external trade and foreign capital eventually and inevitably shifted to the financial sector and public sector. Trade and investment relationship with the rest of the world, also contemplated a special emphasis on strengthening economic ties with the East and Southeast Asian countries within the frame work of Asianisation of its economy. In this commonly known Look East Policy (LEP), priority has been sought to be given to the member states of the Association of South East Asian Nations [ASEAN]. For the promotion of trade cooperation with those countries several initiatives have been taken. Present Prime Minister Dr. Manmohan Singh has rightly mentioned "I reiterate India's commitment to work with ASEAN and other East Asian Countries to make the 21st century truly an Asian Century".

The opening up of the economy provided immense scope to redefine India's relations with it's neighbors, particularly with the Association of South East Asian Nations, via the LEP. Inspite of the insistence on Asian solidarity by various leaders during the anti-colonial struggle in the post world war-II period, there was a negligible linkage or co-operation among Asian countries. After years of neglect and suspicions that marked the cold war period, the ties are being revived through the consolidation of the Asian solidarity via trade relation. By virtue of it's close historical and cultural linkage with the ASEAN region, it was widely perceived that India could play a significant role in mending the odds and extend regional co-operation. Prof. Raja Mohan says "The dramatic growth of the Asian economies in the last few decades and increasing integration between them has resulted in many new far reaching ideas being discussed today" [The Hindu, 2003]. While India realized the significance of the ASEAN members for attracting the FDI, the south East Asian nations were also adept in utilizing the opportunities offered by India. Subsequently India became a sectoral dialogue partner of ASEAN in 1992, full dialogue partner in 1995 and a member of Asian regional forum in 1996. The process clearly reflects the interest exhibited by both the sides to tap mutual capabilities and resources, keeping in mind the possibilities and vulnerabilities.

3.2 Meaning & Initiation of India's Look East Policy

A prominent foreign policy initiative that India has undertaken in the post cold war period is the LEP which was initiated in 1991, marked a strategic shift in India's perspective of the world. It was developed and enacted during the government of Prime Minister P.V. Narasimha Rao, just after one month of kick starting the country's economic reform process. Then it has rigorously pursued by the successive governments of Atal Bihari Vajpayee and Manmohan Singh. The LEP is essentially a part and parcel of India's new-outlook foreign policy. The essential philosophy of the LEP is that India must find its destiny by linking itself more and more with its Asian partners and the rest of the world, and that India's future and economic interests are best served by greater integration with East and Southeast Asia. Hence, LEP is an attempt to forge closer and deeper economic integration with it's east and southeast Asian neighbors. Engagement with the ASEAN is a part of recognition of India's elite of the strategic and economic importance to the country's national interest. As Prime Minister Manmohan Singh said, the LEP is not merely an external economic policy; it also marks as a strategic shift in India's vision of the world and it's place in the evolving global economy. There are some mainstream analysts in our country who are of the view that the LEP is fallout of the pressures exerted by the domestic as well as global capitalists. In his speech [2003] at Harvard University India's former foreign minister, Yaswant Singh, summarized 'In the past, India's engagement with much of Asia, including South East and East Asia, was built on an idealistic conception of Asian brotherhood, based on shared experiences of colonialism and of cultural ties. The rhythm of the region today is determined, however, as much by trade, investment and production as by history and culture. That is what motivates our decade-old LEP.'

The "Look East" policy was envisioned by the Rao government to outline a focused foreign policy approach towards South East Asia, a region of high economic prosperity at that time. It was also propelled during the period of economic liberalization within India. Further, in the present context, the "Look East" policy is being utilized to forge deeper ties with China, Japan, South Korea, Australia, New Zealand, Papua New Guinea, and Pacific Island states.

The initiation of the LEP represented a reorientation of India's foreign economic policy strategy after the Cold War. The LEP signaled the end of India's previous pursuit of self-reliant economic development, and the start of an era in which India strived to take advantage of new opportunities from international trade and investment. The LEP also sent a strong signal that East Asia would be integral to India's economic opening. The region would no longer be overlooked, as it had been by India's previous foreign economic policy, but would now be regarded as a source of new business opportunity and inspiration for economic development.

The LEP is the product of various compulsions, changed perceptions and expectations of India in the changed international environment. The end of cold war brought about a fundamental change in the international system, which focuses on the economic content of relations and led to the burgeoning of the formation of regional economic organizations. While India was opening up to the world market, it became aware of the growing trends towards regionalism and feared that it will be marginalized from the dynamics pushing the global economy. The economic reforms, coupled with the integrative forces of globalization, frustration with the process of integration within South Asia; the renewed concern about the antecedent and powerful China and its impact on India's security, as well as India's unease at Beijing's growing assertiveness in the Asia Pacific region made India to rethink the basic parameters of its foreign policy. In this changed international system in the aftermath of the cold war, the success stories of the East Asian Tiger economies[Taiwan, South Korea, Singapore and Hong Kong] and the radical shift in India's economic and strategic circumstances caused New Delhi to pay more attention to the rapidly growing economies of east and southeast Asia. In the initial stage the focus of the LEP was much on ASEAN. India's conscious efforts to forge closer economic ties with ASEAN member states pay dividends. Bilateral relations between India and ASEAN improved rapidly.

The geographical coverage of India's LEP in the current phase is explained bellow-

Table-6: Geographical coverage of Look East Policy

India's Look East Policy
(In the current phase)

South East Asian Countries
(It is a sub region of continent Asia)
Asia)

- Cambodia
- Laos
- Myanmar
- Thailand
- Vietnam
- Brunei
- East Timor[4]
- Indonesia
- P.N.Guinea[5]
- Malaysia
- Philippines
- Singapore
- 3

Major cities are Jakarta, Manila, Bangkok, Ho Chi Minh City, Medan, Surabaya, Yangon, Kuala Lumpur, Singapore, Hanoi, Bandung

East Asian Countries
(It is a region of continent

- China (PRC)[1]
- Japan
- North Korea
- South Korea
- Taiwan (ROC)[2]
- Mongolia

Major cities are Beijing, Pyongyang, Seoul, Taipei, Tokyo, Ulan Bator, Busan, Hong Kong, Kaohsiung, Osaka, Shanghai, Yokohama.

Source: Based on author's own study.

1) People's Republic of China (including the special administration regions of Hong Kong and Macau).
2) Republic of China.

3) A politically external territory of Australia and New Zealand are culturally part of South East Asia. Again Andaman and Nicobar Islands of India are also considered part of South East Asia.
4) It is not a member of ASEAN. It is an ASEAN candidate state.
5) It is not a member of ASEAN. It is an ASEAN candidate state.

South East Asia or Southeastern Asia is a sub region of Asia. South East Asia is geographically divided into two regions, namely Mainland Southeast Asia (or Indochina) and the Maritime Southeast Asia (on the Malay Archipelago). Mainland Southeast Asia includes Cambodia, Laos, Myanmar, Thailand and Vietnam. Maritime Southeast Asia includes Brunei, East Timor, Indonesia, Malaysia, Philippines and Singapore. The Andaman and Nicobar Islands of India are also considered as part of South East Asia. Politically external territories of Australia and New Zealand are also culturally part of South East Asia. All the countries of South East Asia are members of the ASEAN, except East Timor and P.N.Guina which are ASEAN candidate state.

East Asia is a region of Asian continent. East Asia and Eastern Asia are both modern terms for the traditional name 'the Far East', which describes the region's geographical position in relation to Europe rather than its location within Asia. However, in contrast to the United Nations definition, East Asia commonly is used to refer to the Eastern part of Assam, as the term implies. Geographically East Asia includes China [Peoples Republic of China], Japan, North Korea, South Korea, Taiwan [republic of China] and Mongolia. Vietnam is also sometimes included in the definition of East Asia.

East Asian economies have grown rapidly over the last four decades, driven by the expansion of international trade and foreign direct investment [FDI]. Production network and supply Chains–formed initially by global Multinational Corporations [MNCs] and later by emerging East Asian business firms–are the basis for trade and FDI expansion. More recently, East Asian governments have embarked on policy initiatives for formal economic integration through bilateral and plurilateral free trade agreements [FTAs]. The ASEAN is emerging as the integration hub for FTA activity in East Asia, while the People's Republic of China [PRC], Japan, and Korea are also making formal economic ties with ASEAN. More recently, India and Australia are joining in this bandwagon move towards FTAs with East Asia. India and the ASEAN on 28 August, 2008 successfully concluded six years of negotiations for a FTA at Singapore. The FTA covering trade in goods signed at the ASEAN-India Summit hold at Bangkok in December 2008. India negotiated the FTA with each of the ASEAN member countries based on their trade pattern. It becomes effective from January 2009. It is expected that the FTA will boost the India-ASEAN trade to 50 billion dollars by 2010, up from 30 billion dollars as end of 2007. India is also expected to commence negotiations on services and investment with the 10-member country ASEAN soon.

East Asia is a latecomer in the move towards FTAs compared to the Americans, Europe, and Africa but has seen an unprecedented increase in total FTA activity since the 1990s. Multilateralism through the WTO framework and open regionalism centered on APEC were the bedrock of the region's approach to international trade for several decades. Recently, many governments in East Asia have embarked on bilateral and plurilateral trade arrangements. Notably, Japan implemented bilateral Economic Partnership Agreements (EPAs) with Singapore and Mexico. Malaysia signed EPAs with Chile, the Philippines, Thailand and Brunei. Again Indonesia has reached an agreement in principle with ASEAN, and is negotiating on agreements with Korea, Vietnam, India and Australia. The PRC implemented FTAs on goods trade with ASEAN and is now negotiating agreements on services and investment. Korea has also implemented an FTA with Chile and an FTA on goods trade with ASEAN and has reached an agreement with the US. ASEAN is even more aggressive in pursuing FTAs with different countries. While enacting FTAs with the PRC and Korea, ASEAN is negotiating FTAs with Australia-New Zealand and India. Some ASEAN members like Singapore and Thailand are actively pursuing bilateral FTAs. In this sense, there have been bandwagon effects among the East Asian economies in their drive for FTAs/EPAs. The time frame of liberalization schedule of East Asian economies indicates that most of the liberalization measures will have to be fully implemented by 2020. Following table-7 gives liberalization time frame for Major Economic groups in East Asia.

Table-7: Liberalization Timeframe for Major Economic Groups in East Asia

Group/FTA (Year of full negotiation completed)	For Developed Countries	For Developing Countries	
		For advanced six ASEAN member	For other four ASEAN member
APEC (voluntary & unilateral)	by 2010	by 2020	by 2020
ASEAN (1992)	--	by 2002 (0% tariff by 2010)	by 2007 (0% tariff by 2015)
		ASEAN Economic Community to be launched by 2015	
ASEAN+PRC (2010)	--	by 2010	by 2015
ASEAN+Korea (2008)	--	by 2009 (excl. Thailand)	by 2015 (flexibility allowed)
ASEAN + Japan (2007)	by 2010	by 2012	by 2017
ASEAN+India (2011)	--	by 2011 (excl. Philippines)	by 2016 (incl. Philippines)
ASEAN+CER (Australia and New Zealand) (2009)	by 2010	by 2017	by 2017

Source: compiled from wagnaraja, G and K. Masahiro (2007).

Unlike nearer home initiatives like South Asian Association for Regional Cooperation [SAARC], heavily influenced by an India-Pakistan historical distrust coupled with the insecurities of smaller neighbors, India enjoys an advantage with the South East Asian countries with regard to greater regional cooperation. Most of these countries view India as upholding a strong democratic ethos and a benign foreign policy of mutual co-existence based on the ideas of Gandhi and Nehru.

3.3 Factors driving the policy

India's LEP is an important step of government of India towards looking east and south East Asian countries. This policy was not automatically generated from vacuum but an inspiration of several factors. Some important factors responsible for the initiation of India's LEP are-

3.3.1 East Asia is close to India geographically

India shares land borders with Burma and Thailand, and sea borders with them as well as Malaysia and Singapore. Trading relationships between India and some ASEAN member countries can be traced back more than a thousand years and have profoundly affected one another's linguistics, religion, culture and business. South-East Asia has been a destination of Indian migrants for centuries. The LEP took this into account and the potential role the Diaspora could play in bridging the gaps between India and their host countries. The gaps were wide in the early 1990s. As India 'rediscovered' South-East Asia, India was astonished to find that the region was no longer an economic backwater, as India had viewed it in the 1940s and 1950s. It had become a dynamic and prosperous region that enjoyed more than 2-3 times the income of India and had developed superior social and economic infrastructure. Engaging East Asia became a predominant ambition among Indian policymakers, who wanted to repeat its growth story.

3.3.2 For strategic consideration

India's desire to engage with East and Southeast Asia also has strategic considerations. Particularly since the early 2000s, India has been concerned that, if the WTO trade negotiations failed, it would be left alone to face growing protectionism in Europe and North America. While India has sought to negotiate FTAs with as many countries as possible to keep its options open, it found East and Southeast Asian countries were the most enthusiastic potential partners.

3.3.3 Need to counter China economically

With the open door policies during the 1980s China had seen the meteoric rise of an emerging economic giant in Asia, in contrast with India's own Fabian socialist policies under Nehru's rule. China competes with India in the political, economic and military sphere and most importantly, for economic influence in the region of East & South East Asia. In short, India must adopt an economically aggressive stance to compete well with International market forces at work in the region. Obviously, there was a need to seek new markets in order for India to grow economically and to seek a significant way of countering China's own economic policies.

3.3.4 An emerging middle class

One US software engineer earns US$75,000 per year as compared to his Indian counterpart, who earns just US$20,000 per year. 60% of India's one billion populations are below the age of 30, meaning that a vast number of educated and talented people formed a huge manpower pool waiting to be tapped. Globalization and the Western media have also brought about influences in Western tastes and a materialistic lifestyle in a growing middle class in India. Materialism has led to a disturbing trend in mercenary pursuit of wealth at the expense of traditional, conservative social values. Thus, India seeks new market to export its restless workforce.

3.3.5 Containment from West and Central Asia

India's long dispute with Pakistan over the Jammu and Kashmir region has caused long standing hostile bilateral ties between these two countries. China, as Pakistan's ally and a potential economic rival, would sensibly pursue policies that either not promote or even hinder India's economic progress and interests. Although India also possesses business interests and provides foreign labor to the Middle East, geo-political instability and the constant threat of terrorism meant that there can be no serious undertaking of worthwhile financial investment in Middle Eastern countries. As a consequence, India remains hemmed in a severed from mainstream Asian affairs on either the western or northern direction. The only remaining alternative of potential development is to look eastwards towards the South East Asian region.

3.4 Important objectives of India's Look East Policy

By 2005, the LEP had moved beyond its initial goal of tapping into the opportunity presented by East Asia's growth, which is still important. The policy now serves a much broader agenda, particularly as India's economy continues to grow. The LEP is pursuing four broad objectives: reform and liberalization, sustained rapid growth, regional economic integration and equity-based development. The four objectives are not mutually exclusive but reinforcing. The emphasis placed on each of the objectives has been different at different points of time during the past 15 years. More recently, the emphasis has been on India's economic integration with East Asia. Rapid growth has renewed India's aspiration to be a global superpower, which it can realize through integration with East Asia, while continuing to pursue the other objectives.

3.4.1 Reform and Liberalization

Closer economic ties with East Asia require greater effort on India's part to liberalize trade and investment. The LEP objective of economic reform and liberalization supports India's effort to lower trade barriers and liberalize investment regimes. This gained further impetus when India and all major East Asian economies began free trade negotiations in the early 2000s. India's new-found enthusiasm for FTAs injected new dynamism into its LEP, which in turn had an impact on India's reform and liberalization.

3.4.2 Sustained Rapid Growth

Tapping into East Asia's growth was an important trigger for India's engagement with its economies. With the Indian economy taking off from the early 2000s, India has increasingly turned it's focus to sustaining its rapid growth. Strong economic ties with East Asia would position India well for accessing growth opportunities in Asia. India is also wooing East Asian investment as it tries to build infrastructure in the transport, communication and power sectors to keep pace with its expanding economy. India believes, East Asia holds a key to India's sustained economic growth, particularly when international economic activities are becoming more critical to India's own growth, and other regions are growing at a much slower pace and becoming more protectionists.

3.4.3 Regional Economic Integration

The third objective of the LEP is to pursue economic regionalism with East Asia. This is partly a reaction to the formation of trade blocs in Europe and North America, and partly serves as a platform from which to promote India's growing superpower status. In the face of an increasingly fragmented world, India feels that its grouping with East Asian countries would enhance its position relative to other regional partners. There are certainly strong views in India that the time has come for Asia to form a trade bloc to become the third pole of the world economy. In the words of Manmohan Singh, India's present Prime Minister, 'this century is going to be Asia's century'. He also said that India, along with China, 'is going to be a major economy of this century. This is part of our "Look-East" policy'.

3.4.4 Equity-Based Development

The LEP is seen as instrumental in addressing internal disparity in India's development, and fostering more equity-based growth. The economic development of India's eight north-eastern states in particular lags behind the nation's development. They have felt neglected in terms of investment and government spending for some time. Through the LEP, India hopes that linking its north-eastern region with peninsula South-East Asia will kick-start economic development, and help the NE states to develop infrastructure, logistics, agribusiness, trade, investment and other commercial activities. Trade with South-East Asia also has the potential to turn the region from land-locked to land-linked, providing India with land routes to Burma, Thailand and other peninsular South-East Asian countries. While the LEP is an initiative from the central government, the eight north-eastern states are strong supporters of the policy.

The LEP of India has already crossed the first phase. Presently it is running in the second phase. Both of these phases are explained bellow -

3.5 The First Phase of India's LEP

The collapse of the Soviet system deprived India not only of a valuable partner but also of an important model of centralized economic planning. The Indian establishment and the members of the intelligentsia who wanted to escape westernization then became more favorably inclined toward Asianism as an alternative to the American capitalist model. The balance of payment crisis in July 1991, which persuaded India to liberalize its economy under the authority of international monetary fund (IMF), certainly proved to be another catalyst in it's decision to open up to the world market. At the same time, the development of apprehensions vis-à-vis East Asia, and particularly vis-à-vis on-the-rise of China, has contributed to India's effort since 1991 to emulate its Asian neighbors. Again at that time number of Indians have held important posts in international organizations [for example, Manmohan Singh, the architect of the Indian economic reforms, had been secretary General of the South Commission of the UN in Geneva from 1987 to 1990] and these positions had helped them to compare the situation of their country with others before calling for the initiation of the East Asian models in India. Manmohan Singh often repeated that Korea and India had the same GDP per capita in the 1950s and that South Korea could be emulated.

The Indian desire to draw inspiration from the East Asian path of development and to become more closely associated with this zone in economic terms was officially declared by Narasimha Rao [by this time Prime Minister of India] in 1994 during his visit in Singapore. Two concerns underpin this discourse are India's efforts to come closer to East Asia and South East Asia through the origination of regional economic co-operation and foreign investment from this part of the world; and the initiation of methods employed by the East Asian countries. Each of these two options in its own way implies conferring value to an Asian identity of which India would be a participant. Thus, aside from the economic reforms initiated during his Prime Ministership, P.V. Narasimha Rao will also be remembered for the "LEP" he launched formally in the second half of his tenure.

Leaders and diplomats alike felt that Mr. Rao's stint as External Affairs Minister had provided him the insight and vision to look beyond the shores and revive historical and cultural links with the East to convert them into an economic and trade partnership. Analysts in that region were never tired of pointing out the historical cycle – India as an Asian leader under Jawaharlal Nehru in the 1950s, when most of East and Southeast Asia gained independence and liberty, the complete neglect of the East when Indira Gandhi was at the helm, and a revival of interest under Mr. Rao.

From 1992 onward, Narasimha Rao sought closer ties with East and Southeast Asian countries by visiting them regularly. On each visit he was accompanied by an impressive delegation of businessman. He went Indonesia in 1992, Singapore, Thailand, Malaysia, Vietnam and South Korea in 1993, Singapore again in 1994, and Malaysia again in 1995. Similarly, President Suhanto of Indonesia visited India twice in 1993, Prime Minister Mahathir of Malaysia came three times [in 1993, 1994 and 1996], Prime Minister Goh Chok Tong of Singapore was the Chief Guest in the Republic Day of India in 1994, and Lee Knan Yew [still a dominant force in Singapore despite has political retirement] is a regular visitor to India. These visits gave many opportunities to the Indian Prime Ministers and their Southeast and East Asian counter parts to develop 'Asianist' discourse.

Though a series of visits to the ASEAN countries stretching from Singapore and Malaysia to Thailand and Vietnam Mr. Rao established what ASEAN leaders called "Instant personal chemistry" with him. Be it Singapore's Mentor Minister, Lee Khan Yew, or the then Premier, Goh Chok Tong, the then Malaysian Prime Minister, Mahathir Mohammad, or the Vietnamese leaders, there was nothing but admiration for the way Mr. Rao led India out of the deep financial crisis in 1991 to emerge as one of the dynamic economies of Asia and the world. Of course, they knew the contribution of his Finance Minister, Manmohan Singh, but they recognized the fact that without his Prime Minister's solid backing and leadership, Dr. Singh could not have ventured this far with economic reforms.

The first phase of India's LEP was ASEAN centered and focused primarily on trade and investment linkages. When our LEP was initiated in 1991, it marked a strategic shift in our perspective of the world. It coincided with the beginning of our economic reform process and provided on opportunity for significantly enlarging our economic engagement. At the same time, it also encouraged a renewal of linkages with our civilization neighbors in South East and East Asia.

At the diplomatic and economic level, India had shown on interest in Joining ASEAN since 1987. such membership would have helped the timid policy of economic liberalization initiated by Prime Minister Rajiv Gandhi it would have reinforced its effects by developing trade between India and other member countries and by encouraging confidence among investors. Nonetheless the economic reforms initiated by India in 1991 met with the approval of the ASEAN countries. In 1992, they granted India the status of "sectoral dialogue partner" for tourism, commerce, investments and science and technology. Around that time, Narasimha Rao accorded a new priority to Southeast Asia. In the second half of 1992, he placed the foreign secretary himself directly in charge of this region, which had previously been dealt with by one of the secretaries of the ministry for External Affairs. In October 1995, a member of the Secretariat for Economic Affairs of the Ministry for External Affairs declared "ASEAN is at the heart of our reworked strategy". Two months later i.e. in

1996, during the fifth ASEAN summit, India, along with China and Russia, was given the status of a full dialogue partner of the organization. The full dialogue membership made India an ex-officio member of the ASEAN Regional Forum [ARF], the body dealing with security issues.

The possibility of a change of LEP was opened up by the defeat of Congress [I] in the Indian general elections of May 1996. But the leftwing government eventually formed by H.D. Deve Gowda continued with earlier efforts to come in terms with East Asia. I. K. Gujral, the then Minister for External Affairs, attend an ASEAN Conference [July 1996, in Indonesia], expressed there the government's approval of the new relationship in the following emphatic terms –

"We see the full dialogue partnership with ASEAN as the manifestation of our Look East destiny. This is because we are geographically inseparable, culturally conjoined and now more than ever before, economically and strategically interdependent and complementary".

3.6 The Second phase of India's Look East Policy

Phase two of the LEP helped in breaking out of the political confines of the subcontinent that have severely limited India's strategic options. The Prime Minister, Atal Bihari Vajpayee's swings through Southeast Asia marks at once the triumph of the Look East policy launched nearly a decade ago by the Congress Government under P.V. Narasimha Rao, and its advancement into a new phase. The unstinting support of all the Governments in the last decade to the LEP reflects both the continuity in Indian diplomacy over the last decade and a half and a significant measure of bipartisan consensus on the new orientation of foreign policy since the end of the Cold War.

A seeming contradiction is often constructed between the Nehruvian roots of Indian foreign policy and the alleged departures from it in the recent past. Whether that contradiction is real or not, a political irony confounding this debate lies in the fact that the recent changes in the Indian foreign policy have made many of the ideas of the Republic's founding fathers more tangible now. For example the notion of Asian solidarity that animated Indian foreign policy from the very dawn of Independence.

Despite a lot of rhetoric about Asian solidarity in the late 1940s and early 1950s, it never materialized, thanks to the impact of Cold War politics on the region, and, to a lesser extent, the tensions between India and China. There was little commercial cooperation among the Asian countries and their trade linkages were oriented outwards. Today that vision of Asian solidarity is being realized in an unexpected way through increased economic cooperation within the great continent. The dramatic growth of the Asian economies in the last few decades and increasing integration between them has resulted in many new far-reaching ideas being discussed today. These include the creation of an Asian economic community and a common currency for Asia, similar to the Euro.

Talking about India's new initiatives in Asia, Mr. Jaswant Sinha, Minister of External Affairs in the Vajpayee's government said, 'In the past, India's engagement with much of Asia, including Southeast and East Asia, was built on an idealistic conception of Asian brotherhood, based on shared experiences of colonialism and of cultural ties. The rhythm of the region today is determined, however, as much by trade, investment and production as by history and culture. That is what motivates our decade-old LEP. Already, this region accounts for 45 per cent of our external trade'. Asia mattered only verbally in the past articulation of Indian foreign policy. It now is a throbbing commercial reality behind India's diplomacy.

Increasing flows of trade within the region over the years and the determination to deepen them further through more liberal arrangements have boosted the prospects for the emergence, for the first time, of an Asian economic community. ASEAN is negotiating free trade arrangements with China, Japan, South Korea and India. New Delhi has worked overtime to complete the framework agreement on free trade between India and the ASEAN. For Indian commercial diplomacy, widely seen as a slow-boat, the finalization of this agreement within a year is a remarkable achievement.

When Mr. Rao outlined India's LEP at the beginning, it was tentative and greeted with some skepticism within the country and in Southeast Asia. During the Cold War, India and ASEAN drifted apart, and the LEP sought to reconnect economically to the region. As India's economic reforms unfolded, there was no let-up in the pace of diplomacy towards the region, which saw steady gains throughout the last decade. Neither the controversial Indian nuclear tests of 1998, nor the economic crisis in East Asia in the late 1990s, came in the way of rapid expansion of India's relations with the region. Trade between India and ASEAN has multiplied fourfold - from $ 3.1 billion in 1991 to about $ 12 billion in 2002. Mr. Vajpayee had set an ambitious target of $ 30 billion by the year 2007. Again at the 6th India-ASEAN summit in Singapore in Nov, 2007 India proposed to enhance the bilateral trade with the ASEAN countries to a target of US $ 50 billion by 2010. The free trade agreements with the ASEAN as a whole and individually with Thailand and Singapore are part of the new ambitions of the Indian policy towards Asia.

The intensification of the economic linkages with ASEAN, has quietly led India into a second phase of its LEP. Phase one of the policy was characterized by trade and investment linkages. Phase two is marked by "arrangements for FTAs and establishing of institutional economic linkages between the countries of the region and India. Some other features that define Phase two of India's LEP are -

a) The larger geographic scope of the initiative from the initial focus on Southeast Asia to include East Asia and South Pacific. Phase two, is characterized by an expanded definition of `East' extending from Australia to China and East Asia with ASEAN as its core. South Korea has emerged as a major economic partner of India; while economic ties with Japan need to be upgraded, there has been dramatic growth in Sino-Indian linkages in the last few years. And the potential with Australia, New Zealand and the South Pacific remains to be tapped fully.

b) The movement away from exclusive focus on economic issues in phase one to a broader agenda in phase two that involves security cooperation, including joint operations to protect sea lanes and pooling resources in the war against terrorism. The military contacts and joint exercises that India launched with ASEAN countries on a low key basis in the early 1990s are now expanding into full-fledged defense cooperation. India has also quietly begun to put in place arrangements for regular access to ports in Southeast Asia. India's defense contacts have widened to include

Japan, South Korea and China. Never before has India engaged in such multi-directional defense diplomacy in Asia.

Three other features can be identified as unique to the phase two of India's LEP. First is the pursuit of physical connectivity to Southeast Asia. With little trade with Southeast Asia during the Cold War, the consciousness that the region was part of India's extended neighborhood melted away. And there was no reason to think of transport links to Southeast Asia. Establishing air and land links to East and Southeast Asia has become integral to phase two of the policy. As part of its road diplomacy, India is now actively building transport corridors to the region. These include the trilateral highway project involving Myanmar and Thailand and the proposed rail link between New Delhi and Hanoi.

Secondly, and of far more consequence, the LEP in phase two has opened the door for the first time since Independence to break out of the political confines of the subcontinent that have severely limited India's grand strategic options. The LEP has allowed India to break the artificial political barriers between the subcontinent and Southeast Asia. A summit of a new economic grouping called Bay of Bengal Initiative Multisectoral Technical and Economic Co-operation [BIMSTEC] will bring five nations of the Subcontinent [Bangladesh, Bhutan, India, Nepal and Sri Lanka] together with two countries from Southeast Asia, Myanmar and Thailand, with a view to promote regional cooperation. With this, India will be in a position to finally trump the veto that Pakistan has exercised over economic cooperation in the subcontinent through the South Asian Association for Regional Cooperation [SAARC].

Finally, it has often been argued that India's LEP was driven, at least in part, by an ineluctable rivalry with China. While competition of a kind is a reality, the last couple of years have brought out the possibilities for Sino-Indian cooperation. India's LEP in phase two is not driven by a fear of China nor a desire to become a frontline state against it. The focus of bilateral relations is on solving long-pending bilateral problems on a pragmatic basis and fully exploiting the new opportunities for bilateral economic cooperation.

The onus of driving the LEP of India, of course, lies in the new generation of India's leaders, since Prime Minister Dr. M. M. Singh took office in 2004. Dr. Singh, the architect of the Indian economic reform often repeated when he was the Finance Minister of India that Korea and India had the same GDP per capita in the 1950s and that South Korea could be emulated. In September 1995, he declared, in the same vein "The economic policies of India take into account the dynamism of this region [Asia Pacific], which shall soon be the tiger economy of the world. We want to be participants in this process". His dream to make India a member of the process of Asian dynamism became very much easy when he took the office of Prime Minister. India's LEP has now entered actively into the second phase under the UPA government of Dr. Manmohan Singh. He is very much serious in pursuing the LEP of the government. The gains that had accrued to India in the First phase of India's LEP will definitely multiply further under the dynamic Prime Ministership of Dr. M. M. Singh from the regular interaction, annual summits as well as the Free Trade Pacts between India and ASEAN. Prime Minister Dr. M. M. Singh while he was in route to Singapore to attend the Sixth India-ASEAN summit and the third East-Asian Summit[20th Nov, 2007] appealed to ASEAN members to be "more reasonable" on FTAs with India. He said "we are trying to persuade our ASEAN friends to be more reasonable and I am hopeful that this process will yield a satisfactory outcome". He termed the bilateral trade with ASEAN as being one of "high importance to India". Terming India's relationship with ASEAN countries as the Pillar of its Look East Policy, Prime Minister Singh urged participating leaders to make it a people's movement. If India-ASEAN process is to take root, it must become a people's movement. Expressing hope that the trade between India and ASEAN will reach 50 billion dollars by 2010, Dr. Singh said, India has already exceeded the target of 30 billion, which was set for the year 2007. Sharing India's vision of an Asian economic community consisting of an integrated market and linked by efficient road, rail, air and shipping services, he said, the creation of this arc of advantage will be possible if we can successfully create a robust institutional architecture for regional cooperation and action. By giving assurance to ASEAN partners Dr. Singh again said, "I am extremely optimistic about the future of our partnership. The multi Sectoral approach towards our cooperation is the right one. I want to assure you that you will find an enthusiastic partner in India". India has a stake in ASEAN's stability and prosperity just as we believe ASEAN has a stake in the transformation that India is experiencing.

To achieve the policy's objectives, India is negotiating bilateral FTAs with East Asian economic powers. India has entered into number of pacts, agreements and FTAs with Thailand and Singapore; there are plans to create a free trade area with Brunei, Indonesia and Malaysia by 2011 and with the remaining ASEAN countries-the Philippines, Cambodia, Laos, Myanmar and Vietnam by 2016. The formal FTA covering trade in goods will be signed by leaders at the ASEAN-India summit schedule to be held in December 2008 in Bangkok. India is also expected to comments negotiations on services and investment pacts with the ten member country ASEAN soon. Under the pact India and ASEAN will eliminate import duties on 71% of products by 31st December 2012 and another 9% by 2015. Duties on 8 to 10% of the products that have been kept in the sensitive list will also be brought down to 5%. India negotiated the FTA with each of the ASEAN member countries based on their trade patterns. It is to be effective from January 2009. Elaborating on the terms of FTA Commerce Minister of M.M. Singh's government, Mr. Kamal Nath said all parties have agreed to reduce tariff on more than 90% of tariff lines, which corresponds to almost 96% of the total trade between India and ASEAN members. Implementation of concessions will start in 2009 while the bulk of the trade will be liberalized by 2012.

India's partnership with ASEAN and other regional mechanisms has naturally given a major boost to our multilateral cooperation. At the same time, it has also served to significantly diversity and deepens our bilateral relations with individual ASEAN member countries. Our region is now marked by enhanced economic relations, closer diplomatic coordination, intensified cultural ties and greater people to people contact. Defense and security cooperation for mutual benefit too are aspects of some of these relationships. In the coming years of Asian century through mechanisms such as free trade or comprehensive economic cooperation agreement, India hopes to further prompt all these individual relationships as well. New economic trade arrangements of which the framework agreement for a free trade area with ASEAN by 2011 is a key component, holds out the prospects of an expanding geo-political relationship underpinned by geo-economics. Bilateral agreements provide additional strength to the steps on which to move forward, building on the experience gained in the process.

As India's largest neighbor and a key emerging player in the international arena, China remains an important priority of foreign policy and a key component of LEP. The rapidly growing trade and economic exchanges between the two countries are pointers to the fact that India and China are now constantly engaged in mutually rewarding pursuits on the basis of a wide array of complementarities. Frequent high level visits have further contributed to developing mutual trust and understanding. While some degree of healthy competition between the two countries is inevitable, particularly in the area of trade and commerce, there is enough space and opportunity in the region, and beyond, for both India and China to grow together. The India-China partnership is an important determinant for regional and global peace and development, and for Asia's emergence as the political and economic centre of the New International Order. It is with this realization of the long term global and strategic character of India-China relations that the leader of the two countries decided to establish a "Strategic and Co-operative partnership for peace and prosperity" during the visit of the Chinese premier Mr. Wen Jiabao to India in 2005.

India under the Primer Minister of Dr. M. M. Singh also attached high priority to strengthen our relations with Japan. There has been a visible transformation in the political ambience of the relationship on both sides. India's bilateral relations reflect a new found dynamism, propelled by the landmark visit of Prime Minister Koizumi to India in April 2005, the visit of Prime Minister Dr. M. M. Singh to Japan in 2006. Japan is increasingly looking at its relations with India from a strategic perspective. Both the countries are now engaged in the process of deepening strategic and global partnership through high level visits, expanding economic relations and growing mutually beneficial exchanges in energy, science and technology, defense, cultural and academic fields.

Again security linkages in an increasingly globalizing and interdependent world are taken as highly important. The Indian Navy has been patrolling the Malacca straits for years now in cooperation with the countries of the region where joint novel exercises heralded the LEP.

Thus, the ASEAN cooperative engagement processes of India under the Prime Ministership of Dr. Singh with tiger economies like China, Japan, Australia and Korea opens up many opportunities for the whole Asian region. Multiple linkages and sub groupings offer new opportunities to work for mutual benefits and enhance the quality of life in all the developing countries in the region. But some proposals like Asian Highway and the Chinese idea ensconced in the Kunming initiative now must get a fresh look and impetus.

India is bound by close ties of history, geography and culture to East and to South East Asia. In the modern age, by pursuing an active LEP we jointly seek a future that fuels itself both by our shared past and our current commonalities. We are destined to be on the same side of history, as neighbors, as friends and as partners in the quest for progress. By working together, we can contribute to make the 21st century truly an 'Asian Century'.

3.7 Outcome of the policy

The LEP began with lot of fanfare though it was not smooth sailing. The first phase marked enormous enthusiasm and a flurry of activity and exchanges. By mid 1990s, there was considerable cooling down of earlier zeal on both sides, which got further dampened by the 1997-98 financial crises. The latest phase is the revival of interest once again. The multi-dimensional approach and the progress that India's LEP has achieved are briefly explained below. Here we shall give more emphasis on the economic implications of the policy.

3.7.1 Economic Engagement

The LEP has given tremendous boost to economic ties between India and East-Southeast Asia. Explaining remarkable transformation of India's attitude towards Asia the then External Affairs Minister Yashwant Sinha at Harvard University in 2003, said "In the past, India's engagement with much of Asia, including East and Southeast Asia, was build on an idealistic conception of Asian brotherhood, based on shared experiences of colonialism and of cultural ties. The rhythm of the region today is determined, however, as much by trade, investment and production as by history and culture. That is what motivates our decade old 'Look East Policy'. Already this region accounts for 45% of our external trade".

Number of institutional mechanisms has been put in place to promote economic exchanges in the region. The earlier Joint Trade Committees with the ASEAN countries were upgraded as Joint Business Commissions and the India-ASEAN Business council. ASEAN-India Joint Management committees were formed consequent to India's elevation to Dialogue partner status. The ASEAN-India Joint Cooperation Committee and the ASEAN-India working group on trade and investment were setup. An ASEAN-India fund was created to promote trade, tourism, science and technology, and other economic activity. Some time-bound important economic implications of India's LEP are explained under the following headings-

3.7.1.1 Manpower Flows

Although there are no available data detailing the extent of manpower flows between India and ASEAN, this is an area wherein India's excess supply matches demand shortage in some ASEAN members [Singapore, Malaysia, and Thailand], particularly among mid and high skill levels. India now possesses one of the largest pools of internationally competitive and scientific manpower that are accustomed to operating in multi-cultural environment, which could help address such shortages. Undoubtedly, the presence of an enormous pool of highly skilled professionals is one of the reasons why foreign companies are also attracted to India. India particularly possesses the world's second largest English speaking pool of technical manpower. Besides, the quality of Indian software is good and manpower cost is relatively low. Especially in IT sector, which changes rapidly with time as compared to other sectors of business, the quality of manpower plays a vital role. Establishment of various institute of advanced learning, such as universities, engineering colleges, management schools, etc. in India give to the society the quality of manpower. Because of these advantageous factors India is in a very good position in manpower flow in the world market.

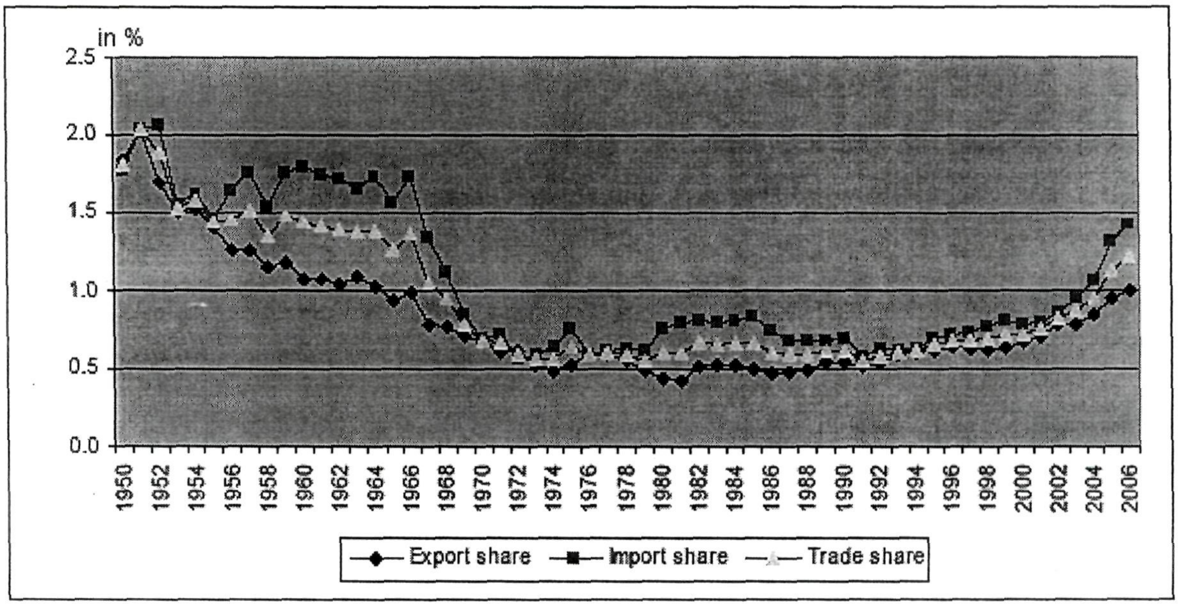
Skilled labour from India has been helping to offset the shortages in the US, the UK and some other Western European countries for the past two decades. According to recent estimates by the International Organization for Migration, about 1.3 million Indians lived in North America in 2001, compared to about 0.25 million in Europe and about 0.12 million in Australia and New Zealand in 2000. Among ASEAN countries, in 2001, about 28 thousand [0.028 million] Indian nationals were residing in Singapore, while about 6 thousand were residing in Malaysia.

The presence of MNCs in both ASEAN and India has already increased the need for movement of such skilled manpower across their borders to optimize resource utilization. Indian professional and technical manpower are making positive contributions to sustaining competitiveness of many ASEAN countries. *The Economist* [November 1, 1997, p.92] has gone so far as to argue that the growth of MNCs "seems likely to spur the next big development in the history of migration". Professionals from some ASEAN countries like Singapore and Malaysia are also playing a similar role in the Indian economy. Bilateral agreements between individual ASEAN countries and India involving areas such as mutual recognition of professional and technical qualifications, and flexibility in the temporary movement of natural persons could help in further enlarging the scope of mutually beneficial cooperation.

3.7.1.2 External trade scenario

The progress with regard to external trade in the last quarter of the colonial period was impressive. But from the beginning of the planning process, India adopted an inward-looking development strategy. The essence of this strategy lies in production for the domestic market. This inward looking strategy favors high tariff barriers, and a high degree of effective protection for domestic industries. Tariffs and other quantitative restrictions were used to provide automatic as well as custom-made protection to almost all domestic import substitution activities. It has been argued by many analysts that inward-looking policies and import-substituting industrialization, coupled with the system of controls, led to inefficiencies in resource allocation and landed the economy in a high cost industrial structure with 'technology lag'. Thus the trade performance was hampered by restrictive industrial and foreign investment policies. This can be ascertained from India's share of world merchandise exports, which declined from about 2 per cent in 1951 to around 1 per cent in 1967, and hovered around 0.5 per cent in 1980. Flexibility in India's export, import and trade share to the world is shown with the help of the following figure-3. It covers the period from 1950 to 2006. As shown by the figure, from 1950 to 1975 there is a long decreasing trend and then there is stagnancy all-around from 1975 to 1991. After 1991 the trend of export, import and as a whole the trade is increasing gradually. This raising trend of export, import and trade scenario is mainly due to the outward looking policies of government of India. Economic liberalization and globalization policies has effected fruitfully over the economic situation of India.

Figure-3: India's share of world exports and imports



Again, with the change of time and circumstances India's export and import relations turned in favor of ASEAN from western countries. India's region wise percentage shares of total export and Import during 1997-98 to 2007-08 are clearly explained by the tables- 8 and 9. The same thing are also explained by the figures-4 and 5.

Table-8: India's region wise % share of total export.

Region	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
E.U. Countries (27)	26.838	27.708	26.249	23.999	23.171	22.546	22.738	21.845	22.532	21.213	21.172
USA	19.362	21.672	22.800	20.882	19.425	20.667	17.997	16.478	16.832	14.930	12.714
ASEAN	7.085	4.906	6.076	6.539	7.887	8.760	9.118	10.086	10.099	9.982	10.052
China	2.063	1.285	1.463	1.865	2.172	3.747	4.628	6.722	6.556	6.563	6.647

Source: Export-Import data bank, department of commerce, Government of India.

Figure-4: India's region wise % share of total export.

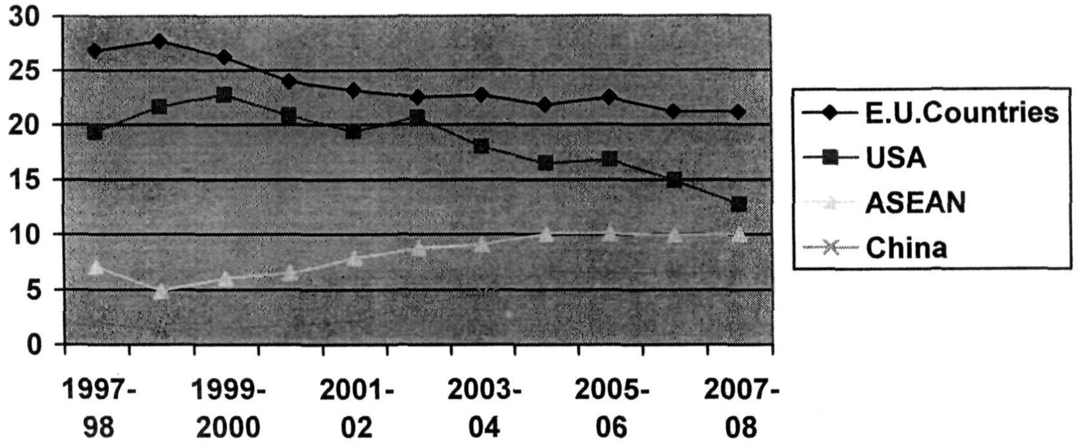
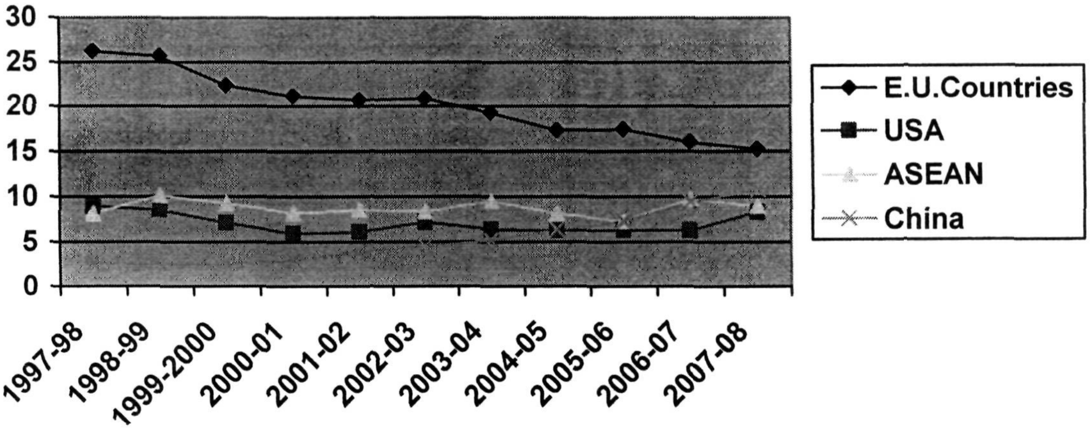


Table-9 India's region wise % share of total import.

Region	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
E.U. Countries (27)	26.226	25.680	22.387	21.123	20.712	20.898	19.289	17.308	17.429	16.060	15.277
USA	8.953	8.587	7.157	5.965	6.126	7.235	6.442	6.278	6.338	6.318	8.359
ASEAN	8.187	10.185	9.307	8.206	8.533	8.386	9.511	8.173	7.296	9.746	9.013
China	2.680	2.587	2.579	2.972	3.960	4.546	5.186	6.364	7.285	9.400	10.778

Source : Export-Import data bank, department of commerce, Government of India.

Figure-5: India's region wise % share of total import

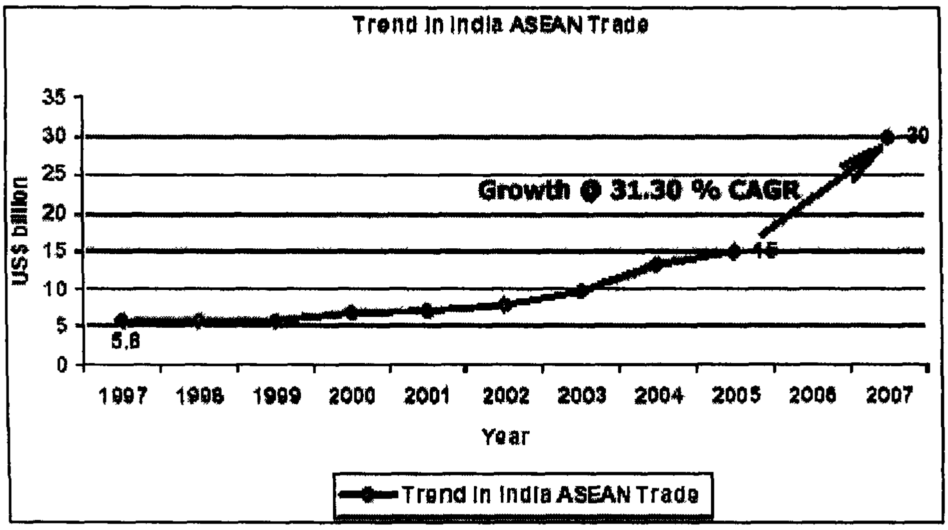


In general years through out the period both export and import trend of India particularly with EU [27] decreased sharply. Again observing it's earlier relation with

US we can comment that presently this trend is also not encouraging. But India's relation with ASEAN and China throughout the period is significant. Though all the countries of ASEAN and China are less developed than US and EU, but India's relation with those ASEAN countries is continuously increasing. During the period India's trade is continuously diverting from EU and US to ASEAN and China. Even though the trend of diversification is not high, more or less it is growing in general years. During that period, Export and Import of India in favor of EU [27] and USA has decreased significantly as revealed by the tables-8, 9 and respective graphs. Thus, it shows that during the 19th and 20th century we are strongly in favor of Asian countries. Most important point is that we are withdrawing our relation from highly developed countries of EU and US. In this way our earlier zeal of asianism once again becomes effective during the period. This is one of the significant outcomes of India's LEP. In this way, throughout the whole analysis our target is to find out Asian favoritism of India and Indian favoritism of Asian in order to explain the coverage and strength of India's LEP.

The present level of bilateral trade of India with ASEAN is nearly US $ 18 billion and the figure is reportedly increasing by about 32% per year. The growth trend of trade of India with ASEAN during the last couple of years is shown by the following figure-6. The cumulative average growth rate [CAGR] is 31.30. Especially from the year 2000 the growth trend is very quick as depict by the figure-6

Figure-6: Trend in India-ASEAN trade



Trade in the form of export and import between India and ASEAN countries is explained by the Table-10 and 11. Two tables give India's percentage share of export to ASEAN and China in comparison to the world during the period of 1997-1998 to 2003-2004. In 1997-98 India's percentage share of export to ASEAN was 6.9 but in 2003-04 it is 9.0. Even though there is flexibility of India's export percentage growth to ASEAN-6 but the trend is highly satisfactory especially in the 20th century.

Table- 10: India's export to ASEAN and China (share in percentage of India's total world exports in US$ million)

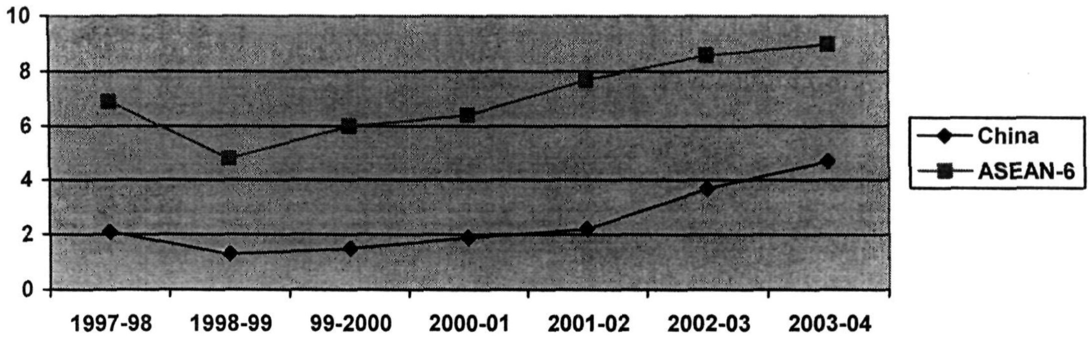
Region	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
China	2.1	1.3	1.5	1.9	2.2	3.7	4.7
ASEAN-6	6.9	4.8	6.0	6.4	7.7	8.6	9.0

Source: CMIE report, 2004.

** ASEAN-6 includes Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam.*

The above table can be depicted with the help of the following figure-7. It gives the increasing trend of exports from India both to China and ASEAN-6 countries.

Figure-7: India's export to ASEAN and china (share in percentage of India's total world exports in US$ million)



India's export share to China increased up to 4.7 in the year 2003-2004 from 2.1 of 1997 1998. In case of ASEAN-6 countries the growth trend of export is very quick after 2001-02. Again the strength of Asian favoritism from Indian side is also visible from the scenario of Import. India's import to China and ASEAN can be explained by the following table-11. India's import percentage from ASEAN in 1997-98 was 8.1 and it became 9.0 in 2003-04. In favor of China also the trend is rising. In 2003-04 the share with China is 6.4. Here import share of India with ASEAN is more than the share with China.

Table- 11: India's import from China and ASEAN (share in percentage of India's total world imports in US$ million)

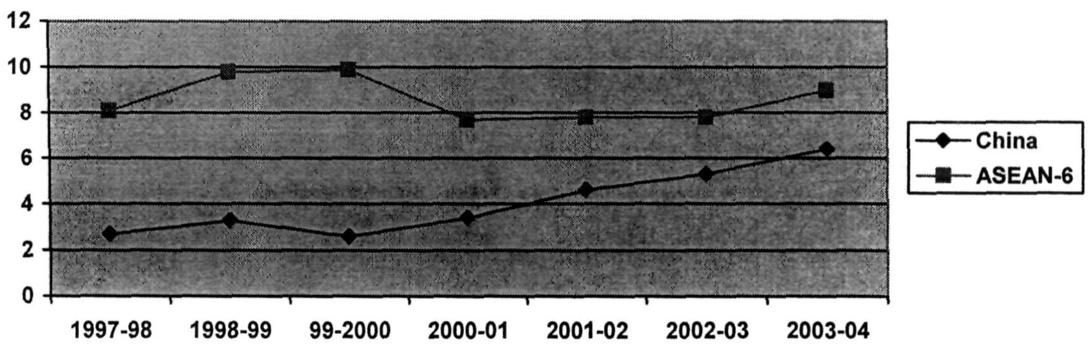
Region	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
China	2.7	3.3	2.6	3.4	4.6	5.3	6.4
ASEAN-6	8.1	9.8	9.9	7.7	7.8	7.8	9.0

Source: CMIE report, 2004.

** ASEAN-6 includes Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam*

The above table can also be depicted by the following figure-8. The graph also gives the increasing trend of imports to India from both China and ASEAN-6 countries.

Figure-8: India's import from China and ASEAN (share in percentage of India's total world imports in US$ million)



From various tables and respective graphs of export and import share to ASEAN and it's comparison with other developed countries like US and EU it becomes clear that the relation as a whole is positive and encouraging. Both exports and imports between India and ASEAN countries have increased except a few exceptional years. Thus the strength of Asian favoritism from the side of India is clear. So the LEP of government of India has been working positively. India is also improving its relations with various Asian countries by applying other policy decisions like offers of lines of credit, better connectivity through air [open skies policy], and rail-road links. Within the ASEAN, India's major trade partners are Singapore, Malaysia and Thailand. Almost 50% of India's exports to ASEAN consist of mineral products [fuels and oils] and gems and jewelers. Another 20% consists of organic chemicals, iron, steel, animal fodder and waste. In the case of India's imports, about 50% consist of electrical and non-electrical machinery and vegetable oils and fats. The ASEAN region also has abundance of natural resources and significant technology skills. These provide a natural base for the integration between ASEAN and India in both trade and investment.

Now in opposite, we shall first observe how much their relation is strong with other foreign countries. For this we shall take extra-Asian exports and imports individually for each ASEAN member and for the ASEAN as a group. Extra-ASEAN exports and imports for individual country and as a whole for six major ASEAN countries are shown with the help of tables-12 and 13 respectively during 1998-2004.

Table-12:
Extra-ASEAN Exports by country, 1998-2004

(US$ Million)

Country of Region	1998	1999	2000	2001	2002	2003	2004
1	2	3	4	5	6	7	8
Brunai Darussalam	1702.8	1965.5	1529.7	2755.6	2006.7	2578.2	4197.3
Cambodia	-	-	1291.5	1422.5	1824.2	2014.2	2426.1
Indonesia	39500.9	40387.1	51240.3	46810.5	47225.3	50332.9	58590.3
Malaysia	55487.2	62402.9	73745.8	67007.5	71150.1	72746.9	94787.8
Myanmar	-	540.3	800.4	1267.1	1230.9	1403.6	1006.2
The Philippines	25675.3	30047.8	32095.7	27164.2	29678.5	29649.5	32842.6
Singapore	83804.7	85355.8	100568.5	88871.4	91080.1	108122.3	135525.4
Thailand	41166.9	46209.0	55488.7	52376.1	52951.8	63867.1	76191.4
Total	247337.9	266908.3	316760.6	287675.0	297147.6	330714.6	405567.2
ASEAN -6	247337.9	266368.1	314668.8	284985.4	294092.5	327296.9	402134.9

Source : ASEAN Trade Statistics database.

Notes : ASEAN-6 covers Brunai Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand.

Table-13:
Extra-ASEAN Imports by country, 1998-2004

(US$ Million)

Country of Region	1998	1999	2000	2001	2002	2003	2004
1	2	3	4	5	6	7	8
Brunai Darussalam	685.2	824.7	533.3	765.2	972.9	735.1	869.9
Cambodia	-	-	855.4	410.3	1066.8	1211.5	1331.0
Indonesia	22777.6	19219.7	26733.6	25235.3	24293.3	24520.4	34838.6
Malaysia	48036.4	51265.0	63712.6	57843.6	61552.7	65761.6	79104.2
Myanmar	-	896.5	1106.1	1492.3	927.3	875.4	981.9
The Philippines	25231.0	26281.5	26432.0	24886.0	28034.4	31098.4	35683.4
Singapore	77848.3	84757.0	101388.8	86928.1	8594.9	96664.2	125868.8
Thailand	33273.5	40330.6	51628.9	51928.4	52168.4	63143.1	79470.2
Total	207852.0	223575.0	272390.7	249489.1	254910.5	284009.7	358148.0
ASEAN -6	207852.0	222678.5	270429.1	247586.5	252916.4	281922.8	355835.1

Source : ASEAN Trade Statistics database.

Notes : ASEAN-6 covers Brunai Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand.

Both extra ASEAN export and import increased during the period for all the countries and especially for major ASEAN countries as a whole. The value of trade in 2004 for all is much larger than the value of 1998. Thus ASEAN country's interaction with outward world increased during the period. Among all the ASEAN countries, after having tables 12 and 13 we can comment that Singapore, Malaysia, the Philippines and Myanmar are the major exporters and importers to foreign countries through out the period of 1998-2004.

Now for our specific analysis we shall see how much the trade relationship of ASEAN countries and China are having with India. ASEAN's exports and imports by country of destination [for China and India] are explained by tables 14 and 15.

Table-14:
ASEAN Exports by Country of Destination, 1998-2004

(US$ Million)

Country of Region	1998	1999	2000	2001	2002	2003	2004
1	2	3	4	5	6	7	8
CHINA	9202.6	9590.8	14178.9	14516.0	19547.5	27044.2	38647.0
INDIA	5217.9	5760.4	6446.8	6211.0	8418.2	8091.5	10942.0
ALL OTHERS	302230.3	326460.6	389514.9	349628.7	355888.4	395897.7	476046.8

Source: Complied from ASEAN Trade Statistics Database.
Note : All others include ASEAN total, Dialogue partners excluding China and India, EU-15, Canada, USA, Australia, New Zealand and others.

Table-15:
ASEAN Imports by Country of Destination, 1998-2004

(US$ Million)

Country of Region	1998	1999	2000	2001	2002	2003	2004
1	2	3	4	5	6	7	8
CHINA	11211.5	12331.7	18137.0	17399.2	23212.2	28272.2	43210.5
INDIA	1750.4	2193.9	3209.6	3672.1	3606.4	4021.5	6729.6
ALL OTHERS	246495	266820.4	324510.1	296057.3	301294	327596.3	410004.5

Source : Complied from ASEAN Trade Statistics Database.
Note : All others include ASEAN total, Dialogue partners excluding China and India, EU-15, Canada, USA, Australia, New Zealand and others.

It also gives a comparative picture of ASEAN's trade with China, India and all others [excluding China and India] during the period of 1998-2004. There is increasing trend of exports and imports respectively through out the general years. As shown by both the tables, the level of ASEAN exports with China is 9202.6 US $ Million and 38647.0 US $ Million in 1998 and 2004 respectively. In the same way with India the level of export is 5217.9 US $ Million and 10942.0 US $ Million during the same period. In case of ASEAN's import with China, the level is 11211.5 US $ Million in 1998 and it is 43210.5 US $ Million in 2004. ASEAN's import from India is 1750.4 US $ Million in 1998 and it become 6729.6 US $ Million in 2004. Both exports and imports are growing from ASEAN to India and China. Really, the ASEAN country's share in India's total trade went up from around 8% in 1994-95 to over 10% in April-December 2006.

Again, the share in percentage of ASEAN exports and imports to China and India during 1998-2004 are explained with the help of tables 16 and 17. Their respective graphs are also given.

Table-16:
Share (in percentage) of ASEAN exports to China & India during 1998-2004

(US $ Million)

Region	1998	1999	2000	2001	2002	2003	2004
1	2	3	4	5	6	7	8
CHINA	3.04	2.94	3.64	4.15	5.49	6.83	8.12
INDIA	1.73	1.76	1.66	1.78	2.37	2.04	2.30

Source: Compiled from ASEAN Trade Statistics Database.

Figure-9 : Share (in percentage) of ASEAN exports to China & India during 1998-2004

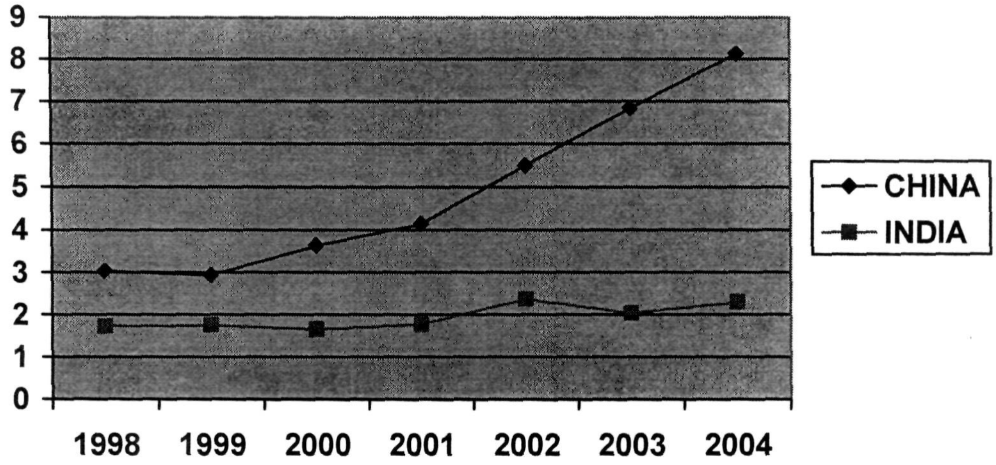


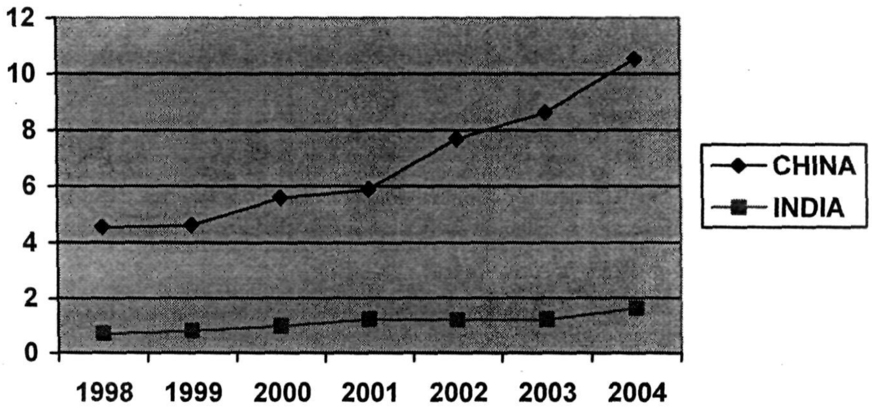
Table-17:
Share (in percentage) of ASEAN Imports from China & India during 1998-2004

(US $ Million)

Region	1998	1999	2000	2001	2002	2003	2004
1	2	3	4	5	6	7	8
CHINA	4.55	4.62	5.59	5.88	7.70	8.63	10.54
INDIA	0.71	0.82	0.99	1.24	1.20	1.23	1.64

Source: Compiled from ASEAN Trade Statistics Database.

Figure-10: Share (in percentage) of ASEAN Import to China & India during 1998-2004



It shows that the share percentage is growing throughout the period though it is minimum throughout the period. In 1998 the percentage share of ASEAN export to China was 3.04 and in 2004 it is 8.12. In the same way, the percentage share of ASEAN export to India is 1.73 in 1998 and it is 2.30 in 2004. In case of Import, the percentage shares of ASEAN to China are 4.55 and 10.54 in 1998 and 2004. For India it is 0.71 and 1.64 respectively in 1998 and 2004. Thus the whole picture is in favor of India and China. ASEAN countries are continuously responding to the LEP of government of India. They are strongly responding to our policy initiatives.

Though the percentage share of ASEAN's export from and Import to India is minimum but it is very smoothly positive. Observing the feelings of neighborhood between India & ASEAN and similarity of demand components of people we can say that ASEAN can easily increase the share with India. After the initiation of India's LEP trade become actively open between India and ASEAN. Both the region can extend the area of market. Now the government of Thailand is also taking The Look West Policy [LWP] as a response to our LEP. Both the regions can easily produce by the comparative cost advantageous postulation. Thus, both ASEAN and India can greatly become benefited from the two way trade. They can also use properly their underutilized natural and other resources.

Not to be left out of the free trade area bandwagon that is sweeping East and Southeast Asia. India has to put across concrete plans to increase the economic interaction and integration through institutional arrangements. In the first ever meeting of India and ASEAN economic ministers in Brunei in September 2002, the Indian trade and Industry minister expressed the desire to enter into a formal agreement with ASEAN as Regional Trade and Investment Agreement [RTIA] or a FTA in the coming years. The Indian initiative has come close on the heels of ASEAN in September 2002. China has already entered into an FTA with ASEAN to be realized by 2010. Besides ASEAN, India has also completed and some others are in the process of complete with some other potential countries. A broad list of 102 FTA by country and by status is given below –

Table-18: 102 Free trade Agreements

JAPAN

Concluded

1. Japan-Singapore Economic Agreement for a New-Age Partnership (2002)
2. Japan-Mexico Economic Partnership Agreement (2005)
3. Japan-Malaysia Economic Partnership Agreement (2006)
4. Japan-Philippines Economic Partnership Agreement (2006)
5. Japan-Chile Economic Partnership Agreement (2007)
6. Japan-Thailand Economic Partnership Agreement (2007)
7. Japan-Brunei Economic Partnership Agreement (2007)

Under Negotiation

8. Japan-Korea Economic Partnership Agreement (2003)
9. Japan-Indonesia Economic Partnership Agreement (2005)
10. Japan-ASEAN Comprehensive Economic Partnership Agreement (2005)
11. Japan-Gulf Cooperation Council Free Trade Agreement (2006)
12. Japan-Vietnam Economic Partnership Agreement (2006)
13. Japan-India Economic Partnership Agreement (2007)
14. Japan-Australia Economic Partnership Agreement (2007)
15. Japan-Switzerland Economic Partnership Agreement (2007)

Proposed

16. Japan-PRC-Korea Economic Partnership Agreement (2003)
17. East Asian (ASEAN+3) Free Trade Agreement (2004)
18. Japan-Canada Economic Partnership Agreement (2005)
19. East Asian (ASEAN+6) Free Trade Agreement (2006)

KOREA

Concluded

20. Asia-Pacific Trade Agreements (1976)
21. Korea -Chile Free Trade Agreement (2004)
22. Korea-European Free Trade Association (EFTA) Free Trade Agreement (2005)
23. Korea-Singapore Free Trade Agreement (2006)
24. Korea-ASEAN Free Trade Agreement (2006)
25. Korea-United States Free Trade Agreement (2007)

Under Negotiation

26. Korea-Canada Free Trade Agreement (2005)
27. Korea-India Comprehensive Economic Partnership Agreement (2006)
28. Korea-Mexico Strategic Economic Complementation Agreement (2006)

29 Korea-European Union (EU) Free Trade Agreements (2007)

Proposed

30 Korea-New Zealand Closer Economic Partnership (1999)

31 Korea-Malaysia Free Trade Agreements (2004)

32. Korea-MERCOSUR Preferential Trading Agreement (2004)
33. Korea-South Africa Free Trade Agreement (2005)
34. Korea-PRC Free Trade Agreement (2005)
35. Korea-Australia Free Trade Agreement (2006)

People's Republic of China (PRC)

Concluded

36. PRC-Thailand Free Trade Agreements (2003)
37. PRC-Hong Kong Closer Economic Partnership Arrangement (2004)

38. PRC-Macao Closer Economic Partnership Arrangements (2004)
39. PRC-ASEAN Free Trade Agreements (2005)
40. PRC-Chile Free Trade Agreements (2006)
41. PRC-Pakistan Free Trade Agreements (2006)

Under Negotiation

42. PRC-New Zealand Free Trade Agreement (2004)
43. PRC-Gulf Cooperation Council Free Trade Agreement (2005)
44. PRC-Australia Free Trade Agreement (2005)
45. PRC-Singapore Free Trade Agreement (2006)
46 PRC-Iceland Free Trade Agreements (2006)

Proposed

47 PRC-India Regional Trading Arrangements (2003)
48 PRC-South African Customs Union Free Trade Agreements (2004)
49 PRC-Peru Free Trade Agreements (2006)

TAIPEI, China

Concluded

50. Taipei, China-Panama Free Trade Agreement (2004)
51. Taipei, China-Guatemala Free Trade Agreement (2006)
52. Taipei, China-Nicaragua Free Trade Agreement (2006)
53. Taipei, China-El Salvador-Honduras Free Trade Agreements (2007)

Under Negotiation

54. Taipei, China-Paraguay Free Trade Agreement (2004)
55. Taipei, China-Dominican Republic Free Trade Agreement (2006)

HONG KONG, China

Under Negotiation

56 Hong Kong-New Zealand Closer Economic Partnership Agreement (2001)

SINGAPORE

Concluded

57. ASEAN Free Trade Agreements (1993)
58. Singapore-European Free Trade Association (EFTA) Free Trade Agreements (2001)
59. Singapore-New Zealand Closer Economic Partnership Agreement (2001)
60. Singapore-Australia Free Trade Agreement (2003)
61. Singapore-United States Free Trade Agreement (2004)
62. Singapore-India Comprehensive Economic Cooperation Agreement (2005)
63. Singapore-Jordan Free Trade Agreement (2005)
64. Singapore-Panama Free Trade Agreement (2006)
65. Trans-Pacific Strategic Economic Partnership Agreement (2006)

Under Negotiation

66. Singapore-Mexico Free Trade Agreements (2000)
67. Singapore-Canada Free Trade Agreements (2002)
68. ASEAN-India Regional Trades and Investment Agreement (2004)
69. Singapore-Pakistan Free Trade Agreements (2005)
70. ASEAN-Australia and New Zealand Free Trade Agreement (2005)
71. Singapore-Peru Free Trade Agreement (2006)
72. Singapore-Gulf Cooperation Council (GCC) Free Trade Agreement (2006)
73. Singapore-Ukraine Free Trade Agreement (2007)

Proposed

74 Singapore-Sri Lanka Comprehensive Economic Partnership Agreement (2003)

75 ASEAN-EU Free Trade Agreement (2003) *[negotiations launched in May 2007]*

76 Singapore-Egypt Free Trade Agreement (2004) *[Intent to Negotiate signed in November 2006]*

THAILAND

Concluded

77 Thailand-Laos Preferential Trading Arrangement (1991)

78 Thailand-Australia Free Trade Agreements (2005)

79 Thailand-New Zealand Closer Economic Partnership Agreement (2005)

Under Negotiation

80 Thailand-Bahrain Free Trade Agreements (2002)

81 Thailand-United States Free Trade Agreement (2004)

82 Thailand-India Free Trade Agreements (2004)

83 Thailand-Peru Free Trade Agreements (2004)

84 Bay of Bengal Initiatives for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) Free
Trade Area (2004)

85 Thailand-European Free Trade Association (EFTA) Free Trade Agreements (2005)

Proposed

86 Thailand-Pakistan Free Trade Agreement (2004)

87 Thailand-Chile Free Trade Agreements (2006)

88 Thailand-MERCOSUR Free Trade Agreements (2006)

MALAYSIA

Concluded

89 Preferential Tariff Arrangement-Groups of Eight Developing Countries (2006)

Under Negotiation

90 Trade Preferential System of the Organization of the Islamic Conference (2004)

91 Malaysia-Australia Free Trade Agreements (2005)

92 Malaysia-New Zealand Free Trade Agreements (2005)

93 Malaysia-Pakistan Free Trade Agreements (2005)

94 Malaysia-United States Free Trade Agreement (2006)

95 Malaysia-Chile Free Trade Agreements (2007)

Proposed

96 Malaysia-India Comprehensive Economic Cooperation Agreements (2005)

INDONESIA, PHILIPPINES, BRUNEI

Under Negotiation

97 Indonesia-Pakistan Free Trade Agreements (2005)

Proposed

98 Philippines-United States Free Trade Agreement (1989)

99 Indonesia-United States Free Trade Agreement (1997)

100 Brunei-United States Free Trade Agreement (2002)

101 Indonesia-India Comprehensive Economic Cooperation Arrangements (2004)

102 Indonesia-European Free Trade Association (EFTA) Free Trade Agreements (2005)

Note: As of June 2007.

Source: ARIC FTA database.

Table-19: Twenty major export commodity of ASEAN 6 India by 3 digits –SITC Code in 2001-2004

2001					2002			
SITC	Commodities	Value	Share		SITC	Commodities	Value	Share
(1)	(2)	(3)	(4)		(5)	(6)	(7)	(8)
422	Food vegetables fats & oils other than soft	826	14.17		776	Transistor semiconductors devices, values etc	2,136	26.4
333	Crude petroleum	443	.6		422	Fixed vegetables fats & oils other than soft	1,179	14.6
751	Office machine	309	5.3		333	Crude petroleum	456	5.6
334	Petroleum oils and products	297	5.1		751	Office machines	263	3.2
775	Hshold type eltrcal & non eltracl eqpment NES	227	3.9		752	Automatic data processing machines	253	3.1
752	Automatic data processing machines	213	3.6		334	Petroleum oils and products	230	2.8
759	Parts & accsories for office machine & autm data prcce	205	3.5		775	Hshold type eltrcal eqpmnts NES	213	2.6
762	Radio broadcast recivers	128	2.2		897	Transistors, semiconductors devices, valvs etc	158	1.9
651	Taxtile yarns	119	2.0		763	Sound & TV image recorders & reproducers	124	1.5
431	Hydrocarbons, N.E.S. & Their Derivatives	101	1.7		431	Hydocarbons, NES & Their Devatives	117	1.4
283	Inorg Chamucal Elements, Oxides & Halogen Salts	99	1.7		759	Parts & accsories for office machin & autm data proc	113	1.4
897	Jewelry/Goldsmiths Wares , O Precs/Semiprecs Matrls	98	1.7		651	Taxtile yarns	109	1.3
776	Transistors, semiconductors devices, valves etc	97	1.7		679	Iron & Steel Tubes, Pipes & Hollow profiles	106	1.3
722	Tractors (O Than Mechancl Handing Equipment)	94	1.6		321	Coal, Pulverized Or Not Agglomerated	97	1.2
763	Sound & TV image records & reproducers	89	1.5		511	Alcohcls, Phencl-Alchcls & Derivatives	87	1.1
321	Coal, Pulverized Cr Not, Not Agglomerated	86	1.5		283	Inorg Chemicl Elements, Oxides And Halogen Salts	83	1.0
679	Iron & Steel Tubes, Pipes & Hollow Profiles	83	1.4		722	Tractors (O Than Mechand Handing Equipment)	82	1.0
511	Alcohols, Phenols, Phenol-Alcohols & Derivatives	82	1.4		247	Wood in the rough or roughly squared	80	1.0
247	Wood in the rough or roughly squared	78	1.3		961	Coin (O Than Gold Coin), Not Being Legal Tender	72	0.9
891	Arms And Ammunition	76	1.3		873	Meters & Counters, NES	65	0.8
	20 Major	3,749	64.0			20 Major	6,024	744
	others	2,112	36.0			Others	2,075	25.6
	Total	5,861	100.0			Total	8,099	100.0

Contd....

2003				2004			
SITC	Commodities	Value	Share	SITC	Commodities	Value	Share
(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
422	Fixed vegetables fats & oils other than soft	1558	20.0	422	Fixed vegetables fats & pther than soft	1522	14.3
333	Crude Petrcteum	771	9.9	333	Crude Petroleum	1182	11.1
759	Parts & accscries for office machn & autm data proc	42937	5.5	752	Automatic data processing machines	681	6.4
752	Automatic data prcossing machines	0	4.8	759	Parts & accessories for office machn & autrn data proc	659	6.2
776	Transistors, semiconductcrs devices, valves, etc.	321	4.1	776	Transistors, semiconductors devices, valves etc.	625	5.9
511	Alcchols, phenols, phend-Alcchols & Derivatives	262	3.4	511	Alcohols, phencts, Phench Alcohcls & derivatives	359	3.4
764	Telecommncations eqimnt, NES & parts	248	3.2	764	Telecommcations eqpment, NES & ports	354	3.3
893	Musicallnstrunnts, Recrds, Taces & O Sd Recordings	186	2.4	321	Coal pulveried Or Nct, Not Agglomerated	225	2.1
283	Incrg chernical elements, Oxides and Halogen Salts	181	2.3	283	Inorg chemical elements, oxides and Halogen salts	216	2.0
334	Petroleum cits and products	177	2.3	334	Petroleum oils and products	200	1.9
247	Wood in the rough cr roughly squared	140	1.8	898	Muscical inst rumns recrds, Tapes 7 o Sd Recordings	188	1.8
321	Coal, putverized cr Not, Net Aggtcmerated	135	1.7	723	Civil Engineering 7 contractors Plant & Equipment	161	1.5
651	Textle Years	107	1.4	247	Wood in the rough or roughly squared	141	1.3
723	Civil engineering & contractors 'Flant & Equipment	107	1.4	651	Textile yarns	135	1.3
513	Cartcogit Acicts & Anhydrides, Halides & Derivatives	86	1.1	431	Anmwg Fats & Oils Procesd; Waves, inectd fixtures	130	1.2
874	Messuitrg/ Analysing controlling Instrnments &Apprtus	81	1.0	513	Carbocoyic acids & anhydrided, Halides & Derivatives	126	1.2
778	Ellrcal machinery & apprtus, NES	77	1.0	342	Liquited proctane 7 butane	119	1.1
575	Plactics, NES, in Primary Forms	69	0.9	784	Parts & accscries for tractors, mtr cars & O mtrvehc	109	1.0
746	Ballor rcller bearings	69	0.9	874	Messuring Analysing controlling instments & apprtus	98	0.9
772	Eltrcal switcher ralays, circuits, NES.	68	0.9	778	Eltrcal machnary & apprtus, NES	95	0.9
	20 Major	5,442	70.0		20 Major	7,326	69.0
	Others	2,331	30.0		Others	3,284	31.0
	Total	7,773	100.0		Total	10,610	100.0

Source: Compiled from ASEAN Trade Statistics Database.

Table-20: Twenty major Import commodity of ASEAN 6 to India by 3 digits – SITC code in 2001-2004

2003				2004			
SITC	Commodities	Value	Share	SITC	Commodities	Value	Share
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
759	Parts & accories for office machn & autm data prce	425	11.8	667	Pearls, Precs & Semiprecs stones, Lhwcrbdworld	370	10.3
776	Transistors, serrioonducts devices, values, etc.	340	9.5	041	Wheat 7 meslin unmilled	222	6.2
667	Pearts, Preces & semiprecs Stones, Urrwond World	291	8.1	334	Petrcleum oils and products	204	5.7
081	Feeding stuff for Anmls I) Lct Indd Unmiled Cereals	203	5.7	042	Fice	181	5.0
684	Aluminum B 139	128	3.6	061	Feeding stuff for anmls (Not incld Unmiled Cereals)	176	4.9
011	Meat of Bovine Animals, Frsh, chid, Fan	126	3.5	684	Aluminum B 139	166	4.6
334	Petroleum cits and products	120	3.3	011	Weat of Bcaine Animals, frsh, chld, Fan	128	3.6
511	Hydrocarbons NES & Their Derivatives,	91	2.5	511	Hydrocartcns, NES & their Deriwatives	105	2.9
041	Wheat & meslin unmilled	86	2.4	759	Parts 7 Accscries for office machn & autm data prot	89	2.5
651	Tescile yerns	76	2.1	673	Incr/Honalloy Sted flat-rcted fred, Nct dad Coated	70	1.9
036	Aquatic invertebrates live, drd, sltd, chld	51	1.4	651	Textile Yarns	67	1.9
541	Medicinal & fhamaoeutical Prd.			897	Jewelry goldsmiths Waes O precs/Semicreo Matrls	61	1.7
	O Than Medicaments	50	1.4	541	Medianal & Pharmaceutical Prd.		
897	Jewelry goldsmiths "Wares, O Precesemiprecs Matrls	49	1.4		O Than Medicaments	60	1.7
	Inonilonalloy steel flat-Rolled Prod, Net clad coated	48	1.3	682	Copper	56	1.6
673	Sugar and Honey	45	1.3	036	Aquatic invertrales live, drd, sltd, child	48	1.3
061	Org-inorganic Heberocydic compounds & their salts	42	1.3	515	Org-incrganio Heterccyclic compounds &their salts	45	1.2
515	Oil seeds & cleagincus frts for Scft Fixed Vegt. Cils	40	1.2	671	Pig iron & spiegeleisen, sponge iron & femoaloys	42	1.2
222	Carboccytic Acids & Anhydrides, Haides & Derivatives	39	1.1	653	Women fabric of madmade textile materials	42	1.2
513	Vegt. Frsh, Chil, fan, Simply Preserved, Pocts tuters		1.1	531	Synthetic org coloring matter & color labes & Prepartn		
	Synthetic org Coloring Matter & Colour Lakes &				Vegt, Frsh, Chld, Fan, Simply Preservd, roots, Tuters	41	1.2
064	Prepartin	37	1.0	054		36	1.0
531							
	20 Major	2,336	65.1		20 Major	2,208	61.6
	Others	1,254	34.9		Others	1,377	38.4
	Total	3,590	100.0		Total	3,585	100.0

Contd…

2003				2004			
SITC	Commodities	Value	Share	SITC	Commodities	Value	Share
(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
334	Petroleum cits and products	510	130.0	334	Petroleum oils and product	1.367	20.7
657	Pearls, precs & semiprecs stones, Unworldworld	390	9.9	667	Pearls, Precs & Semiprecs Stones, Unworkd World	639	9.7
041	Wheat & mesluin unmilled	190	4.8	081	Feeding Stuff For Anmls(Not Indd Unmiled Cereals)	432	6.6
511	Hydrccarbons,NES & Their Derivatives	158	4.0	511	Hydrocarbons, N.E.S. & Their Derivatives	328	5.0
011	Meat of bovine animals, frsh, chld, Fan	129	3.3	684	Aluminum B139	195	3.0
081	Feeding Stuf for Anmls (Not include Unmilled Cerreals)	119	2.5	011	Meat of Bovine Animals, Frsh, Chld, Fzn	184	2.8
684	Aluminum B 139	99	2.3	682	Copper	168	2.5
682	Copper	90	2.1	673	Irons Nonalloy Steel Rat-led Prod, Not dad'Coated	190	2.3
672	Incn Cr Steel Ingots & O Primary Forms, Semifinisted	83	2.0	041	Wheat & meslin unmiled	138	2.1
673	Iron Nonaloy Steel Flat-Rolled Prod, Not dad Coated	80	2.0	897	Jewelry Goldsmiths'Wares, O Precs/Semiprecs Matrls	134	2.0
759	Parts & Accsories for office machn & autrn data proc	79	1.7	759	Parts & accsries for office machn & autm data proc	128	1.9
897	Jewelry goldsmirts 'wares O Preces Semiprecs Matrls	68		671	Pig iron & spiegeleisen, Sponge Iron, & Femoalloys	121	1.8
541	Medicinal & Pharmaceutical Prd.		1.5	044	Maize unmiled	82	1.2
	O Than Medicaments	57	1.4	676	Iron & Steel Bars, Angles, Shapes & Sections	67	1.0
651	Textile yarns	55	1.4	661	Textile yarns	67	1.0
671	Pig iron 7 spiegeleisen, Sponge Iron & Ferollays	53	1.3	515	Org-InorganioHeterocyclic Compounds & their Salts	62	0.9
676	Iron & Steel Bars, Pods, angles, Shapes & Sections	52	1.3	064	Vegt, Frsh, Chld, Fzn, Simply Preservd, Roots, Tubers	61	0.9
588	Miscell chemical Products, NES	52	1.3	531	Synthetc Org Coloring Matter & Color Lakes & Prepartn	60	0.9
061	Sugar Honey	50	1.2	672	Iron Or Steel Ingots O Primary Forms, Semifinished	59	0.9
064	Vegt. Frsh, Chld, Fan Smipty Preserved; Roots, Tubers	47		591	Insectiods, Fungicd, Herbicd, Plant Grwth Regulator	55	0.8
531	Synthetic Crg colonig Matter &		1.2				
	Color Lakes & Prepartn	47					
	20 Major	2,410	61.3		20 Major	4,499	68.2
	Others	1,522	38.7		Others	2,095	31.8
	Total	3,932	100.0		Total	6,594	100.0

Source: Compilled from ASEAN Trade Statistics Database.

Table-21: Top 20 Commodities Traded between India and ASEAN in ASEAN 6 Trade, in 2004 (SITC Classifications)

Exports					Imports				
SITC	Commodities	To India (US$ mn)	Total ASEAN 6 Exports (US$ mn)	Share (%	SITC	Commodities	To India (US$ mn)	Total ASEAN 6 Imports (US$ mn)	Share (%)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
422	Fixed vegetables fats & oils other than soft	1,522	10.279	14.8	334	Petroleum oils and product	1,367	24,452	5.6
333	Crude Petrcteum	1,102	16,056	7.4	657	Pearls, Precs & Semiprecs Stones, Unworkd	639	2056	31.1
752	Automatic data prcossing machines	601	39,171	1.7	081	World	432	2,348	10.4
759	Parts & accscries for office machn & autm data proc	659	27,099	2.4	511	Feeding Stuff For Anmls(Not Indd Unmiled Cereals)	328	4,082	0.0
776	Transistors, semiconductcrs devices, valves, etc.	625	93,083	0.7	684	Hydrocarbons, N.E.S. & Their Derivatives Aluminum B139	195	3,184	6.1
511	Alcchols, phenols, phend-Alcchols & Derivatives	359	3,104	11.6	011	Meat of Bovine Animals, Frsh, Chld, Fzn Copper	104	357	51.5
764	Telecommncations eqimnt, NES & parts	354	21,002	1.7	682	Irons Nonalloy Steel Rat-led Prod, Not	168	3445	4.9
321	Coal, putverized cr Not, Net Aggtcmerated	225	2,750	0.2	633	dad'Coated	150	3,881	3.9
283	Inorg chernical elements, Oxides and Halogen Salts	216	1,019	11.9	041	Wheat & meslin unmiled	138	1,695	0.1
334	Petroleum cits and products	200	23,220	0.9	897	Jewelry Goldsmiths' Wares, O Precs/Semiprecs Matrls	134	1,062	12.6
898	Musicallnstrumnts, Recrds, Taces & O Sd Recrds	108	4,117	4.6	759	Parts & accsries for office machn & autm data proc	128	23,055	0.5
723	Chll engineering & contractors 'Plant & Equipment	161	2,213	7.3	671	Pig iron & spiegeleisen, Sponge Iron, & Femoalloys	121	986	12.3
247	Wood in the rough cr roughly squared	141	550	25.6	044	Maize unmiled	82	535	15.4
651	Textile Years	135	3,053	4.4	676	Iron & Steel Bars, Angles, Shapes & Sections	67	2,176	3.1
431	Anml/Vg Fats & Oils Procssd Waoes, Ineclbl Mthdures	130	2,070	6.3	651	Textile yarns	67	1,198	5.6
513	Carbonylic Acids & Anhydrides, Halides & Derivatives	125	2,490	5.1	515	Org-InorganioHeterocyclic Compounds & their Salts	62	1,537	4.0
342	Liqutlled prochane &butane	119	1,044	11.4	054	Vegt, Frsh, Chld, Fzn, Simply Preservd, Roots, Tubers	61	745	0.2
784	Parts & accscries fortraclors, mtr Gas & O mtr vehc	109	4,468	2.4	531	Synthetc Org Coloring Matter & Color Lakes & Prepartn	60	664	9.1
074	Messuitrg/ Analysing controlling Instrnmnls &Apprtus	98	3,936	2.5	672	Iron Or Steel Ingots O Primary Forms, Semifinished	59	3,151	1.9
778	Ellrcal machinery & apprtus, NES	95	10,14	0.9	591	Insectiods, Fungicd, Herbicd, Plant Grwth Regulator	55	645	8.6
	20 Major	7,326	272,475	2.7		20 Major	4,499	82,052	5.5
	Others	3,284	246,750	1.3		others	2,095	373,955	0.6
	Total	10,610	519,225	2.0		Total	6,594	456,007	1.4

Source: ASEAN Trade Statistics Databases

3.7.1.3 Tourism Flows

Most important potential area of integration under the LEP of government of India is the Tourism. This is our third important factor in order to study the strength of LEP. Tourism has been a major social phenomenon of the societies all along. It is motivated by the natural urge of every human being for new experience, adventure, and education and business interests. The spread of education has fostered a desire to know more about different parts of the globe. The basic human thrust for new experience and knowledge has become stronger, as communication barriers are overcome by technological advances. Progress in air transport and development of tourist facilities has encouraged people to venture out to the foreign lands. Tourism is one economic sector in India that has the potential to grow at a high rate and can ensure consequential development of the infrastructure of the destinations. It has the capacity to capitalize on the success of the country in the services sector and provide sustainable models of growth. It has the potential to stimulate other economic sectors through its backward and forward linkages and cross-sectorial synergies with sectors like agriculture, horticulture, poultry, handicrafts, transport, construction, etc. Expenditure on tourism induces a chain of transactions requiring supply of goods and services from these related sectors. The consumption demand, emanating from tourist expenditure, also induces more employment and generates a multiplier effect on the economy. As a result, additional income and employment opportunities are generated through such linkages. Thus, tourism has tremendous income and employment ripple effects that spread far beyond the actual tourism activity itself, so that benefits disburse quite naturally to owners of small shops, peripheral services, and even to construction, banking and handicrafts. In other words, tourism related services are naturally employment intensive. The economic benefits that flow into the economy through growth of tourism in shape of increased national and state revenues, business receipts, employment, wages and salary income, buoyancy in central, state and local tax receipts can contribute towards overall socio-economic improvement and accelerated growth in the economy. Another important feature of the tourism industry, which is of particular significance to India, is it's contribution to national integration and preservation of natural as well as cultural environments and enrichment of the social and cultural lives of people. Over 582 domestic tourists visiting different parts of the country every year return with a better understanding of the people living in different regions of the country. They have a better appreciation of the cultural diversity of India. Tourism also encourages preservation of monuments and heritage properties and helps the survival of art forms, crafts and culture.

Let us study every pros and cons of tourism sector to know it's progress and problems under the LEP of government of India. Table-22 gives visitor arrivals by country of destination during 1995-2004.

Table-22
Visitors' arrivals by country of destination, 1995-2004

Country of Dest.	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Brunei Daru.	-	-	643	964	955	984	840	891	944	1,001
Cambodia	220	260	219	176	263	466	605	787	701	1,055
Indonesia	4,324	5,034	5,185	4,606	4,728	5,064	5,154	4,914	4,371	5,321
Lao PDR	346	403	463	500	624	737	674	736	636	895
Malaysia	7,469	7,138	6,211	5,551	7,931	10,272	12,775	13,292	10,577	15,703
Myanmar	110	163	189	198	195	271	205	217	597	657
The Philip.	1,760	2,049	2,223	2,149	1,971	1,992	1,797	1,933	1,907	2,291
Singapore	7,137	7,293	7,196	6,242	6,967	7,691	7,519	7,567	6,127	8,375
Thailand	6,952	7,244	7,294	7,843	8,798	9,509	10,062	10,799	10,082	11,737
Viet Nam	1,351	1,607	1,716	1,504	1,782	2,150	2,330	2,628	2,429	2,928
ASEAN	29,669	31,193	31,340	29,733	34,215	39,136	41,960	43,763	38,371	49,964

Source: ASEAN NTO'S, as compiled in the ASEAN Tourism Database.
Notes: Brunei Darussalam: projection.
Myanmar: Others & Unspecified include tourist arrivals from border check points.

Total number of visitors arrived in ASEAN by country of destination is 49964 in 2004. In 1995 it was 29669. As the table revels, the number of visitor among whole ASEAN group by country of destination is maximum in Malaysia i.e. 15703 in 2004 and it is minimum in Myanmar i.e. 657 in 2004. The same was also maximum and minimum respectively in Malaysia and Myanmar in the year 1995. Again, by country of destination the rate of growth of visitor in ASEAN in the year 2004 is 30.2 as revealed by the table-23.

Table 23
Rate of Growth of Visitors by Country of Destination, 1998-2004

Country of Destination	1998	1999	2000	2001	2002	2003	2004
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Brunei Darussalam	49.9	-1.0	3.1	-14.6	6.0	6.0	6.0
Cambodia	-19.6	49.5	77.4	29.7	30.0	-10.9	50.5
Indonesia	-11.2	2.6	7.1	1.8	-4.7	-11.0	21.7
Lao PDR	8.0	24.8	18.1	-8.6	9.2	-13.5	40.6
Malaysia	-10.6	42.9	29.5	24.4	4.0	-20.4	48.5
Myanmar	4.8	-1.2	38.5	-24.3	6.0	174.9	10.0
The Philippines	-3.3	-8.3	1.1	-9.8	7.6	-1.3	20.1
Singapore	-13.3	11.6	10.4	-2.2	0.6	-19.0	36.7
Thailand	7.5	12.2	8.1	5.8	7.3	-6.6	16.4
Viet Nam	-12.4	18.5	20.7	8.4	12.8	-7.6	20.6
ASEAN	-5.1	15.1	14.4	7.2	4.3	-12.3	30.2

Source: ASEAN NTO'S, as compiled in the ASEAN Tourism Database.
Notes: Brunei Darussalam: projection.
Myanmar: Others & Unspecified include tourist arrivals from border check points.

Rate of growth of visitor is maximum in Cambodia (50.5) during 2004 which was at the negative level in 1998. In 1998 the rate was maximum at Brunei (49.9) and presently it is having minimum growth rate of 6.0. Thus visitor arrivals by country of destination is diverting towards Cambodia from Brunei as revealed by the table. Visitor arrivals to ASEAN by country of origin during 1995-2004 [In thousand] are presented by the table- 24.

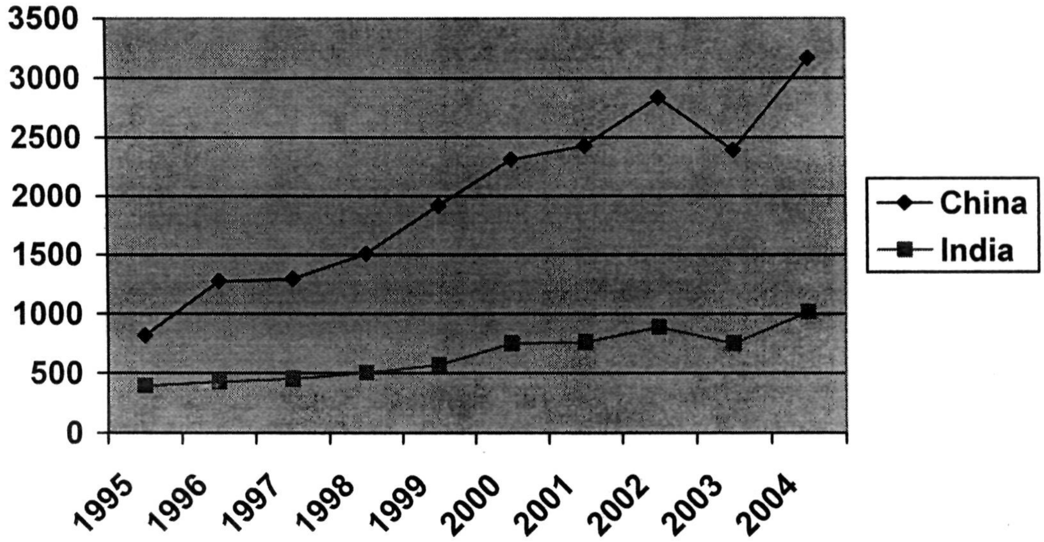
Table-24:
Visitor arrivals to ASEAN by country of origin, 1995-2004 (In thousand)

Country of Region	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
1	2	3	4	5	6	7	8	9	10	11
ASEAN	11794	11627	11967	11089	13796	15916	17918	18791	16999	23032
Rest of the world	17875	19566	19373	18694	20419	23221	24042	24971	21372	26932
Asia (other than ASEAN)	9480	10619	10341	9045	10403	11943	12172	12883	10797	13442
(i) China	818	1276	1299	1512	1920	2313	2433	2837	2393	3164
(ii) India	397	430	454	506	571	752	763	890	751	1018
Europe	4298	4349	4478	4499	4751	5338	5966	5571	4971	5846
Americas	1743	1765	1927	1985	2153	2397	2353	2327	2178	2586
Oceania	1237	1368	1644	1574	1827	1875	2011	1971	1577	2148
Others	1117	1466	983	1591	1285	1669	1541	2219	1850	2910
Total	29669	31193	31340	29733	34215	39136	41960	43763	38371	49964

Source : ASEAN NTO's as compiled in the ASEAN Tourism Database.

Total number of visitor arrivals in ASEAN from Asian countries [other than ASEAN] is always more than any other region. In 1995 visitors arrived in ASEAN from rest of the world is 17875. Out of this total number, 818 and 397 was from China and India respectively. Again in 2004 visitors arrived in ASEAN from China and India is 3164 and 1018. Visitor arrivals to ASEAN by country of origin during 1995 to 2004 especially from China and India are also depicted with the help of the following figure.

Figure-11 Visitor arrivals to ASEAN by country of origin, 1995-2004 (India & China)



As reveled by the above graph the number of visitor arrivals to ASEAN by country of origin is always having an upward trend. In case of India, though the growth is minimum but is significant for our study. It is increasing smoothly. It reveals our ASEAN favoritism. Table-25 gives visitor arrivals in ASEAN member countries by country of origin during 1995-2004.

Following table-25 indicates that during the stipulated time Chinese are mostly in favor of Thailand and Indians are mostly in favor of Singapore. Out of 6533 visitors from India to various ASEAN member countries during that period, 2994 are in favor of Singapore. Second most attractive region is the Thailand. Indians are mostly going to these two ASEAN countries in the form of tourist.

Table-25

Visitor arrivals to ASEAN member countries by country of origin, 1995-2004

(In thousand)

Country of Region	Brunei Darussalam	Camb-odia	Indo-nesia	Lao PDR	Mala-ysia	Myan-mar	The Philipp i-nes	Singap -ore	Thail-and	Viet-nam	Total
1	2	3	4	5	6	7	8	9	10	11	12
ASEAN	6484	727	20045	4332	71580	383	1478	23859	22128	1864	152880
Rest of the world	739	4025	28657	1683	25339	2419	18594	48258	68192	18560	216465
Asia (other than ASEAN)	255	1327	13756	517	11790	795	9101	27044	36821	9718	111124
(i) China	36	282	195	219	3085	112	222	4380	6186	5246	19964
(ii) India	49	26	326	62	946	47	168	2994	1894	21	6533
Europe	297	867	7593	685	4935	534	2410	10142	20225	2376	50065
Americas	64	502	2106	262	1835	143	4803	4279	5196	2223	21414
Oceania	100	166	4333	118	1955	48	969	5416	3484	642	17231
Others	22	1163	868	100	4824	899	1311	1376	2466	3601	16631
Total	7222	4752	48702	6015	96919	2802	20073	72116	90320	20424	369345

Source : ASEAN NTO's as compiled in the ASEAN Tourism Database.

Notes : Brunei Darussalam Projection. Myanmar, Others & unspecified include tourist arrivals from boarder check points. Here Europe includes mainly France, Germany, Italy, Netherlands, Scandravia & UK. America includes mainly Canada & USA. Oceania includes mainly Australia and New Zealand and other includes continents excluding Asia, Europe, America & Oceania.

Table 26 and 27 again explains visitor arrivals individually from China and India to ASEAN by country of destination in detail during 1995-2004. Both the tables give detail destination of Chinese and Indians and the share of each in percentage.

Table-26: Visitor Arrival from China to ASEAN by Country of Destination, 1995-2004

Country of Dest.	Number of Visitors									Share (%)
	1995	1998	1999	2000	2001	2002	2003	2004	1995-2004	1995-2004
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Brunei Daru.	-	1	1	6	6	7	7	8	36	0.2
Cambodia	23	18	27	31	32	28	39	46	282	1.4
Indonesia	39	0	15	28	0	20	41	30	195	1.0
Lao PDR	4	16	20	28	41	22	21	33	219	1.1
Malaysia	103	160	191	425	453	558	351	550	3,085	15.5
Myanmar	0	9	12	14	17	18	16	18	112	0.6
The Philip.	9	24	21	15	19	28	32	40	222	1.1
Singapore	202	293	376	434	497	670	568	880	4,380	21.9
Thailand	376	571	776	704	695	763	625	780	6,186	31.0
Viet Nam	63	421	484	626	673	724	693	778	5,246	26.3
ASEAN	818	1,512	1,920	2,313	2,433	2,837	2,393	3,164	19,964	100.0

Source: ASEAN NTO'S, as compiled in the ASEAN Tourism Database.
Notes : Brunei Darussalam: projection.
Myanmar: Others & Unspecified include tourist arrivals from border check points.

Table-27: Visitor Arrival from India to ASEAN by Country of Destination, 1995-2004

Country of Destination	Number of Visitors									Share (%)
	1995	1998	1999	2000	2001	2002	2003	2004	1995-2004	1995-2004
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Brunei Daru.	-	5	6	6	6	7	7	8	49	0.8
Cambodia	1	1	1	2	2	2	5	7	26	0.4
Indonesia	32	41	30	35	35	39	30	30	326	5.0
Lao PDR	11	9	7	3	3	2	2	2	62	0.9
Malaysia	28	34	47	132	144	183	145	173	946	14.5
Myanmar	1	4	5	6	6	6	6	8	47	0.7
The Philip.	12	21	19	19	15	15	16	18	168	2.6
Singapore	189	244	288	346	340	376	309	471	2,994	45.8
Thailand	124	148	164	203	206	253	231	301	1,894	29.0
Viet Nam	0	0	5	0	6	7	0	0	21	0.3
ASEAN	397	506	571	752	763	890	751	1,018	6,533	100.0

Source: ASEAN NTO'S, as compiled in the ASEAN Tourism Database.
Notes: Brunei Darussalam: projection.
Myanmar: Others & Unspecified include tourist arrivals from border check points.

During the period, share percentage of visitor from China is highest in Thailand (31.0) and from India it is highest in Singapore (45.8).

Table-28 gives rate of growth of visitor arrivals to ASEAN by country of origin during 1996-2004.

Table-28:
Rate of growth of visitors arrival to ASEAN by country of origin, 1996-2004.

Country of Region	1996	1997	1998	1999	2000	2001	2002	2003	2004
1	2	3	4	5	6	7	8	9	10
ASEAN	-1.41	2.92	-7.75	24.97	15.36	12.58	4.87	-9.54	35.49
Rest of the world	9.46	-0.99	-3.51	9.23	13.72	3.54	3.87	-14.41	26.01
Asia (other than ASEAN)	12.01	-2.61	- 12.54	15.02	14.80	1.91	5.84	-16.19	24.50
(i) China	55.99	1.87	16.38	26.94	20.46	5.21	16.59	-15.64	32.21
(ii) India	8.22	5.63	11.37	12.92	31.59	1.43	16.73	-15.60	35.47
Europe	1.19	2.97	0.47	5.62	12.34	11.77	-6.62	-10.77	17.60
Americas	1.24	9.21	2.99	8.45	11.34	-1.82	-1.10	-6.42	18.76
Oceania	10.59	20.16	-4.23	16.03	2.62	7.25	-1.97	-19.98	36.19
Others	31.19	32.97	61.91	- 19.23	29.88	-7.68	44.04	-16.64	57.30
Total	5.14	0.47	-5.13	15.07	14.38	7.21	4.30	-12.32	30.21

Source: ASEAN NTO's as compiled in the ASEAN Tourism Database.

Notes: Brunei Darussalam Projection. Myanmar, others & unspecified include tourist arrivals from boarder check points. Here Europe includes mainly France, Germany, Italy, Netherlands, Scandravia & UK. America includes mainly Canada & USA. Oceania includes mainly Australia and New Zealand and other includes continents excluding Asia, Europe, America & Oceania.

From very much flexible rate of growth from different regions and quite well rate of growth from India in current year of 2004 we can observe the attachment of Indians with ASEAN countries. Currently this rate is growing speedily because of our Look

East destination. In all the years, except the year of 2003 which is an abnormal year is more or less increasing. Currently the growth rate of visitors by country of origin in case of India is 32.21 which are more than the China.

Table-29 gives share in visitor arrivals to ASEAN by country of origin during 1995-2004. India's share in visitor arrivals to ASEAN in 1995 was 1.3. And simultaneously it becomes 2.0 during the last couple of years as revealed by the table.

Table-29:
Share in visitor arrivals to ASEAN by country of origin, 1995-2004.

Country of Region	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
1	2	3	4	5	6	7	8	9	10	11
ASEAN	39.8	37.3	38.2	37.1	40.3	40.7	42.7	42.9	44.3	46.1
Rest of the world	60.2	62.7	61.8	62.9	59.3	57.3	57.1	55.7	53.9	58.6
Asia (other than ASEAN)	32.0	34.0	33.0	30.4	30.4	30.5	29.0	29.4	28.1	26.9
(i) China	2.8	4.1	4.1	5.1	5.6	5.9	5.8	6.5	6.2	6.3
(ii) India	1.3	1.4	1.4	1.7	1.7	1.9	1.8	2.0	2.0	2.0
Europe	14.5	13.9	14.3	15.1	13.9	13.6	14.2	12.7	13.0	11.7
Americas	5.9	5.7	6.1	6.7	6.3	6.1	5.6	5.3	5.7	5.2
Oceania	4.2	4.4	5.2	5.3	5.3	4.8	4.8	4.5	4.1	4.3
Others	3.8	4.7	3.1	5.4	3.8	4.3	3.7	5.1	4.8	5.8
Total	100	100	100	100	100	100	100	100	100	100

Source: ASEAN NTO's as compiled in the ASEAN Tourism Database.

Notes: Brunei Darussalam Projection. Myanmar, others & unspecified include tourist arrivals from boarder check points. Here Europe includes mainly France, Germany, Italy, Netherlands, Scandravia & UK. America includes mainly Canada & USA. Oceania includes mainly Australia and New Zealand and other includes continents excluding Asia, Europe, and America & Oceania.

The share in visitor arrivals to ASEAN by country of origin is also depicted by the following graph (figure-12). The graph is interestingly having upward trend throughout the period. Thus we can observe the implications of Look East destiny of government of India. From around 1999-2000 the graph is very much encouraging. Thus, it also gives some indications of the second phase of LEP of government of India.

Figure-12: Share in visitor arrivals to ASEAN by country of origin, 1995-2004 (India)

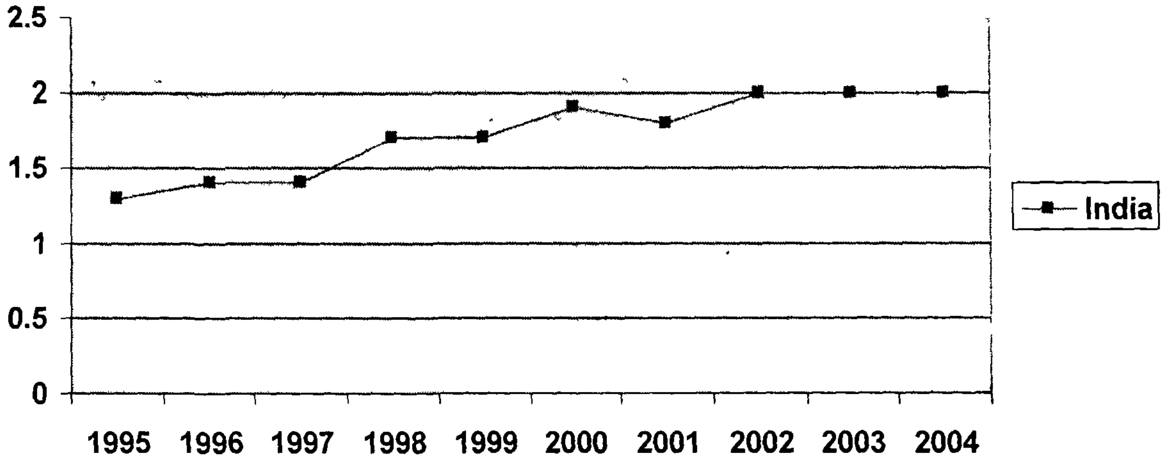


Table-30 gives again share in visitor arrivals to ASEAN member countries by country of origin during 1995-2004.

Share in visitor arrivals to Vietnam is high from China (25.7) and it is high in Singapore (4.2) from India. Share of India in all ASEAN countries as a whole is 1.8. Thus, after having detail explanation of the tourism sector from India to ASEAN, it becomes clear that attractions with regard to tourism related activities are good. The relation is highly positive especially during the current years. So the LEP of government of India is working positively and it's strength is high enough during the current years.

Table-30:
Share in visitor arrivals to ASEAN member counties by country of origin, 1995-2004.

Country of Region	Brunei Darussalam	Camb-odia	Indo-nesia	Lao PDR	Mala-ysia	Myan-mar	The Philippi-nes	Singap-ore	Thail-and	Viet-nam	Total
1	2	3	4	5	6	7	8	9	10	11	12
ASEAN	89.8	15.3	41.2	72.0	73.9	13.7	7.4	33.1	24.5	9.1	41.4
Rest of the world	10.2	84.7	58.8	28.0	26.1	86.3	92.6	66.9	75.5	90.9	58.6
Asia (other than ASEAN)	3.5	27.9	28.2	8.6	12.2	28.4	45.3	37.5	40.8	47.6	30.1
(i) China	0.5	5.9	0.4	3.6	3.2	4.0	1.1	6.1	6.8	25.7	5.4
(ii) India	0.7	0.6	0.7	1.0	1.0	1.7	0.8	4.2	2.1	0.1	1.8
Europe	4.1	18.2	15.6	11.4	5.1	19.0	12.0	14.1	22.4	11.6	13.6
Americas	0.9	10.6	4.3	4.4	1.9	5.1	23.9	5.9	5.8	10.9	5.8
Oceania	1.4	3.5	8.9	2.0	2.0	1.7	4.8	7.5	3.9	3.1	4.7
Others	0.3	24.5	1.8	1.7	5.0	32.1	6.5	1.9	2.7	17.6	4.5
Total	100	100	100	100	100	100	100	100	100	100	100

Source: ASEAN NTO's as compiled in the ASEAN Tourism Database.

Notes: Brunei Darussalam Projection. Myanmar, others & unspecified include tourist arrivals from boarder check points. Here Europe includes mainly France, Germany, Italy, Netherlands, Scandravia & UK. America includes mainly Canada & USA. Oceania includes mainly Australia and New Zealand and other includes continents excluding Asia, Europe, America & Oceania.

Even though sufficient data relevant with tourism is not available from ASEAN's side to India but some interesting facts give clear indication that ASEAN countries are also in favor of India. Each and every corner of India is full of green hills, nature and man made beauties, monuments, water bodies, different species of plants and animals, different colors of birds and their sweet songs. Visitors are coming to India from different parts of the world. Foreign tourist arrivals in India during 2004, 2005 and 2006 are very much encouraging. It is growing continuously as revealed by the table-31.

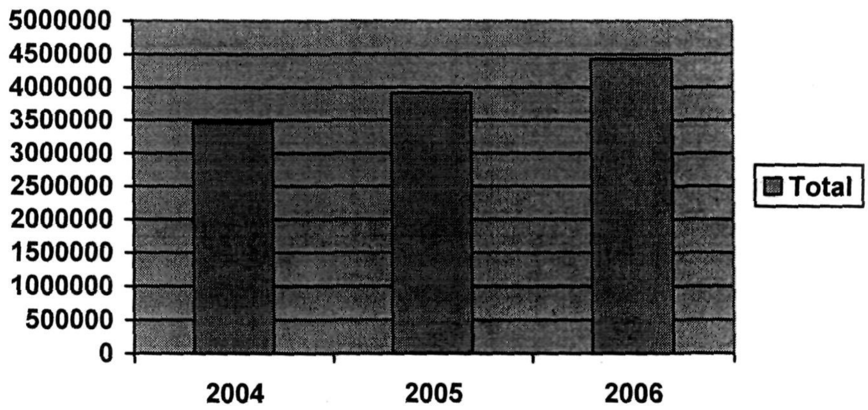
Table-31: Month wise foreign tourist arrivals in India, 2004-06.

Month	Foreign Tourist Arrivals		
	2004	2005	2006
January	337345	385977	444260
February	331697	369844	407198
March	293185	352094	390824
April	223884	248416	309775
May	185502	225394	258527
June	223122	246970	273149
July	272456	307870	348817
August	253301	273856	302611
September	226773	257184	281102
October	307447	347757	394009
November	385238	423837	47215
December	417527	479411	547488
Total	**3457477**	**3918610**	**4429915**

Source: NEDFi, Data bank quarterly, 2008

In India, where most of the tourism sites are natural base, best months for visit the region are October, November, December, January, February and March. During these months there is picking in the tourism sector of India. Table-31 and the following graph give detail description of month wise foreign tourist arrivals in India.

Figure-13: Month wise total foreign tourist arrivals in India, 2004-2006



Again the same thing in million is explained by the table-32 for the period 1996-2006.

Table-32: Foreign Tourist arrivals in India, 1996-2006

Year	Foreign Tourist Arrivals (in million)
1996	2.29
1997	2.37
1998	2.36
1999	2.48
2000	2.65
2001	2.54
2002	2.38
2003	2.73
2004	3.46
2005	3.92
2006	4.45
2007	5.00

Source: Bureau of Immigration, India

It reveals an increasing trend of foreign tourist arrivals in India. During 2007 foreign tourist arrivals in India is 5.00 million and it was 4.45 million during 2006. Thus there is yearly increasing trend of 0.55 million. Percentage share of India's International tourist receipt is around 0.90 percent [table-33], which is also very much good in the world. This rate is also growing continuously. In 1996 India's share was 0.63 % and it becomes 0.89 %in 2006.

Table-33: Share of India in International Tourist Receipts in the World, 1996-2006

Year	International Tourist Receipt in World (in US$ billion)	Foreign Tourist Receipt in India (in US$ billion)	Percentage Share of India
1996	450.5	2.8	0.63%
1997	454.2	2.9	0.64%
1998	451.7	3.0	0.65%
1999	465.7	3.0	0.65%
2000	483.8	3.2	0.66%
2001	472.3	3.0	0.64%
2002	487.0	2.9	0.60%
2003	533.1	3.5	0.66%
2004	633.0	4.8	0.75%
2005	678.0	5.7	0.85%
2006	735.0	6.6	0.89%

Source: Tourism Market Trends 2005 Edition (WHO) for the year's upto 2003, WHO Barometer June, 2007 for other years.

Table-34: Foreign Exchange Earnings (In Rs. Crore) from Tourism

Year	Earnings (in Rs. Crore)	Percentage change over the previous year
1996	10046	19.2%
1997	10511	4.6%
1998	12150	15.6%
1999	12951	6.6%
2000	14238	9.9%
2001	14344	0.7%
2002	14195	-1.0%
2003	16429	15.7%
2004	21603	31.5%
2005	25172	16.5%
2006	29604	17.6%

Source: Reserve Bank of India

In 2006 Delhi has received highest percentage of foreign tourist. The percentage of foreign tourist visit to Delhi is 17.3, as revealed by the table-35.

Table-35: Top 10 states/UTS of India of Foreign Tourist visit in 2006

Rank	Foreign Tourist Visits	
	State	**Percentage Share**
1	Delhi	17.3%
2	Maharashtra	14.5%
3	Uttar Pradesh	11.6%
4	Rajasthan	10.7%
5	Tamil Nadu	9.1%
6	West Bengal	8.8%
7	Andhra Pradesh	5.9%
8	Karanataka	4.4%
9	Kerala	3.8%
10	Goa	3.3%
	Total of Top 10	89.4%
	Others	10.6%
	Total	100.0%

Source: State/UT Tourism Departments

Next to Delhi, Maharastra has received the percentage of 14.5. Both the region is full of monuments, world class facilities and natural beauties. These two metro parts are also well connected by air, water and roads with foreign countries. This state and union territories are having lots of provision for foreign residents. Higher education, accommodation, comfortability, security etc are also available for foreign individuals. International flights are regularly and frequently running from these two parts. Thus naturally visitors from foreign countries are maximum to these two metros. State wise complete picture of foreign tourist visit is explained by the table-35.

Tourism has contributed 5.83 % of GDP during 2002-2003 and it has grown to 5.90 % during 2003-2004. During 2004-2005 contribution of tourism to GDP is 6.11 %. Thus the contribution of tourism to GDP of India is growing continuously. Again in 2006 India has earned Rs.29604 Crore from tourism which was Rs.10046 crore in 1996. Complete picture of foreign exchange earning in Rs. Crore is revealed by the table-34. Table-34 also gives the percentage change of foreign exchange earnings over the previous years.

Table-36: Economic Benefits of Tourism to India.

Indicators	Year	India	World
Contribution* of Tourism to GDP	2002-2003	5.83%	10.0% (2002)
	2003-2004	5.90%	10.2%
	2004-2005	6.11%	10.4%
	2005-2006	NA	10.6%
	2002-2003	38.6 million (8.27%)	198.098 million (7.8%) (2002)
	2003-2004	41.8 million (8.78%)	194.562 million (7.6%) (2003)
	2004-2005	NA	214.697 million (8.1%)
	2005-2006	NA	221.568 million (8.3%)

**** Direct as well as indirect contribution of tourism.***

Note:

1. India Figures: For 2002-03 based Tourism Satellite Account (TSA) 2002-2003.
2. World Figure: World Tourism & Travel Council (WTTC)

According to the ASEAN Secretariat data, India ranked among the 10th largest visitor generating market for ASEAN. Trends in visitor arrivals from India to ASEAN are very much significant. In contrast, the flow of ASEAN visitors to India is quite small. In 2001, visitors from ASEAN countries to India numbered only about 140,000, less than one fifth of that of Indian tourists visiting ASEAN. This indicates that the balance of trade in tourism services is significantly in favor ASEAN countries. But the important point is that the number of ASEAN visitors to India has increased in 2001 in comparison to 1992. In 1992, number of ASEAN visitors to India was about 63,000 and it become 98,243in 2001. India needs to be more proactive in attracting visitors from ASEAN.

Given the vast geographical and cultural diversity of India, the lack of a proper integrated approach has led many international tourists to choose alternative destinations. In spite of vast cultural and natural diversity, international tourism in India remains highly concentrated in a select few states and circuits. Under the LEP of government of India the tourism industry has the scale to become a competitive industry, provided appropriate investments, infrastructure, human resources, and service-oriented mindset are developed.

3.7.1.4 Investment relations

During the period of 1996-2002, large companies from ASEAN countries made occasional investments in India. From virtually little or no investment in India from east and Southeast Asia in the early 1990s, Malaysia and Singapore have emerged as the tenth and eleventh largest in terms of approved investments respectively by 2002. Thailand is in the 18^{th} and Indonesia and the Philippines are in 33^{rd} and 35^{th} position respectively. The share of ASEAN-6 [Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam] in India's total approved FDI inflows increased nearly four-fold from 2 per cent to about 8 per cent between 1995 and 1997. However, after the economic crisis in ASEAN in 1997-98, there was a decline in the flow of FDI from ASEAN-6 economies into India, as many of their investments in India experienced ownership and other changes. Among the ASEAN-6 countries, Malaysia and Singapore have been the major investors in India. Malaysia has made substantial investments in expanding capacities in selected infrastructural areas such as logistics, highways, and ICTs in India, particularly before the 1997 crisis. It has also been cooperating to assist India in providing infrastructure expertise and investments in the energy sector, particularly for oil and gas exploration and in downstream processing activities. Concomitantly, Singapore-based MNCs, and Singapore's government–linked-companies [GLCs] such as Singapore Telecom, Port of Singapore Authority and Singapore Technologies have also made investments in India. Singapore's private sector companies have made small-scale investments in health care, real estate, and tourism. Favorable experience and profitability of Singapore's technology park in Bangalore has created a positive environment for investments by Singapore in India.

Although there have been some limited Indian investments in ASEAN countries, some dating as early as the 1960s, their presence continues to remain marginal in aggregate terms. The earlier investments were governed largely by India's restrictive policies rather than by pull factors from ASEAN. Predictably, except for some cases, such investments were largely unsuccessful.

Table-37: ASEAN FDI net inflow from India & China

(US $ Million)

Country	2004	2005	2006
China	731.5	502.1	936.9
India	118.7	351.7	380.4

Source: ASEAN Trade statistics database.

Above table-37 gives ASEAN FDI inflows from India and China for the years 2004, 2005 and 2006. This table gives continuous upward trend of investment both from India and China to ASEAN countries.

In spite of this upward trend, the share of India in ASEAN's total FDI inflows was marginal, at an average of only about 0.2 per cent during the period of 1996-1998. The share did increase to about 0.5 per cent in the year 2000, but global recession followed by India in the last part of 2001 led to a significant downturn in FDI inflows. Singapore has generally attracted the bulk of Indian FDI flowing into ASEAN. Maximum amount of investment [732.7 US$ Million] from India is towards Singapore as shown by the table- 38.

Table-38: Total FDI in ASEAN Member countries from India during 1995-2004

(US $ Million)

Host Country	**1995-2004**
Brunai Darussalam	**9.1**
Cambodia	**0.0**
Indonesia	**-4.2**
Lao PDR	**0.8**
Malaysia	**-5.9**
Myanmar	**0.0**
The Philippines	**3.9**
Singapore	**732.7**
Thailand	**-4.7**
Vietnam	**5.1**

Source: ASEAN Trade statistics database.

One of the reasons for such paltry levels of Indian investments in ASEAN countries in the past is the fact that the Indian Diaspora in ASEAN countries has not been able to play a significant role in expanding investment relations with India. Further, the Indian companies had limited capacity and interest to invest abroad until recently, including in ASEAN. With increased liberalization in India, and the improved regulations on outward foreign investments by the Indian companies, particularly in the ICT, pharmaceutical, automobiles, and engineering sectors, inflows of Indian investments in ASEAN are expected to increase.

The motivation for the current and future Indian investments abroad is economic efficiency and profitability criteria [pull factors], rather than to escape restrictive business environment at home [push factors], as used to be the case before economic reforms were introduced in India. This is indicated by the fact that over the past three years or so, over 150 firms from India have located in Singapore, contributing to its economy and to employment generation. Indian companies are also poised to invest in Thailand [auto components sector], in Indonesia and Vietnam [motor vehicles and energy sector], and in the Philippines [ICT sector]. These opportunities arise from substantial complementarities that exist between India and ASEAN in factor endowments, economic structure, skills and capabilities. Again it is noted that the majority of FDI inflows into India is directed towards the services sector. Thus, it is not a direct competitor of ASEAN with respect to seeking of FDI in labor-intensive manufacturing industries. The experience and competencies of Malaysia and Singapore in infrastructure development complements India's needs for physical infrastructure, particularly in the area of roads, industrial parks, and housing estates.

According to press reports, in January 2004, the Singapore government announced its intention to set up in India an office of its Economic Development Board [EDB], which is the primary agency for securing inward investments into Singapore. Singapore government's holding company, Temasek Holdings, has also announced plans to set up an office in India's financial capital, Mumbai, to invest in companies in India with good growth potential. These steps should be welcomed, but much more can and should be done.

The Singapore Business Federation [SBF], which is the government-guided amalgamation of different chambers of commerce and industry, should also consider opening up an office in India. Individual chambers associated with the SBF such as the Chinese, Malay and Indian chambers of commerce might consider opening their own offices in India. Unless these steps are taken, engagement between the private sector small and medium enterprises of the two sides will remain limited. In similar vein, investment promotion agencies and government holding companies of Malaysia [such as Khazzana Holdings] and of Thailand ought also to consider investing in many well governed and profitable Indian companies by setting up a physical presence in India. For its part, India now has the capacity, resources, and competitiveness to contribute to ASEAN's inward FDI inflows. However, ASEAN countries will need to be pro-active in attracting Indian companies.

Growth rate of India and other ASEAN countries has been improving with foreign capital inflows, thus leading to expanding foreign exchange reserves. This has, in turn strengthened their respective currencies. Financial markets have also performed better with declining interest rates and rising market capitalization. Hence, despite the temporary crisis situation [out of which, most of them have struggled out] the relevance of India's LEP continues to exist.

With economic liberalisation, businesses in ASEAN are increasingly undertaking Foreign Direct Investment [FDI] in India in crucial infrastructure sectors such as telecommunications, fuels, hotel and tourism services, heavy industry, chemicals, fertilisers, as also in trading, textiles, paper and pulp, and food processing. ASEAN-especially Malaysia, Singapore, and Thailand, has become a major source of FDI into India. From a negligible amount in 1991, cumulative approved FDI [Jan 1991-May 2002] from ASEAN was over Rs.14, 000 crores [US$ 4 billion] in May 2002; this represents of share of 6.1% in the total FDI approved by India in this period. Actual inflow of FDI from ASEAN during this period [January 1991-May 2002] was, however, more modest: US$ 620 million, representing 3.4% of total FDI flows in to India. It is our priority to increase investment flows between India and ASEAN. We hope that various business Summits between India and ASEAN are significant steps in this direction.

Investment relations between India and ASEAN have so far remained limited. With the exception of Singapore, FDI inflows from other ASEAN-members into India during August 1991-July 2006 period have not been substantial. It is expected that a comprehensive agreement with ASEAN will help in substantially increasing FDI inflows into India from the ASEAN member-countries. That inflows of investment could significantly rise as a result of investment facilitation under comprehensive economic cooperation agreement [CECA], is brought out by the recent experience of India-Singapore CECA. In April-September 2006, inflows of FDI from Singapore into India recorded 300% plus growth over comparable period of last year. Thus, Singapore [with $ 482 million foreign direct investment] has become India's "second largest" source of FDI in the first half of 2005-06.

3.7.2 Political Relations

The diplomatic or political strategy that adopted appears two-fold. First, after having realized that ASEAN is the focal point around which it would have to rebuild its relationship, India's primary objective was to become a Dialogue Partner of ASEAN. Through intense diplomatic efforts India became Sectoral Dialogue Partner of ASEAN, which got elevated to the status of Dialogue Partner reflecting the growing ties between the two sides that have developed in recent years. Secondly, to choose some ASEAN nations for bilateral relations. Singapore has emerged by far as the most important bilateral partner of India. Singapore was instrumental in strongly supporting India's case for Dialogue partnership, membership in the ARF and in the ASEAN plus summit meetings. Malaysia was quite upbeat to begin with but lost it's interest gradually, probably because of the lack of progress on the economic front. Thailand preoccupied with Indochina and Myanmar did not show much enthusiasm although it was not average to a greater Indian role in Southeast Asia.

3.7.3 Strategic Interaction

Interestingly, it was on the defense and strategic front that India has made impressive progress in looking East and Southeast Asian countries. In the post cold war it became imperative for India to dispel fears about its military expansion in an otherwise traditionally non-hostile ASEAN region. Also, Southeast Asia itself witnessed a sea change in the political atmosphere. The Cambodian issue was no longer contentious and Vietnam was perceived as a potentially rather than an enemy by ASEAN. Nor could India's military right in the emergent Asian balance of power be ignored any longer contrary to the previous perception, the Southeast Asian nations began to look upon India as a power that could play a kind of 'balancing role'. It was in India's interest to ensure that Southeast Asia would not be dominated especially by China once it became obvious that the superpowers would reduce their presence, which coincided with a similar thinking within Southeast Asia. The upshot of the convergence of interests of India and Southeast Asia was genesis of a new strategic interaction with several ASEAN nations.

Criticism requiring that the Indian Navy's ambitions were replete by many instances of defense cooperation between India and Southeast Asia. A number of Confidence Building Measures [CBMs] that India undertook and greater appreciation of Indian maritime threats by the Southeast Asian countries created a new era of cooperation which began to transcend the naval contours. Perhaps, the most important were the joint naval exercises India started holding periodically with Indonesia, Malaysia and Singapore since 1991 near the Andaman's. Equally significant were the defense ties that were being forged between India and many Southeast Asian countries like Malaysia, Singapore, Thailand, Vietnam, Indonesia, Philippines etc.

3.8 Advantage of India's Look East Policy

India's LEP has already crossed the first phase and running under the second phase. It has been giving tremendous opportunity both for India and the ASEAN countries. Benefits from the current second phase of the policy are more than the first phase. The first phase has mostly prepared the ground of the policy and the recent phase is actively giving the results. Some important benefits of the policy are mentioned bellow.

From the growing ASEAN economic cooperation, more specifically the ASEAN Free Trade Area [AFTA], as these countries require only 40% local [i.e. ASEAN] content; which means that products containing as much as 60% of value from the rest of the world would also qualify for the benefits of the free trade scheme. It would, therefore, provide ample scope for mixing ASEAN and Indian materials and labor to produce competitive consumables and exportable. This may also offer opportunities for relocating some of the labor intensive activities from the ASEAN states to India enabling them in maintaining their competitive edge, which is phasing out in several lines of production owing to rising wages. The supply of skilled manpower at law wages in India would act as a powerful magnet for them particularly in knowledge oriented areas such as information technology and pharmaceutical sector. Such items are expected to fare well in the global market through highly developed and professional trade related infrastructure of the countries like, Singapore.

India also enjoys a geographical proximity to East and Southeastern region. It's bilateral relationship with these ASEAN countries would benefit from low transport costs and shorter delivery schedules. This is particularly important in the case of Indian exporters, in view of severe and wide ranging domestic supply constraints which have been considered as one of the major hindrances by the European importers. It is also important that geographically Southeast Asian countries are situated in the main inter-continental routes between Europe, America, East Asia and Australia and hence, can act as an important stopover for Indian exports.

Again, a sizeable population of Indian origin, [about three million plus] in ten Southeast Asian countries, which have played an important role in industrialization and trade promotion of these countries, can act as a vital link in developing mutually beneficial commercial ties between India and Southeast Asian countries. The new breed of Indian migrants that include software engineers, financial analysts, management professionals are likely to play even more important role in promoting Indo-ASEAN economic relations.

1991 was a turning point in India's economic relations due to its new LEP. Before 1990 India's main focus was on the Soviet Union because of which ties with the other major Asian powers like China and Japan were not strong. India's inward-looking orientation disconnected it from the neighborhood to the East, kept it apart from the economic growth of East Asia. By the turn of the 1990s, India had totally marginalized itself. The first phase of the LEP launched by the Narasimha Rao Government in the early 1990s focused on renewing contact with a region that India had drifted away from. The LEP has been given a significant thrust since the beginning of this century and the results achieved are evident as mentioned in the report. Now India has entered into the phase two of this policy. The second phase in India's LEP has a new dimension-the development of India's remote northeast. India's search for a new economic relationship with South East Asia is no longer driven by considerations of globalization, but to facilitate development of the Northeast by increasing it's connectivity to the outside world. Instead of trying to isolate the Northeast from external influences, as it had done in the past, New Delhi is now recognizing the importance of opening it up for commercial linkages with East and South East Asia.

Increased economic integration with Asia has helped India because the core competencies of these economies are different. So India can import the goods from other countries which can be produced by other countries at a lower cost then India. India can export those goods for which India has competitive advantage. This arrangement is mutually beneficiation for India and East-Southeast Asian countries. Due to this there is a substantial potential of Asian Integration in helping Asia resume a high growth path.

The LEP has helped India in strengthening its place in the global economy and gets a better deal in its interactions outside the region. When America and European countries had entered into a lot of different mutual agreement which has further increased their reputation and bargaining power then India was in danger of isolation in the global economy. India was not getting it's due importance. But due to its LEP, Indian economy is getting integrated with the Asian economy, so India gets support from Asian countries which have increased India's importance at global level.
A LEP would also gain impetus from bilateral growth poles or growth triangles across borders, which proved successful in Southeast and East Asia by creating critical building blocks for larger regional cooperation. This would build confidence, compel trade facilitation and solve the last mile problem by forgoing the little links that makes things happen.

The military contacts and joint exercises that India launched with ASEAN countries on a low key basis in the early 1990s are now expanding into full-fledged defence cooperation. India's defence contacts have widened to include Japan, South Korea and China. Earlier India never engaged in such multi-directional defense diplomacy in Asia. The LEP has opened the door for the first time since independence to break out of the political constraints of the sub continent that have severely limited India's grand strategic options. The policy has allowed India to break the artificial political barriers between the subcontinent and east and south East Asia. The "Look East" market driven policy has been crafted within the framework of neo-liberalism wherein it is proposed that "human well being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade". In this approach, the role of the state is to create and preserve an institutional framework attuned to such practices.

3.9 Shortcomings of India's Look East policy

India's LEP is a big step towards the formation of big Asian house. But the path towards the formation is not clean and clear. Some important drawbacks of the policy are explained here.

For several Indian intellectuals 'while the growth graphs may be right, there are still two Indian economies, the fast growing globalize sector and the rest, rural retarded and ridden with poverty'. In India over 300 million Indians still live in abject poverty and another 300 million however precariously above the poverty line. Interestingly, in its relationship with the rest of its neighborhood, India seeks not to see the commonalities of shared poverty and socio-economic marginalization but instead defines the relationship from the perspective of a bigger, more prosperous neighbor.

In contrast to China's strategy of developing its backward regions through greater economic ties with ASEAN, India's policy of strengthening its ties with eastern neighbors has been limited to counter insurgency efforts. India is watching with trepidation the increasing Chinese investments in trade related infrastructure like new highways linking Kunming [Yannan] with northern Myanmar and Thailand. India too has offered to link its rail network with Bangladesh and build highways to Thailand through Bangladesh and Myanmar. It is still contemplating opening up land route for large scale trade with the Yunnan Province through the Stilwell Road. But all these efforts are dwarfed by its obsession with counter insurgency.

Not everybody in India is, however, enthused by LEP's exertions in bringing India close to ASEAN, or its rhetoric about making the 21st an Asian Century. In a scathing editorial view, India's largest circulated newspaper, The Times of India, wrote "New Delhi's record in any regional or international arrangement is dismal, and driver by its obsession with Pakistan. As the big boy in the South Asian bloc, India could have played a key role. Instead it has hold SAARC hostage to its problems with Pakistan. In the commonwealth too, New Delhi's role concern is now to target Pakistan by isolating it from the international community. Again, at the recent UN General Assembly session, New Delhi's excretions were solely with reference to Pakistan.

'Asianism' is the common characteristic of India and ASEAN. We are doing something in the name of LEP for Economic enlistment on that 'Asianism' spirit only. But Indians have lost it's actual tempo of Asianism during the mid nineties due to the frequent change of governments at the centre and the financial crisis in some of the South East Asian economics. These has impacted on the growth of bilateral relations and left little space for manor covering the international economic relations.

Again India cannot over look the China factor. The Sino-Indian relation still continues to be skeptic though not overtly. The growing Chinese military cooperation with Myanmar and the Chinese initiative in infrastructure development through Myanmar to gain exigency to Bay of Bengal has been gradually strengthening China's position in rest of Asia. The Sino-Indian border along Arunachal Pradesh of India still remains disputed with occasional trespasses from the Chinese as often alleged by the Indian authorities. This negative type of relation between the two countries has effecting transport and communication networks, investment possibilities and to overall economic activities. All these leave little scope for augmenting production and expansion of market.

What strikes observers of India's LEP is the conspicuous absence of a strategic vision of a future Asia Pacific that can inform its policies and actions in the coming years and will allow it to establish its rightful place in the Asian balance of power. If India has to emerge as a major power in Asia-Pacific it has to have not only a vision of its own economic future but also a vision of its future strategic role in the region. India has not so far clearly spelt out its strategic objectives in the region in any of its policy papers. It has however, sought defense cooperation with countries like Myanmar, Indonesia and Vietnam and secured a role for itself in the security of the straits of Malacca as a likely insurance against Chinese hegemony. In Southeast Asia more open and assertive role is informed not only by its limits of military and economic power, but also by its intent to avoid a direct confrontation with China, which considers Southeast Asia as its sphere of influence. Moreover, India's relations with China are on the upswing despite the lack of progress on the boundary issue and New Delhi is loath to see this affected.

India is looking east and south East Asian countries with its LEP, but not through its contagious Northeastern borders. For the Northeast to gain from FTAs with the economics of the east, the key variables are transit arrangements, proliferation of trade routes and custom check post, east visa regime making it possible for traders, business men and transport operations to move in and out of the region. For this to be possible requires substantial investments in infrastructure, construction of highways and bridges, re-establishment of rail links and communication facilities which is largely absent.

Among all the east and south east Asian countries India has good geographical relationship with Bangladesh, Bhutan and Sri Lanka. Huge informal trade along Indo-Bangladesh border gives the practical evidence of it. But India's LEP has more or less bypassed the relationship with these countries. North eastern part of India has a long border with Bangladesh. It is really not possible to develop the North eastern part of India without having good engagement with Bangladesh. Thus the progress of India's LEP is blocked by some unfortunate relationship.

3.10 Potential fields of India's Look East Policy

Analyses in previous sections indicate that there is significant potential for expanding mutually beneficial economic relations between ASEAN and India. This will require a systematic exploration of emerging economic opportunities between ASEAN and India-both by ASEAN as an organization, as well as by individual ASEAN countries. Table-39 enlists some possible areas of mutual economic cooperation that each ASEAN country may consider exploring with India. These areas span a wide range of areas from food and energy security to infrastructure and human resource development [HRD]. India is seeking to diversify its conventional energy sources and significantly increase exploration of oil and gas in its territory. ASEAN countries, viz. Indonesia, Malaysia and Brunei, possess enough expertise in this area, which can provide considerable scope for energy cooperation. The energy sector companies from ASEAN and India could cooperate with each other in oil and gas exploration and in down-stream processing activities. As an example, India's national oil company is already involved in a joint venture to explore oil and natural gas in Vietnam. Thus, the two countries are already cooperating in the energy sector, but there is definitely scope for further strengthening it. Cooperation in the civilian nuclear power sector for energy is also feasible and desirable. Mineral exploration and processing is another area that could be actively explored by India and some countries in ASEAN. For India as well as most ASEAN countries, food security is an important area of concern. There is scope for cooperation in improving productivity and in reducing wastage through application of knowledge, including biotechnology, to various components of agricultural and agro-processing value chain.

Table 39: ASEAN and India: Areas of Mutual Economic Cooperation

Countries	Important areas of mutual economic cooperation with India
Indonesia	Food and energy security, oil exploration, health care. Infrastructural development, ICT cooperation in IT related services and sourcing of manpower
Malaysia	Infrastructural development, ICT cooperation in IT related services and sourcing of manpower, health care, oil exploration, education services
Philippines	Health care, ICT cooperation in IT related services and Sourcing of manpower education services
Thailand	ICT cooperation in IT related services and sourcing of manpower, gems and jeweler, food processing, heritage tourism
Singapore	ICT cooperation in IT related services and sourcing of manpower, financial services, and logistics and Infrastructural development tourism education services
Myanmar	Food security, technical assistance, development of infrastructural links, agriculture and natural resource monitoring, establish institutional linkages in financial sector
Vietnam	Food security, technical assistance, development of infrastructural links, ICT cooperation in IT related services and sourcing of manpower, healthcare, oil and mineral exploration, education services
Cambodia and Laos	Food security, technical assistance, development of infrastructural links, ICT cooperation in IT related services and sourcing of manpower, healthcare, oil exploration, education services
Brunei	Energy security, oil exploration

Source: Compiled from Asher. et. at. (2003)

More specifically, India faces persistent shortages of cooking oil, while Malaysia and Indonesia are major palm oil producers, creating opportunities for mutually beneficial cooperation. Comparative cost advantages and demand linkages will give big boost to the formal process of Look East of government of India. India is a major importer of forest products, while Indonesia and Myanmar are major exporters of these products. This indicates another potential area of expansion of bilateral trade. Similarly, Thailand's expertise in food-processing industry, particularly in deep-sea fishing and other marine related activities represents another area wherein cooperation is likely to be fruitful. Singapore's largest supermarket operator, NTUC Fair price, could consider using India as a procurement base for variety of food related and other products. This may assist in Singapore's goal of food security and in strengthening the supply-chain for non-food essential household goods.

Among the lower income transition of ASEAN countries such as Vietnam, there are several other areas-particularly those relating to agricultural research, and biotechnology-where the scientists from India and ASEAN could fruitfully cooperate. They could also seriously consider facilitating trade and investments in agro-chemicals and fertilizers. Given the emerging expertise of India in the ICT services sector, ASEAN countries are likely to significantly benefit from cooperating in the area of Information and Communication Technology, particularly in the development of human resources and on software programmes in the local languages of the respective ASEAN countries.

India has expressed its willingness to assist less developed ASEAN countries in enhancing their capacity in the application of information technology [IT]. Governmental organizations and companies in Malaysia, Indonesia and Singapore have an opportunity to gain from outsourcing IT work to Indian companies. They may also consider availing of IT manpower from India. Indeed, the Info-Comm. Development Authority of Singapore [IDA] has signed an MoU with India's premier IT training company, National Institute of Information Technology [NIIT] to persuade IT professionals to locate in Singapore from anywhere in the world. This could create a dynamic Indian Diaspora with positive externalities for both countries.

A related area of cooperation is that of the entertainment and multimedia sector. Firms from ASEAN and India could consider joint production of films, television programs, and Internet content for both domestic and international audiences, particularly those whose main language is Malay or Bahasa of Indonesia. Hollywood movies and some Indian TV channels and serials currently do enjoy some popularity. Restrictive practices in this area among ASEAN countries need to be reviewed.

India could also cooperate with ASEAN in pharmaceutical and healthcare service sectors. Most of the ASEAN countries are heavily dependent on imported drugs and health care equipments. Indian pharmaceutical companies are internationally competitive in certain areas, particularly in generic drugs that are much cheaper than branded drugs. Given the rapidly rising health care costs in many ASEAN countries due to population and individual ageing and, sexually transmitted diseases, opportunities exist in health care activities, and in generic and other drugs, including sourcing for HIV-AIDS drugs. Some Indian companies from the health and pharmaceutical sectors already have presence in some ASEAN countries, but there appears to be considerable scope for further cooperation.

A recent decision by four major players in the global funding and healthcare, namely the Global Fund, World Bank, UNICEF, and Clinton Foundation, that they would help source and distribute generic drugs and diagnostics at the "lowest prices" in developing countries has implications for India-ASEAN cooperation. This is because some of India's domestic pharmaceutical companies may wish to consider negotiating with the above four institutions for procuring the generic drugs and kits as they could realize substantial savings due to low prices negotiated by these institutions with the suppliers which include Indian companies.

Another very important area of economic cooperation among India and ASEAN is in infrastructure development, particularly in railways, aviation and highways. The Malaysian businesses have been particularly successful in securing contracts for roads and highways in India. India is hopeful of security contracts in Malaysia in the railway sector, a sector in which it has a good record in Malaysia. The Port of

Singapore Authority [PSA] has been involved with the development and management of the Tuticorin Port in Tamilnadu and the Pipavav port in Gujarat.

Singapore intends to increasingly rely at the margin on investment income from abroad to sustain consumption for its rapidly ageing population. Recently, Temasek Holdings, a government holding company, and Keppel, a government owned real estate company, announced plans to open offices in India. Government Investment Corporation [GIC] and government venture capital companies ought to follow suit. There is considerable scope for Singapore to provide venture capital for Indian firms not only in IT but also in biotechnology, life sciences, and other areas, and thereby extending its reach as far as Singapore's entrepreneurship is concerned.

Educational services are another area of potential cooperation between ASEAN and India. Two Indian schools [Bhavan's Indian International School and Delhi Public School] are already operating in Singapore. Since these currently cater mainly, but not exclusively, to the children of expatriate Indians from the region, their presence suggests that they expect substantial presence of these groups of Indians to continue. If Singapore liberalizes its current restrictive rules concerning their citizens not being eligible to join international schools, then substantial benefits may accrue, especially to its citizens of Indian origin.

The latter also has presence in Indonesia. The cooperation in this sector could span areas such as medical and life sciences as well as management and information technology. This would also be vital for India to enhance its capacity-building efforts for the newer ASEAN members. The potential network of the Indian alumni of some reputed institutions in ASEAN, viz. Asian Institute of Management [AIM] based in the Philippines, National University of Singapore [NUS] and the Nanyang Technological University [NTU] could also be exploited for this purpose. Many of their members are now in responsible positions in business organizations in India, and could create an important avenue for furthering economic linkages of all the individual countries in ASEAN, Myanmar is the only country that shares a 1600 km long border with India. It is thus strategically an important country in the overall ASEAN-India relationship. Myanmar could develop as a gateway to ASEAN from

India's Northeast, an area India wants to develop for both economic and security reasons. The foundation for closer economic relations between Myanmar and India has been laid through a series of recent bilateral visits. Currently, the main emphasis is in developing road and banking links. In February 2001, Myanmar-India friendship center for Remotes Sensing and Data Processing was inaugurated. The center has the capabilities in weather forecasting, determination of forest cover and other land-use delineations, ground water survey, and other areas. With the LEP in operation, India has emerged as the largest export market for Myanmar because it has the potential for meeting our ever-increasing need for items like pulses and beans. With it becoming a member of ASEAN, we should no longer harbor fear of Myanmar becoming a satellite of China. It is in fact fast becoming a 'land bridge' linking India with its economically dynamic ASEAN partners.

India spends huge amount in transporting food items like pulses, poultry products, grains etc to NER for which the people have to pay more to meet the cost of transportation. Likewise, prices of all other items that come from our hinterland are higher in the region reducing the affordability of its people. Countries like Myanmar and Thailand-next door to NER-can provide many of the items at much cheaper price because of saving in the cost of carriage.

Besides these, there are some other unconventional areas in which cooperation would be mutually beneficial for India and the newer ASEAN members. As an example, it is known that due to prolonged war in Cambodia and Vietnam, many persons have lost their limbs, and cannot afford an artificial one through prosthetic surgery as it is too costly. A low-cost option is the "Jaipur foot" made in India.24 The Jaipur foot reportedly costs US$ 30 and is as good as or even better on 28 parameters than an artificial foot that costs US$ 9000 in the US25.

Another possible area of cooperation between ASEAN and India is that of space technology and its applications for development purposes. Despite a budget of only $450 million a year, which is about one-thirtieth of NASA's annual budget, India has sent 13 satellites in orbit, produced some of the world's best remote imaging satellites. It is using satellite technology to reclaim farmland, bring medical care to remote villages, as well as predict natural disasters. ASEAN economies could cooperate with India in gaining expertise in applying satellite technology for their development purposes.

3.11 Summary

Having achieved a fair degree of political consensus on the need for economic reforms, India is now vigorously pursuing its vision to become a developed nation by the year 2020 [Kalam, 2004]. This requires the country to maintain an annual average growth rate of 9 per cent per annum as envisaged in India's 11th Five Year Plan [2007 -2012]. As India's vision of becoming a developed nation by 2020 continues to be translated into domestic reform initiatives and leads to its further integration with the world economy, the opportunities for ASEAN and other economic partners for mutually beneficial economic cooperation are likely to multiply. ASEAN is aware of the need to further diversify its engines of growth from the traditional growth engines of the US, Japan and more recently, China, to India as well. Diversification of growth engines and greater integration among the members are imperative if the region is to reduce its susceptibility to boom and bust cycles that it has faced since the mid 1990s.

The range of existing complementarities between ASEAN and India are substantial and still are not fully exploited. The groundwork for a significant expansion and intensification of economic ties is now in place. If India is permitted to be an observer of various technical committees in ASEAN, that would facilitate the negotiations for an ASEAN-India FTA. It is therefore urged that both sides should urgently consider effective steps in this direction.

The two sides are also drawing up a roadmap called "Vision 2020" which is expected to be adopted at the Third ASEAN-India Summit in Laos in 2004. They have also agreed to undertake common efforts to help fight international terrorism and transnational crime, particularly the trafficking of drugs, weapons and humans. Steps should be taken to turn the current ASEAN plus Three [China, Japan and Korea] grouping to ASEAN plus Four by including India. This would also be an important step in moving towards the operationalization of the bolder vision of establishing a larger Asian Economic Community.

A vital element in fructifying and sustaining the dynamics of this emerging economic relationship would be to develop trust and confidence in each other and operationalize the framework agreement. It is essential that the media and elites on both sides make every effort to address the current information and perception gaps and mind-sets that hinder the pace and scope for economic cooperation between ASEAN and India. The significant complementarities that exist between ASEAN and India can only be realized if and when ideological and informational blinders are lifted.

CHAPTER – IV

PROBLEMS AND PROSPECTS OF INDIA'S LOOK EAST POLICY FOR THE NORTH-EASTERN REGION

Chapter-4

PROBLEMS AND PROSPECTS OF INDIA'S LOOK EAST POLICY FOR THE NORTH EASTERN REGION

4.1 Introduction

North East India assumes a place of prominence in establishing connectivity between India and it's neighbors in East and Southeast Asia. This stems not only from it's shared cultural and social space across the boarders but also because closer integration holds tremendous opportunity for economic resurgence in North East India. North East is one region whose progress and development can dovetail to India's Look East Policy (LEP). There is more for 'Look East' in the Northeast than in the rest of India.

Troubled by history and geo-politics, the North east has remained one of the most backward regions of the country. The trauma of partition in 1947 not only took the region backward by at least a quarter of a century, but also placed hurdles on future economic progress. It isolated the region, sealed both land and sea routes for commerce and trade, and severed access to traditional markets and the gateway to the East and South-East Asia. It distanced the approach to the rest of India by continuing connectivity to a narrow 27 km-wide Siliguri corridor making it a "remote land" and constraining access for movement of goods and people. The uneasy relationship with most of the neighboring countries has not helped the cause of development of the region either with 98% of the boundary of the region forming international borders. Private investment has shied away from the region. The geo-political distancing of the region from it's main port of Kolkata combined with economic insulation has caused immense structural damage to the NER economy.

The problems of the region are not merely confined to lagging income levels, but extend to the process of development itself. A top-down development planning strategy has not involved people in designing and implementing the strategy and, not surprisingly, the relationship between public spending and service delivery outcomes has been tenuous. Lack of people's involvement has robbed the system of a sense of belonging and led to inefficient and wasteful resource allocation on the one hand and a lack of social accountability on the other.

The partition of the region not only took the economy backwards by over a quarter of a century but also caused structural retrogression to a patronage-dependent economy from the Centre and Government spending propelled economic growth. The trauma of partition in the NER was to imprison the economic fortunes of the region by international frontiers. At the same time, the top-down planning process did not create any scope for developing forward and backward linkages within the economy. The weak administrative capacity of the state has resulted in very high rates of return for armed insurgency and extortion and even more the perception of insurgency which has been a major deterrent to private sector initiatives in economic activities. Weak and unresponsive institutions of governance and market further added to the problem.

The profound economic and political changes that followed in the wake of independence created a sense of unease among the tribal population of the region. Since the development initiatives of the Indian government in this region have been based on its security concerns the state-centric security approach has kept the region isolated and underdeveloped. In recent years the development of this region is being factored into the overall strategy of national development as well as in the conduct of India's relations with the other countries. India's LEP, which identifies Northeast India as the gateway to the East and Southeast Asia, is one such major initiative undertaken by the government of India.

LEP is a basic initiative of the central government with a view to ending NER states economic isolation. During the days of P.V. Narasimha Roa india's LEP was initiated and the successive Indian governments supported the policy and built on it. With the articulation of LEP in the early nineties, a new vision for the North East as a gateway to dynamic East and Southeast Asian economies is taking shape. The underlying thrust on 'A new Asia' makes one think of 'A new Northeast' too. Jairam Ramesh forcefully argued "political integration with the rest of India and economic integration with East and Southeast Asia particularly is certainly one direction that this region must be looking to as a new way of development." It was a significant shift in India's policy prioritization because hitherto India did not have any concrete strategy to create an economic hub in its North Eastern Region by exploring the trade and commerce potential with its ASEAN neighbors.

The North East is no more a burdensome peripheral region somewhere out there, but is poised once again to resume its dynamic role as a bridge to the booming economies of East and Southeast Asia. The economic rationale that lies behind this vision is-The land locked North East in the aftermath of partition will have wider market access, that too with some of the fastest growing Southeast Asian and East Asian economies. This market integration would boost trade with those countries with which the Northeast serving as the gateway.

Trade would thus serve as a driver of rapid economic development of the region. Rajiv Sikri, Secretary [East], Ministry of Foreign Affairs, Government of India observed –'The 'LEP' envisages the North Eastern Region not as the periphery of India, but as the centre of a thriving and integrated economic space linking two dynamic region with a network of highways, railways, pipelines, transmission line crisscrossing the region.' Communication and contacts are the best integrators of societies. And LEP may provide to NER that opportunity wherein they may find roots in their past while at the same time assimilating with their present weaving a tapestry of growth and affluence for the future.

For long, we have ignored Myanmar because of its nature of government. It shares 1600 km border with four of our insurgency-prone states-Manipur, Nagaland, Arunachal Pradesh and Mizoram. It is too important a country for us to ignore on trade and security considerations. With the LEP in operation, India has emerged as the largest export market for Myanmar because it has the potential for meeting our ever-increasing need for items like pulses and beans. With it becoming a member of ASEAN, we should no longer harbor fear of Myanmar becoming a satellite of China. It is in fact fast becoming a 'land bridge' linking India with its economically dynamic ASEAN partners.

4.2 Progress of the Policy in the North East

The LEP is to promote commercial links between NER states and the neighboring countries to try and break the economic and geographic isolation of the region from the rest of the country. In particular, the emphasis should be to promote trade links. India spends huge amount in transporting food items like pulses, poultry products, grains etc to NER for which the people have to pay more to meet the cost of transportation. Likewise, prices of all other items that come from our hinterland are higher in the region reducing the affordability of its people. Countries like Myanmar and Thailand - next door to NER - can provide many of the items at much cheaper price because of saving in the cost of carriage. Even a poor neighbor like Bangladesh can supplement our requirement of fish, which is a staple item. It always makes sense to trade goods with the neighbors. In the short-run the most important issue of LEP is to promote trade of NER with its immediate neighbors. Following figures depict respectively export-import scenario of NER and some major items of export in brief. Export value from the region during 2005-06 is Rs. 437.81 crore and it was Rs. 379.15 crore in 2001-02. In the same way Import value in 2005-06 is Rs. 65.56 crore and in 2001-02 it was Rs. 15.94 crore. And the major item of export from the region is coal as shown by the figure.

Table-40: Export and Import to and from NER (Rs. in Crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Exports	379.15	410.12	435.02	391.87	437.81
Imports	15.94	20.79	32.28	30.35	65.56

Figure-14: Export and import to and from NER

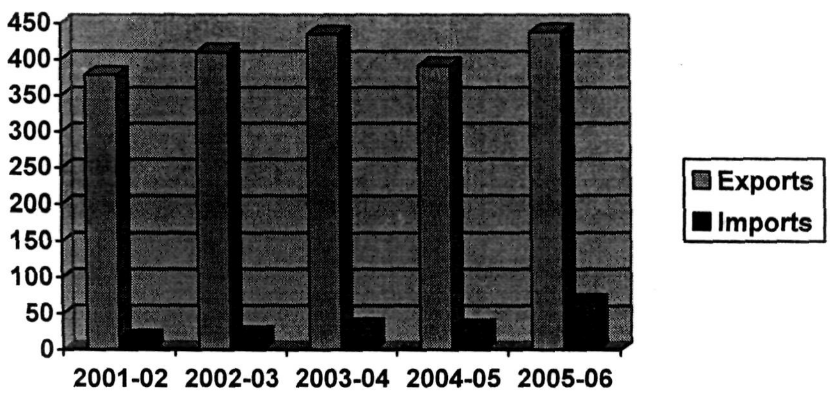
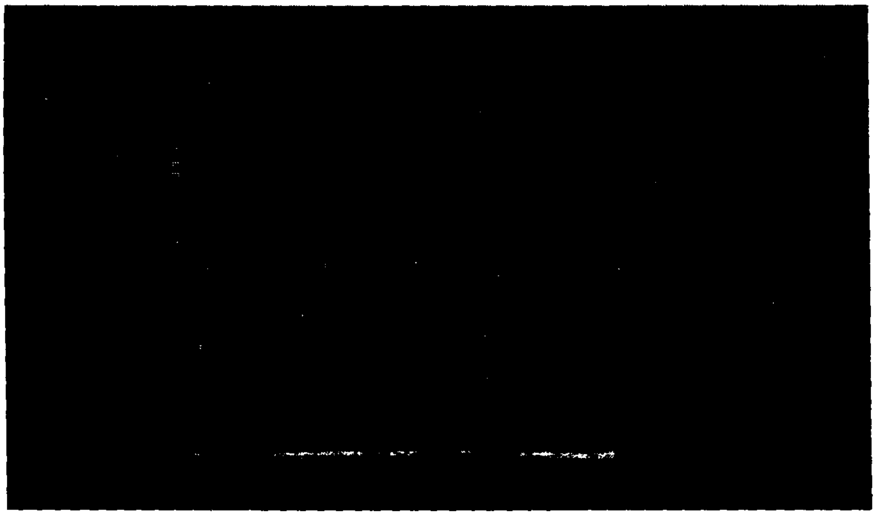


Figure-15: Major Items of Export



The post-cold war foreign policy calculus of India in general and the LEP in particular has created an enabling environment which can break the landlocked condition of NER by opening it to the markets of the neighboring countries across the border, establishing joint-venture enterprises and bringing cross-border investments for the development of infrastructure, manufacturing and services. The LEP acquires special significance in the light of cross-country initiatives for economic cooperation like the Bay of Bengal initiative for Multi-sectoral Technical and Economic Co-operation [BIMSTEC] and Mekong-Ganga Co-operation [MGC].

One of the important developments of India's LEP has been the expansion of trade with its East and South East Asian neighbors. Within the ASEAN, India's major trade partners are Thailand, Malaysia and Singapore. However, very little of the benefits of this trade has gone to the NER region as most of the, trade is sea borne. Almost 50% of India's exports to ASEAN consist of mineral products [fuels and oils] and gems and jeweler. Another 20% consists of organic chemicals, iron, steel animal fodder and waste. In the case of India's imports about 50% consist of electrical and non-electrical machinery, vegetable oils and fats and mineral fuels and oils.

One must add that there is a perception that the LE thrust has not yet produced any perceptible tangible benefits for NER. The opening of border trade with Myanmar,

through the provision of the indo-Myanmar Border trade Agreement [1994], has not had any major impact on the regional economy, as India's ASEAN trade continues to be conducted mainly through the sea route. The continental land route via NER-Myanmar-Thailand is not yet considered safe and cost effective. Among the look east countries, Myanmar is the only member of ASEAN with which India shares a common land border. Infact, in addition to the other reasons, for Myanmar's importance for the NER states, is the fact that India's trade with Myanmar grew enormously in the 1990s, although not as much as Myanmar's trade with China. Between 1998-99 and 2005-06, India's volume of trade with Myanmar doubled though its importance in India's trade declined. Myanmar's trade with India is an insignificant part of India's trade [about one-tenth of a percentage in 2006-08] but is quite large in relation to the size of the economies of the NER states.
As far as the major trade items are concerned, India's exports to Myanmar consist mainly of iron, steel and pharmaceuticals [63% of total exports], electrical and non-electrical machinery [10% of total exports], cycles, auto- parts and accessories and cotton yarn. Major items entering India are blankets, electronic goods, betel nuts, pulses, teak, ground nuts, iron scrap, gold, silver and precious stones. However among registered imports, wood and wood products and vegetables account for about 98% of total imports. It is important to remember that internationally Myanmar is one of the few countries which can supply 'turdal' which is an item of mass consumption in India, where the domestic production is insufficient.

Some important infrastructure initiatives have also been launched to promote NER trade with neighboring countries. The Asian Highway Link, Asian Railway Network and a Natural Gas Pipeline Grid projects under active consideration of BIMSTEC have tremendous implications in removing the communication isolation of NER. While NER will have access to the Asian Highway through the Imphal-Tamu feeder road, the railway systems of India and Myanmar are planned to be linked at the Dibrugarh railhead, which will give NER access to the Asian Railway Network. India constructed a road in 2001 in Myanmar linking the township of Tamu with the railhead at Kalemyo which connects Mandalay, the commercial hub of Myanmar. There is a proposal to construct a 1,360 km. Trilateral Highway from Moreh [India] to Mae Sot [Thailand] through Bagan [Myanmar]. The detail project report on this is under progress [Strategic Digest, 2004]. With the signing of India-Thailand Free

Trade Agreement [2003], the steady rise in two-way trade with Myanmar and spectacular growth in Sino-Indian trade, the prospects of NER becoming a hub for transit trade are only brightening.

Moreover, India and Myanmar have also agreed to open four checkpoints for increasing trade between the two countries. These include the Pangsau Pass, Paletwa, Lungwa-anyong and Pangsha-Pangnyo. There has been one significant downside to India's trade links with Myanmar. According to the Annual Report [2001], of the International Narcotics Control Bureu, the 1,643 km Indo-Myanmar border has been utilized as a transit point between the Golden Triangle and the Golden Crescent. Some studies have argued that the mismatch between India and Myanmar's trade statistics is large due to the drug trade [Association for Environment and Development Research, 1999].

The whole NER is largely an agriculture based economy. Practically there is the need to improve productivity of agricultural products and transform the region to one producing crops for the market. However, the Indo-Myanmar trade agreement has restricted the scope of agricultural trade in enlarging the market for the agricultural produce of NER. Trade is restricted to border residents and allowed only in non-motorized vehicles. Trade is restricted to barter systems under the barter mechanism of reserve bank of India. In this barter trade imports from Myanmar must precede exports from NER. Again, no monetary trade transactions are allowed and normal trade is only permissible in items other than the specified 22 agricultural items. Finally, even this barter [for value less than $ 20000] is subject to usual customs documentation which is far too complicated for the few who engage in such trade.

4.3 Government initiative

In the light of the growing importance of LEP some important administrative measures are taken up in the context of the NER. The Indo-Myanmar trade agreement was signed in 1994. Myanmar is near to India via NER. Hence impacts are firstly on NER. There is also Kunming initiative of 1999 under which non-official policy makers and businessmen meet to discuss ways of promoting cooperation between

China, Myanmar, Bangladesh and NER. Again an empowered committee under the chairmanship of the commerce secretary functions in the department of commerce to monitor and implement the initiatives for the NER following the announcement made by the prime minister in January 2000 for the development of the Northeast, known as prime minister's action plan for the North East. The committee also monitors the implementation of the recommendations of the task force on Development of Border Trade and Inter Country Trade from the NER, which goes into issues concerning infrastructure constraints in the North East and the measures needed to overcome them. With a view to promoting exports from the region, a North East cell has been setup in the department of commerce. Consequent to the announcements made by the prime minister for the development of exports from the Northeastern Region. Export Development Fund was set up with the objective of promoting exports from the region, especially with the neighboring countries like Bangladesh, Bhutan and Myanmar. Activities, which have a linkage with exports from the region, are eligible for assistance from the fund. Again several visits by the minister of state for commerce to Shillong and Agartala have led to specific Action points for infrastructure relating to trade facilitation in Meghalaya and Tripura. On the other hand overland Trade is normally conducted through land customs stations [LCSs]. LCSs are notified gateways for transit of goods, services and human beings between neighboring countries. India has 136 notified land customs stations, of which the following 11 in the North east have been identified. These are given bellow. And among all these two are with the ASEAN member country-Myanmar.

1. Agartala(Tripura)---------------------Bangladesh.
2. Borsorah(Meghalya)------------------Bangladesh.
3. Dawki(Meghalya)---------------------Bangladesh.
4. Demagiri(Mizoram)-------------------Bangladesh.
5. Ghasuapara(Meghalaya)-------------Bangladesh.
6. Karimganj Steamer Ghat(Assam)- Bangladesh.
7. Moreh(Monipur)----------------------Myanmar.
8. Old Raghana Bazar(Tripura)------ -Bangladesh.
9. Srimantapur(Tripura)---------------- Bangladesh.
10. Sutarkhandi(Assam)-----------------Bangladesh.
11. Zokhawthar(Mizoram)-------------Myanmar.

An Inter Ministerial Committee under the chairmanship of the Commerce Secretary is coordinating the steps taken by various ministers and agencies for the development of trade in the North east including border trade along the Indo-Myanmar border. Development of export infrastructure in four border towns of Moreh, Sutarkandi, Dawki, and Zokhawthar has been given priority. The Central Warehousing Corporation [CWC], the appointed agency for the development of export infrastructure at Moreh, Dawki and Sutarkandi, has conducted a study of the infrastructure facilities required at Moreh [Manipur], Dawki [Meghalya] and Sutarkandi [Assam] under the erstwhile Critical Infrastructure Balance Scheme [CIBS]. The infrastructure at Zokhawthar is being developed by the Border Roads Organization [BRO] in cooperation with the government of Mizoram.

Again, redefining of Asian Highways-AH-1, AH-2 and AH-4 to provide India easier road connectivity with the neighboring countries, taking up Myanmar-India Kaladan multi model project including construction of road from Kalewa [Myanmar] to Saiha [Mizoram], restoring Stilwell road connecting Arunachal Pradesh with Myanmar, holding of Thailand and India ministerial level North East Business Summit in New Delhi followed by Thailand ministerial visits to NER and showcasing North East India Trade & Investment Opportunity Week at Bangkok, setting up of Tourism Desk at the Embassy of Thailand and India Desk at Board of Investment, Thailand etc. are important moves towards achieving the declared objectives of LEP.

In the same way some elements of subsidy are also given to promote trade [exports and imports] via NER. For example, inland transport assistance would now be available with respect to identified products to all the North Eastern States. The rates of inland transport assistance are quite generous. 90% of the air freight charged by the airline from any airport in the NER states to Bagdogra, Guwahati or Kolkata for exports is concession. In case of highly perishable commodities, 50% of the air freight charged by the airline from any airport in the North Eastern states to Delhi or Mumbai airports for exports is concession. Rupee 1 per Kg. or actual freight paid, whichever is less, if the goods are transported from anywhere in the Northeast by road for exports through any notified LCS in the North Eastern States or through Guwahati airport. Rs.2 per Kg. or actual freight paid, whichever is less, if the goods are transported from Northeastern states to Kolkata or any other port by rail through ICD, Guwahati for exports. Rs. 2 per Kg. or actual freight paid, whichever is less, if the goods are transported from Northeastern states by rail through ICD, Guwahati to any place in West Bengal for processing and export. In addition, storage facilities are also being provided. A common pack house facility is being set up by the Assam Industrial Development Corporation for processing and handling of fresh ginger for exports. A post-harvest handling-cum-auction centre for fruits and vegetables is being considered for Mizoram. Walk-in-type cold stores are being set up at Imphal, Aizawl and Dimapur and a centre for perishable cargo at Guwahati airport. Following proposals of products for funding through the Export Development Fund have been approved:

1. Passion fruit in Mizoram and Nagaland.
2. Ginger in Monipur and Nagaland.
3. Mushroom processing in Monipur and Nagaland.
4. Turmeric processing in Nagaland.
5. Vanilla processing in Monipur
6. Safed musli in Assam.
7. Bee-keeping in Mizoram.
8. A lab for testing export products in Assam.
9. Cluster development of farms for organic farming is under preparation for Nagaland and Tripura.

The State Trading Corporation [STC] has set up a branch at Kolkata which is engaged in international and domestic trading from West Bengal and other North Eastern States. Various activities undertaken by STC are:

1. Imports of Vanaspati from Nepal to cater to the requirements of Assam, Meghalaya, Mizoram and the rest of India.
2. Imports of hydrocarbons for power plants generating power mainly for Eastern and North Eastern States.
3. Trade in raw jute and tea.
4. Supply of pulses and tea to the defense forces, and the supply of pulses to the domestic market.

5. Export of muli bamboo from Tripura and Mizoram thereby helping the local growers or traders of these states.

In addition to all these, Agri-Export Zones [AEZs] have also been set up for the North Eastern Region- in Tripura for Pineapples; Sikkim for Floriculture, Orchids, Ginger and Cherry and in Assam for fresh and processed Ginger.

4.4 Regional Economic Integration

Over the past few decades Europe and its institutional backbone-the European Union [EU] have emerged as the prime example of what seems to have become a general trend towards the regionalization of the world economy. Since the 1990s there has been a steady expansion in the number and depth of regional integration initiatives worldwide. Besides the EU and the European Free Trade Association [EFTA], the North American Free Trade Agreement [NAFTA] was created in 1994 by Canada, Mexico and the United States. Regional trade and integration agreements are also proliferating among developed as well as developing countries in Africa, South Eastern Europe, Latin America and Asia. The creation of the Southern Common Market [MERCOSUR], AFTA, and the Common Market of Eastern and Southern Africa [COMESA] are some prominent examples of regional economic integration agreements. Regional integration can be seen as a multidimensional process where constituent states interact in different policy areas, including not only economic cooperation, but also foreign policy and security issues, social sectors and a cultural dimension. Nevertheless, trade and the economy remain central aspects of most ongoing integration schemes and the number of regional economic integration agreements is steadily increasing. Integrating regional markets is now widely seen as a political strategy to reap the benefits, and counter negative impacts of globalization both in the partner country's regional and national poverty reduction strategies and in several donor strategies.

Table-41: Major Regional Trade Association

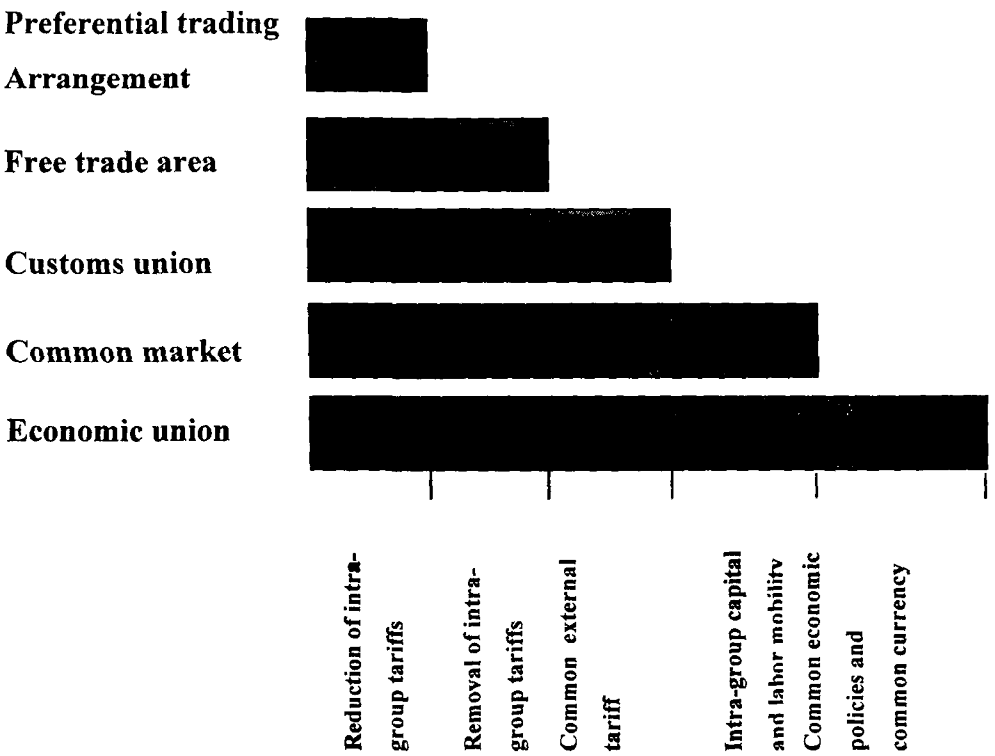
Regional Trade Associations	Member states
Andean Community	Bolivia, Colombia, Ecuador, Peru, Venezuela.
Asia-Pacific Economic Cooperation [APEC]	Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Philippines, Russia, Singapore, South Korea, Taiwan, Thailand, United States, Vietnam.
Association of Southeast Asian Nations [ASEAN]	Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam.
Central American Common Market	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama.
Caribbean Community	Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts-Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad-Tobago.
Economic Community of West African States	Benin, Burkina Faso, Cape Verde, Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo.
European Union [EU]	Austria, Belgium, Cypress, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia,

	Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, United Kingdom.
Gulf Cooperation Council	Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates.
Latin American Integration Association	Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela.
Southern Common Market	Argentina, Brazil, Paraguay, Uruguay. [Mercosur]
North American Free Trade Agreement [NAFTA]	Canada, Mexico, United States.
Southeast Asian Association For Regional Cooperation	Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka.
Southern African Customs Union	Botswana, Lesotho, Namibia, South America, Swaziland.

4.5 Stages of Integration

Integration, or the formation of countries into groups, can be either political or economic, and the distinction between the two often blurs. Five stages of economic integration represent increasing degrees of unification, as illustrated in Figure-16.

Figure-16: Levels of Economic Integration



4.6 Economic effect of Regional Economic Integration

Countries combined themselves in order to achieve certain predetermined aims and objectives. Such type of integration will definitely have effects on member countries. Some important economic effects of Regional Economic Integration are explained bellow-

4.6.1 Trade creation and diversion

The modern analysis of Regional Economic Integration (REI) dates from Viner (1950). He drew the distinction between the trade creating and trade diverting effects of REI. The classical source of gains from trade is that global free trade allows consumers and firms to purchase from the cheapest source of supply, hence ensuring that production is located according to comparative advantage. In contrast, trade barriers discriminate against foreign supply, inducing domestic import competing producers to expand even though they have higher costs than do imports. This in turn starves domestic export sectors of resources and causes them to be smaller than they otherwise would be. Since a REI liberalizes trade, reducing at least some of the barriers, doesn't it follow that it too will generate gains from trade? Viner's contribution was to show that the answer is; not necessarily. The gain from trade argument applies if all trade barriers are reduced, but need not apply to a partial-and discriminatory-reduction in barriers, as in a REI. This is because discrimination between sources of supply is not eliminated, it is just shifted. If partner country production displaces higher cost domestic production then there will be gains – trade creation. But it is possible that partner country production may displace lower cost imports from the rest of the world, and this is welfare reducing trade diversion. The analysis of trade creation and trade diversion constitutes one of the first formal analyses of the more general problem of 'second-best welfare economics'.

4.6.2 Scale and competition effects

A second mechanism, through which member countries are affected by REI, derives from the fact that countries may be too small to support, separately, activities that are subject to large economies of scale. Regional cooperation offers a route to overcome the disadvantages of smallness, by pooling resources or combining markets. These scale benefits can arise in public projects and also at the level of the private firm, where they typically interact with imperfectly competitive market structures. These considerations are absent from the trade creation and trade diversion approach, which is based on the perfect competition and constant returns to scale paradigm of traditional trade theory. It was only in the 1970s and 1980s that formal analysis of the interaction between trades, economies of scale and imperfect competition began with the 'new trade theory', and these techniques have now been extensively applied to regional integration.

The basic argument is that there is a trade-off between the extent to which firms can achieve economies of scale, and the intensity of competition in the market. For a given size market, larger firms means fewer firms and hence more monopolistic outcomes. If regional integration combines markets, then it shifts this trade-off, potentially allowing firms to be bigger and markets to be more competitive. For example, there might be an initial situation in which two economies each have two firms in a particular industry, and these firms exploit their 'duopoly' power, setting prices well above marginal cost. After formation of the REI this becomes four firms in one combined REI market. This increases the intensity of competition, and possibly induces merger (or bankruptcy), perhaps leaving only the three most efficient firms. The net effect is increased competition, increased firm scale, and lower costs. 'Triopoly' competition is likely to be more intense than the original duopolies, and surviving firms are larger and more efficient, so can better exploit economies of scale. A further source of gains comes from possible reductions in internal inefficiencies that firms are induced to make. If the REI increases the intensity of competition, it may induce firms to eliminate internal inefficiencies (X-inefficiency) and raise productivity. Since competition raises the probability of bankruptcy and hence layoffs, it also generates stronger incentives for workers to improve productivity, and increases labor turnover across firms within sectors.

Although these are significant potential sources of gain, they have been difficult to achieve in many REIs.

4.6.3 Winners and losers

A continuing concern is with the distribution of the costs and benefits of regional integration between member countries. REIs composed of developed countries tend to show convergence [for example the narrowing of per capita income differentials observed in the EU]. However, the picture for REIs composed of developing countries is more mixed, with some examples of divergent performance [World Bank 2000]. The analytical literature on these questions is quite sparse, but provides several clues why this might occur. Trade diversion is more likely for countries with 'extreme' comparative advantage, suggesting that in a REI amongst developing countries it might be the lowest income countries that experience diversion. For example, their imports of manufactures might be diverted from non-member countries to a partner that has a comparative advantage in manufactures within the REI, but not relative to the world at large. Second, industries might tend to cluster in locations that have relatively good market access, or that are well supplied with business services or provision of other intermediate goods. This is more likely to occur in developing countries than in developed ones, partly because of their sparser provision of business infrastructure, and partly because the small size of their manufacturing sectors means that clustering is less likely to run into congestion and other sources of diminishing returns. The clustering may lead to wages being bid up in one member country at the expense of others.

4.7 A country's neighborhood matters-regional integration and growth spillovers

Spillovers of growth from across borders are among the main benefits of regional integration. In a more integrated economic space, the long-run growth prospects of countries become interlinked as markets of neighboring countries become more accessible. Growth in neighboring countries enhances domestic growth, which benefits neighbors. This spatial multiplier enhances the rewards to good policy and contributes to convergence in living standards. From 1970 to 2000, membership in a common regional trade agreement [RTA] among neighbors was associated with a growth spillover of 13.6 to 15.3 percent, so every percentage point increase in the average growth rate of RTA partners brought a "growth bonus" of 0.14 percent to supplement domestic growth. Associated with this is a spatial multiplier of 1.14 to 1.18, with regional integration increasing the effectiveness of growth-promoting domestic policies by 14 to 18 percent. In Europe and East Asia, where regional integration has been strongest, the benefits over the past few decades have been even larger. For these countries the average growth spillover between 1970 and 2000 was 15.3 to 17.0 percent [*World Development Report 2009 "Reshaping Economic Geography"*]

4.8 Economic Integration of ASEAN and NE

On the 28th of January 1992, the leaders of ASEAN gathered in Singapore. One of the far-reaching decisions arrived at in that meeting was to seek the integration of the regional economy. ASEAN then had six members-the original five-Indonesia, Malaysia, the Philippines, Singapore and Thailand-and Brunei Darussalam. Up to that time, ASEAN had steered clear of the notion of economic integration; the term was almost taboo in ASEAN circles. The ASEAN countries by that time had transformed their economic orientation from being state-directed and import-substituting to being market-driven and export-led. At the same time, regional economies elsewhere in the world were coalescing. The North American Free Trade Agreement and MERCOSUR were being formed in the Western Hemisphere. Western Europe's integration in the European Union was being deepened, as the Maastricht Treaty was nearing conclusion. In Asia, the radical reforms that Deng Xiaoping had set in train were beginning to take root and bear fruit. The re-orientation of the Indian economy had begun with a view to similar results.

The ASEAN countries saw that, unless they joined their small fragmented markets into a large integrated one, they would lose out in the increasing global competition for foreign direct investments, without which they would find it difficult to develop their economies and provide jobs and a higher standard of living for their people. Their business costs would remain high, and the choices for their consumers would remain limited. The development of economic regionalism in other parts of the world convinced the ASEAN states that they must coalesce economically if they were to exert any influence in global economic forums.

On the basis of these considerations, the ASEAN leaders announced at their 1992 Summit meeting their first step towards regional economic integration-the agreement on the ASEAN Free Trade Area. Under this agreement, each ASEAN country would reduce their tariffs on intra-ASEAN trade to 0-5 percent. This would be done in trenches according to agreed schedules. The final deadline was subsequently advanced twice, and the outright abolition of tariffs on intra-ASEAN trade became the eventual goal. The newer members of ASEAN-Vietnam, Laos, Myanmar and Cambodia had to negotiate the terms of their accession to the AFTA agreement before their admission into the association in 1995, 1997 and 1999. The agreement also called for the eventual removal of non-tariff barriers to intra-ASEAN trade. The abolition of tariffs to trade among ASEAN countries-or their reduction to minimal levels-at least on paper, has been largely achieved. However, ASEAN knows that regional economic integration involves more than the cutting or elimination of tariffs. Non-tariff barriers have to be removed. Customs procedures have to be streamlined. Product standards have to be harmonized. Transportation links have to be strengthened, so that trade can flow seamlessly throughout the region. Trade in services, which make up more and more of the ASEAN countries' economies, have to be liberalized.

ASEAN has concluded agreements and taken other steps to do all this. A customs code of conduct has been adopted. A set of ASEAN Harmonized Tariff Nomenclatures has been approved. A single-window system and a post-clearance audit method for customs processing have been agreed upon. Safety and other product standards have been adopted. Mutual recognition arrangements for tests of certain products have been concluded. Transportation schemes have been laid down. Several packages of commitments for the liberalization of trade in services have been negotiated.

However, implementation has been exceedingly slow. Some of the measures decided upon require implementing agreements. Negotiations on such agreements have been proceeding at a snail's pace. This is where social change, cultural change, and a change in mind-set. There are two fundamental reasons why, despite the very real progress that it has made, ASEAN has not integrated the regional economy as much as it could and should, particularly to the extent that integration makes a difference in the business decisions that traders and investors reach. These reasons are, one, the continuing need for most ASEAN societies to undertake the domestic reforms that regional integration requires. The other is the need for the ASEAN countries to deepen further their commitment to the region, their sense of identification with the region. Customs, preferential trading arrangements, which are what AFTA and other FTAs basically are, will work only if the administration of customs is honest and efficient. If it is not, the purposes of such arrangements cannot be achieved, and the preferential tariffs cannot have the intended effect. One of the basic purposes of regional economic integration is the attraction that a large integrated market offers to investors. However, individual ASEAN countries have to compete with one another for those investments, a circumstance analogous to the competition in which the members of the European Union, the German Lander, or states of the United States are constantly, even fiercely, engaged among themselves.

Investments in ASEAN will go to those member-countries where the rule of law prevails, policies are clear and consistent, the competitive playing field is reasonably level, and contracts are enforced by independent judiciaries. Trade in services, as well as goods, can be effectively liberalized only if governments are sufficiently free of the stranglehold of industry lobbies and cronyism. Honest and efficient customs administration, the rule of law, consistent policies, level competitive fields, independent judiciaries and impartial regulators, relative freedom from lobbies and cronies-these, in many cases, require internal reforms, a change in culture and values. At the same time, commitments undertaken in preferential trading arrangements can be used by reformers to argue for such internal reforms and to lock them into the domestic system.

Another area where integration and values, regionalism and domestic reforms intersect is that of competition and its twin, entrepreneurship. Regional economic integration will happen and work and bear fruit only with a culture of competition. Governments and businesses have to be convinced that competition, at least from others in the region, rather than perpetual protection, is good for both the economy and the companies themselves, as well as for consumers, and that rewards for entrepreneurship are a prerequisite to competitiveness. Underlying all this has to be the development of a culture of compliance. ASEAN has in place most of the requisite agreements and other arrangements for the integration of the regional economy. It is working on a comprehensive investment agreement that will not only free up the flow of investments into and throughout the region but also ensure their protection. The trouble is in their implementation, in compliance with the measures agreed upon.

The new ASEAN Charter is expected to help develop a culture of compliance with ASEAN agreements. It commits members categorically to the attainment of an ASEAN Economic Community-that is, a single market and production base. It places squarely on the shoulders of ASEAN leaders the responsibility for making unambiguous decisions, not least in the economic sphere. The ASEAN Secretary-General is explicitly charged with reporting to the leaders on members' compliance or non-compliance with ASEAN agreements. Already, the ASEAN Economic Ministers have devised a "scorecard" for keeping track of members' compliance with their economic commitments. The leaders themselves have adopted a "blueprint" towards the achievement of the ASEAN Economic Community, with detailed, specific measures and clear deadlines.

The ASEAN Charter and the other devices are mere tools. The Charter will be binding upon the members, but ASEAN has no court of justice or regional commission to enforce it and other ASEAN agreements. They will certainly help, but all depend on the development of a culture of compliance within each ASEAN member. In turn, such a culture will rest on a deepening of each member's commitment to regionalism, its sense of identity with the region as a whole, the feeling and conviction that what is good for the region is, most of the time, good for itself and for its people.

Again, this requires, in varying degrees, change, cultural change, a change in mind-sets. ASEAN members, their governments and their peoples, will, of course, have to do this for themselves. However, the European Union, as the pioneer and, in many ways, exemplar of regional economic integration, can help. It would be in the EU's interest to do so. A large, integrated Southeast Asian market with a favorable investment climate would offer European investors an alternative site for their operations, alternative to the continent-sized economies that are currently their favored destinations. European companies' investments would be more secure in countries with the rule of law, independent courts and regulatory bodies, predictable policies, fair competition, and regionally agreed investment guarantees. Less tangibly, ASEAN's success as an integrated market would vindicate the EU's faith in regionalism. There are two modest proposals for how the EU can help ASEAN accomplish the domestic reforms and the change in mind-set and attitudes that regional economic integration requires. Needless to say, such help has to be extended without preaching and with due regard for the vast differences between Europe and Southeast Asia. One way that the EU can help is to spread the word about how it's newer and less advanced members, as well as Europe as a whole, have benefited from their integration into the European Union. This could help allay the concerns of ASEAN's newer members that somehow they are not "ready" for regional economic integration and that only the more-advanced ASEAN members would benefit from it. Some of these concerns are shared even by elements in some older members, like Indonesia and the Philippines.

The other proposal is for the EU to devote a larger portion of the time, efforts and resources that it expends on development cooperation with ASEAN to the building of capacity for regional economic integration. ASEAN has a program called the Initiative for ASEAN Integration, in which the older six members cooperate with the newer four with the support of ASEAN Dialogue Partners and international institutions. One of its components is capacity building for regional economic integration. The EU participated substantially in this component. In doing so, the EU ought to expand its participation beyond building technical capacity to embrace areas like the automation of customs procedures, regional product standardization, competition policy, and contract law.

For developing countries like India, the most important challenge is to translate recent gains into lasting progress through successful integration into the global economy. At the regional level collective and coordinated responses can offer additional possibilities for improving growth and structural change in the globalizing world. By working together more closely and building on common and complementary interests, partners in the same geographical region can significantly strengthen their efforts to meet the challenges of globalization.

North East India is the starting point of South East Asia. There are natural and cultural affinities between the region and south East Asia, China, Bangladesh and Myanmar. Affinities in various variables are the added advantage of potential and existing economic integration with those countries. India is strongly integrating with those Asian countries by the process of it's LEP. India's LEP holds potential for the country in general and particularly for the northeastern region in particular, to break out of it's landlocked borders and engage in cultural, economic and tourism related interactions with those international neighbors.

4.9 Ricardian Comparative Cost Doctrine and NE

Differences in prices of commodities from country to country are the basic cause of trade. They reflect differences in costs of production. Trade serves in turn to minimize the real resource costs of worldwide production, which is a way of saying that trade serves to maximize the real value of production from worldwide resources. It does so by permitting and encouraging producers in each country to specialize in those economic activities that make the best uses of their country's resources. In a world where labor is the key productive resource, cross-country differences in relative prices are due to differences in labor requirements.

The Doctrine of Comparative Costs originated as an improvement and development of the eighteenth-century criticism of mercantilist policy, and it has continued to command attention mainly because of its use as the basic "scientific" argument of free trade adherents in their attack on protectionism. The doctrine maintains that if trade is left free, each country in the long run tends to specialize in the production of and to export those commodities in whose production it enjoys a comparative advantage in terms of real costs, and to obtain by importation those commodities which could be produced at home only at a comparative disadvantage in terms of real costs.

According to Ricardo, each country will have a comparative advantage and will export those commodities for which its relative output per worker exceeds its relative money wage rate in the respective industry. Any country will have a comparative cost advantage in those activities where its absolute advantage is largest.

To the question which goods a country will import and which it will export, classical theory gives the following answer. Each country will produce those goods for the production of which it is especially suited on account of its climate, of the qualities of its soil, of its other natural resources, of the innate and acquired capacities of its people, and - this must be given special emphasis - of the real capital which it possesses as a heritage from its past, such as buildings, plant and equipment, and means of transport. It will concentrate upon the production of such goods, producing more of them than it requires for its own needs and exchanging the surplus with other countries against goods, which it is less suited to produce, or which it cannot produce at all.

In his "Principles" first published in 1817, David Ricardo presented the doctrine of comparative costs by means of what was to become a famous illustration, in which the quantity of wine which requires for its production in England the labour of 120 men can be produced in Portugal by 80 men, while the cloth which in England requires the labour of 100 men can be produced in Portugal by 90 men. Portugal would then import cloth from England in exchange for wine, even though the imported cloth can be produced in Portugal with less labour than in England. Although Portugal has an absolute superiority in both branches of production, this superiority is, however, greater in wine than in cloth. Portugal has a comparative advantage in the production of wine since here her cost difference is relatively greater than in the case of cloth. 80/120 is less than 90/100.

Supposing as Ricardo, there is no commodity trade between the two countries. Then in accordance with the relative costs, an exchange-ratio will be established in England of 1 unit of wine against 1, 2 units of cloth, and in Portugal of 9 units of wine against 8 of cloth; that is to say of 1 unit of wine against 1, 88 units of cloth. It is important at once to realize that the main task of the labor-cost hypothesis is to determine exchange-ratios or relative prices in distinction to absolute money prices. Now assuming trade, it is clearly advantageous to Portugal to send wine to England, where a unit of it commands 1, 2 units of cloth. Under the assumption then, that within each country labor is completely mobile between the various industries, Portugal will take to producing wine instead of cloth. England, on the other hand, can obtain wine at much less expense by specializing in the manufacture of cloth and exchanging the cloth with Portugal against wine. For Portugal there is a sufficient inducement to engage in international trade if 1 unit of wine commands a little more than 0,88 units of cloth; for England, if a little less than 1,2 of cloth must be given for 1 of wine. Hence any exchange ratio between 0, 88 and 1, 2 cloth against 1 wine represents a gain to both countries. Let us suppose that the exchange ratio, which becomes established, is 1 to 1. Then for every 100 labor-units which England sends to Portugal embodied in the form of cloth, she receives 1 unit of wine which, in the absence of the international division of labor, would have cost her 120 labor-units to produce for herself; and Portugal obtains cloth at a cost of 80 per unit whereas to produce it for herself would cost 90. The consequence is that each country specializes upon that branch of production in which it enjoys a comparative advantage, thereby obtaining a greater total product from given factors of production (Viner, 1937).

The above Ricardian doctrine of comparative cost advantage is definitely having some implications for the country of India in general and the NE in particular. India is the second highest country in terms of population, next to China. With abundant supply of labor India can produce labor intensive commodities at relatively less cost of production than some other parts of the world. Thus, productivity of labor in India is highest in comparison to some other less populist countries. Again Promoting trade between the NER states and the neighboring countries requires going beyond the calculations of 'geographical contiguity' and looking at those commodities in which the NER states have a comparative advantage in an economic sense. Significant complementarities among states in agricultural products justify the need for and the basis of trade in agricultural products within the region. By identifying crops in which different states have a comparative advantage, resources can be concentrated and efforts made to promote their cultivation at least in the short run. Here two main points need to be made. First, there are a few agricultural items in which the NER states have a comparative advantage vis-à-vis the rest of the country. The NER states can actively consider trading these items only when their own domestic surpluses become sufficient, and domestic surpluses are constrained by the lack of marketing due to uncoordinated production efforts of the individual states. This is particularly true in the case of fruits and vegetables like-Arunachal in small millets, Assam in tea, Meghalaya in ginger, Mizoram in ginger, Manipur in chillies, Nagaland in small millets and maize, Tripura in natural rubber and Sikkim in maize. Second, it is desirable that NER trade with neighboring countries is always more profitable (and hence more likely) than with the rest of India. Many growth centers like Kolkata, Delhi and Mumbai offer economically larger markets than those of Bangladesh and Myanmar. This however, does not mean that promoting trades with neighboring countries is not important, but that the strategy should look beyond and create the infrastructure for trading with the rest of the country and internationally-based on comparative advantage.

4.10 Potential benefits of Look East Policy for the NE

All countries have backward regions. US had it's Deep South; UK North and West, Russia North East etc. India is no exception. The North east, because of a historical accident, had become such an area of India. The idea is to develop that area into centre of activities. One such option is to link with the emerging East and South East

Asia through land routes. The Kunming Initiative (1999), where unofficial delegations from India, Bangladesh, Myanmar and China met and talked about opening up road links such as Stilwell Road, linking Ledo (Assam) and Kunming through Myitkyina (Myanmar); link to Akyab and Chittagong ports etc, to foster trade among the countries. The government of India's Look East Policy is also a manifestation of such an attempt.

With limited exports, particularly of industrial products from the North east to its neighboring countries through both formal and informal channels has little correspondence with its local production pattern. Nor has such trade induced any perceptible growth impulses apart from developing a few commercial centers near borders. This is more so even with fast rising Indian aggregate exports to the East and South-East Asian countries in the recent years. This means, therefore, that static gains from trade to the North east are limited though it could be much larger if it emerges as entrepot. But the dynamic gains could be enormous under favorable environment. Prime Minister Manmohan Singh referred to India's northeast as the gateway to the 'Asian Century' while inaugurating the Asian car rally, which was a successful LEP event, at Guwahati in November 2004. This policy holds the potential to make NER the commercial corridor of India linking the ASEAN nations enabling its people to harvest economic well-being through trade, transit and tourism. NER then will no longer wilt in isolation and remoteness but prosper with business opportunities knocking at the door.

4.10.1 Tea of NE

China and Assam are the only two regions in the world with native tea plants. The scientific name for the tea plant is Camellia sinensis. Tea was placed in the genus Camellia by the German botanist Otto Kuntze in 1887. The Assam variety is known as Camellia Sinensis var. assamica.

The North Eastern States account for 55 per cent of area under tea and 53 per cent of the total production. The region has 2.8 lakh ha.under tea plantations producing 455 million kg. of tea. Assam and Tripura are the traditional tea growing states. Assam alone accounts for 2.7 lakh ha. of tea area and 480 million kg. production. The second largest producer is Tripura with only 8,200 ha. under tea and producing 7.5 million kg. Efforts have been made to introduce tea in other states since Eighth Five Year Plan. Tea production in other states is: Arunachal Pradesh (2.34 million kg), Nagaland (0.20 million kg.), Sikkim (0.16 million kg), Manipur (0.11 million kg), Meghalaya (0.10 million kg) and Mizoram (0.07 million kg).

Assam is having the largest contiguous tea area in the world. It produces more black tea than either Sri Lanka or Kenya. Assam can produce superior quality tea at a cheaper cost of labor. Assam tea is well known for it's distinctive quality, specially for it's strong strength and a rich body, taste and color. In order to provide it a distinct identity the Tea Board had introduced a logo for Assam Tea. Steps have been also initiated to register Assam Orthodox tea as a G.I. The Guwahati Tea Auction Centre is the biggest in India and is mainly for domestic trade. In 2005, this centre handled 143 million kg. of tea valued at Rs. 865 crore. The volume handled by constitutes 31 per cent of the total tea produced in the region.

Being young and mostly colonial plantations, the tea produced in the traditional and non-traditional North Eastern States is having high demand all over the world. There is good scope for producing organic and other specialty tea in this region. India's LEP can give another big boost to the tea industry providing sufficient international markets. Tea leaf or tea as final product can easily export to east and south east Asian countries at a minimum transport cost.

4.10.2 Tourism Scenario of North East

The region received only 35 lakh domestic tourists and 37,000 foreign tourists in 2005 displaying very poor footfall. Assam, Meghalaya, Sikkim and Tripura received the most tourist arrivals, with the number of tourists to Assam being greater than all the other states taken together. However, in terms of the number of tourist arrivals in relation to the population of the State, Sikkim is far ahead to the others. The number of tourists per capita is a good measure of the carrying capacity of a state in that any state can only accommodate a limited number of tourists.

The potential of the region has been repeated often, especially in its great variety. The niches that the North East can offer range from attractions in tribal lifestyle, heritage, tea garden, golf, monasteries at the one end and the more commonly offered eco-tourism, adventure and wild life on the other. It is also being increasingly recognized that the people from the North East are exceptionally well-endowed in terms of personal and social characteristics for being employed in the hospitality sector. The range of opportunities that the region possesses, point to a need for specialization and development of core competencies to attract small niche tourist groups. One size fits all solutions are not desirable.

North East India is the starting point of South East Asia. There are natural and cultural affinities between the region and South East Asia, China, Bangladesh and Myanmar. 96 per cent of the region is bound by international borders. India's LEP holds potential for the region to break out of its landlocked borders and engage in cultural, economic and tourism related interactions with its international neighbors. Despite India's uneven bilateral dynamics with its eastern neighbors, travel restrictions need to be eased gradually whether by land or air. Sikkim can be developed as a hub linking other Buddhist destinations in Nepal, Bhutan, the Tibet Autonomous Region and Tawang area of Arunachal Pradesh to a pan-regional Buddhist circuit. The existing Indo-Myanmar link through Moreh already draws a fair number of domestic tourists. Improved infrastructure and promotion could make it a thriving tourist destination with possibility of Indian tourists being permitted to travel upto Mandalay in Myanmar. A request by the Government of Manipur for a bus service between Imphal and Mandalay is under discussion between India and Myanmar. This needs to be followed up. Travel between Tripura, Bangladesh and Barak valley can also open up hitherto unexplored circuits.

The frequency of flights between Guwahati and Bangkok needs to be increased and flights between Guwahati and Dhaka, Bhutan, Nepal and Kunming need to be introduced. At least one more airport in NER, perhaps at Agartala to cover the southern part of NER has to be developed as an international airport.

4.10.3 Horticulture and Floriculture of NE

NE is abundantly rich in Horticulture and Floriculture products. The region has some added climatic and geographic advantages all over the world in both the fields. Medicinal and aromatic plants, sericulture and aquaculture, animal husbandry, livestock and fisheries and rubber are highly available in the NE.

The whole NER is the stock house for medicinal plants. Following table depicts the medicinal plants available in the region. State governments of NER can consider all these plants for manufacturing the final products. Under the LEP of government of India marketing of all these products can easily extend to east and Southeast Asian nations as Indian medicine are very much familiar in those countries.

Table-42: NE-The treasure house of medicinal plants

1	Acorus calamus	21	Litsea cubeba
2	Aristolochia tagala	22	Lycopodium clavatum
3	Artemisia nilagirica	23	Paedaria foetida
4	Cinnamomun bejolghota	24	Passiflora edults
5	Cinnamomun tomala	25	Piper longum
6	Clerodendrum colebraookianum	26	Pipernigrum
7	Clerodendrum serratum	27	Rubia cordifolia
8	Costus specious	28	Solanum ferox
9	Curcuma longa	29	Solanum myriacanthum/solanum khasianum
10	Dillenia pentagyma	30	Solanum nigrum
11	Dioscorea alata	31	Solanum toryum
12	Fagopyrum dibotrys	32	Swertia charayita
13	Gloriosa superba	33	Terminalta billirica
14	Gynacardia odorata	34	Terminalia chebula
15	Hedychuim coronarium	35	Viburnum foetidum
16	Hedychium spicatum	36	Zanthoxylum armatum
17	Hedytis scandens	37	Zanthoxylumalatum
18	Hibiscus rosa simensis	38	Withania somnifera(linn.)Dunal
19	Holarrhena antidysenterica	39	Plantago ovata forsk
20	Hauttuynia cordata	40	Taxusbaccata/Taxus wallichiana

Source: Horticulture handbook, ministry of agriculture, government of India.

High availability of medicinal plants in the region and cheap labor will give life cure medicines at a less cost of production. Thus the scope of preparing medicines and it's marketing in east and Southeast Asian nations are very bright.

Among all the products, NE can produce horticulture and floriculture products at highest comparative advantage. It can be depicted by the following two tables. Prime minister's high level commission on the Northeast (Shukla Commission) has explained 'The region is bountifully endowed with bio-diversity, hydro-potential, oil and gas, coal, limestone and forest wealth. It is ideally suited to produce and process a whole range of plantation crops, spices, fruit and vegetables, flowers and herbs, much of which could be processed and exported to the rest of the country and worldwide'.

Table-43: Highest comparative advantage for products of NER (at regional specialization index)

State	Products
Arunachal Pradesh	Small millet,maize,ginger,pineapple
Assam	Tea, rapesced and mustard, sugarcane
Manipur	Chillies, rice, ginger, pineapple
Meghalaya	Ginger, potatoes, sesamum, pineapple
Mizoram	Ginger, maize and sesamum
Nagaland	Small millet, maize
Sikkim	Ginger
Tripura	Natural rubber, coconut, bananas, pineapple

Source: Statistical abstract 2003-04 and NSSO, 2002.

Again specially in Horticultural products following products are having highest comparative advantage in the NER-

Table-44: Highest comparative advantage for Horticulture products of NER states.

State	Horticulture products
Arunachal Pradesh	Chillies, citrus, apple, passion, fruits, ginger.
Assam	Turmeric, potatoes, bananas, pineapple
Manipur	Chillies, ginger, pineapple, brinjol, mushroom, potatoes
Meghalaya	Turmeric, ginger, potatoes, pineapple.
Mizoram	Ginger, brinjol, mushroom
Nagaland	Passion fruit, pineapple
Sikkim	Ginger, large cardamom, flowers, seasonal vegetables.
Tripura	Citrus, bananas, pineapple

Source: Horticulture handbook, ministry of agriculture, government of India.

Prime minister's high level commission on the Northeast (Shukla Commission) has explained 'The region is bountifully endowed with bio-diversity, hydro-potential, oil and gas, coal, limestone and forest wealth. It is ideally suited to produce and process a whole range of plantation crops, spices, fruit and vegetables, flowers and herbs, much of which could be processed and exported to the rest of the country and worldwide'. Observing abundance of natural and other available unutilized resources following observations can be considered as potential benefits that the North East could drive from the implementation of India's LEP-

1. Hydro-electric potential, estimated at the minimum 40000 MW. India's LEP could help in harnessing this potential hydro-electric power of the region. India can easily export excess power to neighboring Asian countries.
2. Assam alone has an estimated 1300 million tons of oil and 156 billion cubic meters of natural gas. Not even 40% area has been explored. Assam, Mizoram, Tripura, Nagaland, Arunachal and even Brahamputra have number of oil bearing strata still to be explored. Other mineral resources like Thorium, Limestone etc are available in

huge quantities. The North Eastern Region could easily export all these stocks to immediate neighboring countries under the LEP of India.

3. A gas pipe line can be created linking Tripura (and probable Mizoram) gas and Assam's Barak valley gas with the Duliajan-Numaligarh-Guwahati gas pipeline. This can be extended all the way upto Siliguri and Barauni. Further, this pipeline could be linked with Myanmar's gas field. India will have a safe pipeline system through India's land all the way upto Delhi, instead of going through Bangladesh. India's LEP could easily facilitate the gas pipeline transmission.

4. It is observed that a 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 the Northeast. The LEP will help in legalizing the substantial volume of informal trade along the border and encourage the trading partners to expand their business.

5. The climate of North east is suitable for wide range of agro-horticultural as well as exotic floricultural products. With support services like training, tissue culture labs, production finance, marketing tie-ups and farm to market roads, the region can produce both for domestic market and export.

6. The multi ethnic culture coupled with snow capped mountains and mighty Brahmaputra provides ideal setting for the development of Tourism in the North East. India's LEP could give big boost to the sector in the entire North Eastern part of the country.

7. Guwahati, the premier city of the North East, can really become a centre for higher learning and superior medical facilities. It can not only cater to the entire region, but also to the neighboring countries.

8. India's LEP is the connecting bridge between India and neighboring Asian countries. The policy can properly utilize the large pool of literates from the North East. With training, these talents can be utilized, amongst others, in IT sector, Paramedical, Bio-tech, Aviation, Entertainment and Hospitality industries.

9. A favorable impact may be expected from India's LEP on the existing unemployment problem in the Northeast. Unemployed people will find profitable jobs all around the Asian region that will help in solving to a certain extent the acute unemployment problem faced by the region.

10. It is further pointed out that with the regional cooperation of India with East and Southeast Asia, Assam's age old tea industry could find new outlets for exports.

11. Northeast India's participation in merchandise trade with its Asian neighboring countries may not be very encouraging but there is very considerable scope of improving trade in certain local products such as spices, handloom, bamboo, tea and cane handicrafts.

12. 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 all along transportation routes. The prospect of developing Motor Vehicle servicing industry and fuel agency is very bright.

13. In the process of implementing the LEP 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. If trades take place through the sea route, Northeastern states will not be able to drive any gain from trade. Realization of Economic benefits by these states depends on whether trade is taking place through the land route or not.

14. The Northeast is one of the few bio-diversity zones in the world. It has immense flora and fauna. The world's annual trade on medicinal and aromatic oil/plants amounts to over $60 billion; Northeast only supplies, mostly taken clandestinely, the raw materials for many of the industries inside and outside the country. Under the LEP of government of India NE can easily export the medicinal plants to whole Asian part of the world. Etc.

Despite various incentives given under the North East Industrial Policy and enormous natural, mineral and bio-diversity potential, the Northeast has not been able to develop as it should. To realize the possibilities 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 of Look east a great success.

4.11 Problems in the path of progress

The NER shares border with Nepal, China, Bhutan, Bangladesh and Myanmar and has less than 1 per cent land contiguity with the rest of India through a 22 km wide Siliguri corridor often referred to as India's 'Mongoloid fringe' or more commonly as the 'chicken's neck'. It comprises about 8 per cent of the land area and 3 percent of the population of the country. It is one of the most complex spots in Asia with over 200 ethnic groups, languages and dialects and their own faiths and practices constantly creating conflicts of interests. They are not only isolated from the rest of the country but also even among themselves physically as also psychologically and are clearly distinct from the 'Aryan-Dravidian mainstream'. These 40 million citizens of India share more commonalities with their south Asian counterparts than with their fellow citizens physiologically and in physiognomy. Often their own compatriots ask them about their nationality making them wonder whether they are part of them.

Various development potentialities in terms of resource endowment are based on the supply side of a market. But to realize the development process calls for creating enabling conditions both for demand and supply sides of a market to interact efficiently. At the same time, it should be recognized that harnessing resources involves huge lump investment that is beyond the capacity of the Northeastern states. In order to realize fully the hydro power potential of the region required investment is around Rs. 800000 crore. Massive investment can improve production capacity and could give huge surplus of product. Due to the lack of proper amount of investment today the region can supply only a limited number of Anthurium flowers and can not meet the required demand of it. The region does not have the volume and quantity of Pineapple, Ginger and Passion fruit that are required in the international market. Though Meghalaya and Assam is producing high quality tea, it is unable to supply the quantity required. If adequate investments are made then Meghalaya would be one of the most important exporters of cut flowers and roses to Japan. Sikkim would properly continue to maintain it's international reputation for Orchids. There is potential but having potential alone is inadequate. That should be practicalised by using required amount of capital. In the same way, the development of infrastructure required to open up a dynamic growth process in the region involves an investment of massive scale. No wonder, therefore, enormous hydropower potential and similar such resource potentials remained untapped and thus remain mere a theoretical possibility. Presently there is an enormous infrastructure deficit in India's Northeast and this is preventing paced economic integration. This infrastructure covers roads, trading centers, land custom stations, power-it covers the entire gamut of physical infrastructure that is required in order to stimulate economic activity and promote trade integration. On the other hand, despite special economic packages by the successive Prime Ministers since 1996 and the submission of the high level commission to the Prime Minister on 'Tackling Backlogs in basic minimum services and infrastructural needs' the Northeast has not witnessed any significant improvement in it's infrastructure. In terms of Human Development Index also, except smaller states Arunachal Pradesh and Meghalaya all are bellow the national average score. The short point is that resource endowment by itself is not enough to release a dynamic process of economic development. It is possible only if enabling conditions are created. The LEP will not be meaningful if we only keep looking.

4.12 Summary

The Northeast as a gateway to East and Southeast Asian countries is undoubtedly a great vision for this landlocked region. But, for it to edge into reality would inevitably involve a considerable time frame even if the government of India were serious about it. The right strategy would be to pursue this vision vigorously while the Northeastern states individually and collectively focusing on removing market rigidities and other impediments within each constituent and between them. This strategy would bring down high transaction cost of doing business and thus improve efficiency and business environment. It would yield higher growth in the immediate future while ensuring better preparedness to take full advantage of market integration. Without such preparedness, the Northeast would remain on the periphery even if the connectivity with the neighboring countries were put in place.

The LEP is a venture in which the entire civil society has a stake. Unless civil society begins to build a partnership on this model, unless we begin to create space for each other, unless we begin to recognize what is our individual responsibility we will not be able to do full justice to the Northeast. It is equally essential that we need not just the LEP but also and more importantly we need the Look Northeast Policy so that we are able to harness the undoubted economic potential of this region and give to the people of this region the vision, the prospect of a better future.

CHAPTER – V

CONCLUSION AND POLICY IMPLICATION

Chapter-5

CONCLUSION AND POLICY IMPLICATION

5.1 Introduction

Regional economic integration has been adopted as a strategy for development in different parts of the world over the 1990s, following the formation of single market by the European Union (EU) and north American Free trade Agreement (NAFTA). With the growing popularity of regional economic integration worldwide, more than half of the world trade is now conducted between members of regional trading arrangements on preferential basis and not on most favored nation (MFN) basis. Over the past few years, these countries have also recognized the potential of regional economic integration as is clear from numerous free trade arrangements (FTAs). However, a broader arrangement coalescing various initiatives is desirable for expanding and reaping the potential of regional cooperation for mutual benefit.

Global investment banks such as Goldman Sachs are projecting China and India to emerge as the two largest economies in the world by 2050. The booming intra-regional trade is suggestive of the complementarily or synergies that have developed between economic structures of the Asian economies. Regional economic integration could help in their exploitation for mutual benefit. Although regional production networks have begun to be developed across Asia to exploit the synergies through vertical specialization, regional economic integration could help in expanding such opportunities and exploiting the potential of such rationalization or restructuring more fully.

Care must be taken in designing the programmes of regional economic integration in such a manner that they keep equity, employment generation and necessary social transformation and social safety nets for the vulnerable sections of the society at their heart so that it represents regionalism with an "Asian Face". By balancing the interests of efficiency and equity, the Asian arrangement could well emerge as a role model for trade liberalization in multilateral as well as regional contexts in the whole world.

The initiation of LEP and the attempts to forge closer and deeper economic integration with its far and near neighborhood represents an important development. As our study revealed, the progress has been rapid with many important countries becoming key trading partners in the region. Commodity wise and sector wise specialization is different for different countries. Again the most important point is that progress and potential benefits are different for the NER than the southern states of the country. To fully take advantages of the benefits offered by India's LEP several challenges must be met and tackled. Some important policy implications for the country as a whole and the Northeast in particular are mentioned here.

5.2 For India as a whole

The rise of China's economic potential and the resultant influence on this region should not deter India, as the region is looking for an alternative in India because of its fair practices and peace loving nature. India is preferred over China by many countries because India is a democratic country. However India has to set its house in order and go ahead with its economic reforms, liberalization process and infrastructure development to gain the confidence of this region, which at present is not all that high.

Each nation has its own characteristics-some are supportive of India, some are predominantly Muslim, some are economically more developed than India, some are underdeveloped and one is a close neighbor influencing the security of India. Hence India should tailor the bilateral relations with every country in different way to suit the requirements of that particular country and that of India.

India's participation in existing and prospective formal organizations and institutions will significantly enhance Asia's capacity to address the continent's challenges; and enhance its leverage and influence in world affairs. It is in this context that focusing integration efforts on East Asia alone is arguably not on optimal strategy for Asia as a continent. While India will need to be more proficient at strategic, economic diplomacy, and soft power skills, East Asia will need to shed its cold war mindset and its insularity to grasp win-win opportunities.

India's has a lead in information technology and Indian IITs and IIMs have a very high reputation in East & Southeast Asian countries. Many East and South East Asians have expressed their interest not only to come and study in these institutions, but also to have these institutions open their campuses in their countries. India should develop itself as knowledge based economy to convert the use of its traditional know-how into commercial advantages. The development of basic infrastructure and managerial competence should be the topmost priority; it should also utilize its expertise in IT, pharmaceuticals and biotechnology to emerge as a viable trading partner. India should develop its scientific research institutes to reduce the information and technical gaps.

The LEP, envisioning the North East as the gateway to the dynamic South East Asian economies must be pursued with commitment and determination by Central Government. Efforts must be directed to build up physical and institutional infrastructure. In the meantime, state governments must be ready to confront competition from these economics and prepared themselves to increase their economic efficiency by removing constraints and bottlenecks in the operation of commodities, money and labor markets. The forces of globalization, economic reforms and liberalization are sweeping across the world. However, several players like bureaucrats, political parties, NGOs are not aware of the significance of these forces. As a part of development strategy, awareness programmes may be undertaken. For this purpose, seminars/workshops may be conducted. The North East Region, being the home of follower for the four world religions – Christian, Muslim, Hindu and Buddhism and also being populated by people of diverse ethnic background, culture, traditions and social institutions, needs a highly innovative governance structure. The governance systems have to deal with the problems peculiar to the region: cross-border migration problems from Bangladesh, Nepal and Myanmar, border management problems, ethnic tensions, existence of dual structure-modern democratic institutions and traditional ones, militancy and insurgencies running parallel structures in rural areas, absence of industrial entrepreneur and investment, inefficient and overstaffed state administration etc.

Even though tourism is an important item of the Indian dialogue with ASEAN, not much has been done to develop this area to promote people to people contacts. So far, tourism has been moving in only one direction – Indians going to Southeast Asia but very less in the reverse. Imaginative packages need to be evolved and sufficient incentives offered to attract tourists from countries in east and Southeast Asia, and from Indonesia, in particular. This will not only bring revenues to India but will also cement civil society interactions, an important component of mature and enduring state to state relations. Let India initiate an innovative political and cultural charm offensive to give more substance to India's LEP.

A broader regional economic integration within the framework could be an engine of growth for not only the participating countries, but also has the potential to enhance the welfare of the rest of the world by unleashing the synergies of Asian countries for trade creation. India and East Asian countries need to deepen their ongoing cooperation further and cooperate in shaping CEPEA towards creation of an integrated or seamless market which could emerge as the third pole of the world economy after NAFTA and the EU. By forming credible schemes of regional economic integration, Asia will be able to seek its due place in the global economic governance and contribute to building a more democratic and multi-polar world economy. The Asian economic integration by increasing the interdependence of countries in the region will also ensure peace and stability.

Financial and monetary cooperation between ASEAN+6 or EAS countries could be an area of fruitful cooperation in view of the fact that their combined foreign exchange reserves exceed $ 3 trillion. Steps can be taken towards creating The Asian financial architecture that would facilitate partial mobilization of these reserves for narrowing the development gaps in Asia. The other initiatives could include creation of an Asian currency unit as a unit of account to facilitate intra-regional trade and production networking. The EAS held at Cebu in January 2007 identified finance as one of the areas of cooperation and has sought proposals from officials for consideration at the third summit in Singapore.

Major countries of Asia, namely, Japan, China, India, Korea, among others, are highly dependent upon oil and gas imports and could benefit by mutual cooperation in the area. The regional cooperation in the area of energy could cover, for instance, to ensure security and sustainability of energy supply, efficient utilization of energy resource in the region, rational management of energy demand, with due consideration of the environment, establishing policy framework and implementation modalities for setting up energy networks in the region such as region wide oil or gas grids.

Being a late entrant in the regional economic integration process, India had missed out significant opportunities and it should accelerate its efforts to make up for the lost time. India needs to focus on clearly articulating its integrated set of policies and plan of action. This framework, combined with a wide recognition as a reliable and competent trading partner will secure for India a rightful place in the broader context of international trade. And it is this strategic advantage that will enable to realize its vision of forgoing a strong Asian Economic Identity.

5.3 For the Northeast in particular

The LEP of government of India is very much particular to the Northeastern part of the country. Presently the central government as well as governments of NE states is going to give more importance to the LEP. Observing the geographical proximity of the NE region with ASEAN countries, traditional backwardness of the region and the large pool of potential natural resources as explained by our previous chapters, we can strongly urge that the Policy of Look East is very much relevant with the region of NE.

Government of India has introduced the policy in 1990. Delhi becomes connected with east and south East Asian countries from 1990 onwards. All the Prime ministers, presidents of India from 1990 are frequently visiting all those regional countries directly from Delhi, Kalkata or Mumbai. In the same way minister of those countries also comes to our metro cities. Every body has really forgotten to remember bordering areas. If Northeast becomes angry then let them arrange some tea party at Guwahati (Assam). There was nothing in the name of LEP in the region. Delhi treated the region like a step mother. Who will cry for the region? Central Politicians comes to the region only in time of elections. Thus around up to 2000 the policy was completely silent about the region. We were not able to harness our available natural and human resources. But, after the car rally of 2004 Prime Minister Dr. M.M. Singh has changed the situation. There is also having the opportunity for the congress led UPA government to hold some arrangement for the policy in the region due to the same congress government in Assam. Continuous congress government in Assam (leading state in the region) is one of the strongest reasons for the present-practical initiation of India's LEP. Presently we have DONER, the full fledged ministry for the development of the region. So, though the operation of LEP till date has not meaningfully benefited the NER but it is likely to benefit the region in the coming days if we can remove various constraints lying in the path of progress of the policy. Less amount of probable transportation costs from the NER than any other parts of the country to the east and Southeast Asian countries, large pool of demand and product matching, link in cultural and physical appearance etc are the future brightness of the policy in the region. Thus we can accept both the first and second hypotheses of our study.

For the effective and quick implementation of the policy [since already it is late] NE should be able to overcome it's constraints. If the country as a whole is able to maintain its current growth rate of nine per cent per annum, the NE will have to grow by around 13 per cent to catch up with the rest. This will obviously be a most formidable though not impossible challenge. The provision of basic minimum services through participative planning and development must provide the bedrock coupled with infrastructure development, specially connectivity, human capacity building and opening up to its external neighborhood so that the region becomes a vibrant land bridge to the heartland of Inner and ASEAN countries and the Ocean to the Asia and no more a forlorn outpost as an insular outlier of India.

It is sometimes said that the NE States lack sufficient parliamentary clout and have little opportunity for mutual political consultation. These handicaps can be overcome to advantage where the states and autonomous regions of the NE to nominate members to what could initially be a consultative council that would help builds a common regional identity. Even with sound plans, implementation could falter on a weak administrative structure and grassroots delivery system. Participative planning and entrustment to panchayati raj and indigenous local and community bodies would obviously impart responsiveness and accountability. But it would be desirable to reconstruct relevant parts of the administrative structure to restore a single-window, field-oriented cadre on the lines of the former Indian Frontier Administrative Service that was somewhat hastily disbanded around 1970.

The NE is highly plural and politically fragmented but can be bought together through by a revivified North Eastern Council that should ideally be the designated regional planning authority with delegated control over the Union Ministries' non-lapsable fund and other Plan allocations for the region. The Ministry of External Affair's new "regional branch office" (in Guwahati) should be replicated by the Union Commerce Ministry, both these operating through the NEC so that the NE Plan and LEP and programme implementation are suitably integrated and orchestrated within a unified security and geo-strategic framework.

Withdrawing looking towards West, Indians are now mostly looking towards East and Southeast for the purpose of smooth generation of revenue. To fulfill this task India has to develop, to be in a position to create those surpluses and those capacities which will make it a market power and strengthen its market presence. The Northeast cannot be a small supplier of anthurium, citreous fruits, tea, and ginger and retain the notion that the region has arrived on the international trading scale. It should increase it's amount of supply to a sufficiently high level.

It is inevitably follows that the Northeast has to address itself first to remove the binding constraints on its economies in terms of its initial conditions, infrastructure lag, insurgency, imperfection or distortion in factor and product markets and indifferent governance. For, all these constraints result in high transaction cost and thus in huge inefficiency.

At another level, the Northeast with 38 million people, larger than many high income countries in the world, must aim at unifying it as a common market with an efficient transport and communication network as well as with policy harmonization among the Northeastern states. This would benefit the regional economies enormously while serving as a preparatory step for reaping benefits from its integration with the East and Southeast Asian countries as and when it takes a concrete shape.

Providing a thrust to sectors with comparative advantage will require focusing on manufacturing services based on the region's resource endowments. In the manufacturing sector, agro-processing industries will have to play an important role in the emerging scenario. Horticultural crops need cold storages and processing support and it would be necessary to tie up with the corporate sector for the processing and marketing of fruits and vegetables, including organic products. Similarly, there is considerable scope for expanding food-processing, handlooms and handicrafts, which currently provide the largest employment, after agriculture. Almost 98 per cent of NE is having International border & there is ample opportunity to develop trade & commerce in the region. The traditional ethnic designs can capture East and South-East Asian markets which require design inputs & skill development. In particular, there is considerable scope for the expansion of sericulture as the climate of the North East is congenial for the expansion of the silk industry. It is important to modernize the sector and help producers with design inputs, financial support and marketing assistance, including access to overseas markets.

There are about 181 large and medium-scale industries in the region, over 70 per cent of which are in Assam. Most of the units are based on resources, such as oil, gas and wood. Tea plays vital role in Assam's economy. Also the scope of downstream industries on petroleum & gas cracker project needs to be explored. The significant deposits of limestone in Meghalaya and Arunachal Pradesh can be used for setting up medium sized cement industries by using the deposits of natural gas in the region. It is also important to augment production by exploiting the enormous hydroelectric potential of the region, as regular and quality power supply can be an important incentive for setting up manufacturing units. Regular power supply is also an important necessity for cold storage infrastructure. While in the initial years the increase in power generation may not be absorbed entirely and States would be able to generate financial resources by selling power to the national grid (as in the case of Sikkim), over time the absorptive capacity of the region for power consumption would increase and a significant portion of the power generated would be used for expanding economic activities.

In services, the participatory approach will aim to accelerate growth by focusing on the development of non-governmental services and their interaction with agriculture and manufacturing. Tourism is a sector with a very high potential for generating income and employment. With its moderate climate most of the year, scenic splendor, and robust and varied cultural attractions, the region is ideal for tourism. The focus, however, should be on high value tourism which will require close collaboration with the private sector hospitality industry, building high quality infrastructure and well targeted promotion. Several tourist circuits could be developed in the region, depending on the attractions and experiences they present. Annual music and dance carnivals held in different parts of North East, with national and international participation, could help to attract visitors at these times. Similarly, tourist visits and circuits could be built around the colorful Bihu festival in Assam and Dusshera festival in Manipur, which could also be promoted. Hill tourism, skiing, river-rafting, adventure tourism etc. can be developed. However this should be done although in a sustainable manner, keeping in mind the fragile environment.

Other important services that present an opportunity for development are in the financial sector including banking; insurance, the information technology industry. The IT industry however, requires significant capacity building, a larger emphasis within the education system towards mathematics and science, and creating the environment to induce information technology companies to operate in the region. Some information technology companies have found significant potential for searching employees in the region and it is important to create favorable conditions for their operation. Creation of education and training facilities for the youth of the region in information Technology (IT) and Information Technology Enabling Services (ITES) could provide a great impetus in generating a pool of personnel increasing employment opportunities for the youth.

Development of human resources is critical for the development of the region. While the literacy rate in the region is high, the employability of the youth in the region in skill-intensive activities and within the manufacturing and service sectors is not very high. The region does not have an entrepreneurial class to take up the challenge of generating economic activities. The structural transformation of the economy can only take place by creating and enhancing the multidimensional capacities that are linked to the human resource requirements for expanding the primary, manufacturing and service sectors. A focus on children, women and youth is also vital in this region. It is also important to emphasis the need to improve the human development indicators of the tribal population. Recent population growth in many of the NE states has meant that a substantial proportion of the population is younger than 14 years, in Arunachal Pradesh and Meghalaya, accounting for as much as 40 and 42 per cent of the state population, respectively. In its broadest sense, education will be the most critical input to empower these young people with the ability to expand their life's choices. Similarly, providing access and incentives for the education of women and tribal populations in the region is extremely important for its social and economic transformation and to provide sustainable livelihood systems. Besides expanding the educational infrastructure, particularly in technical areas such as engineering, medicine, information technology, and bio-technology, it is necessary to remove barriers in accessing education for tribal people and women through appropriate policies including creation of hostels in towns and special coaching for admissions and to improve their overall performance. Affirmative action will have to extend all the way from school education through to higher education levels. It is also necessary to strengthen infrastructure for vocational education and skill development to enable the youth to improve their productivity and incomes.

Capacity building in the primary sector will have to focus on providing skills and training for improved agricultural practices. The transformation of the agricultural sector from subsistence to commercial farming will be based on farmers developing their capacity to adopt improved practices and market their products. Adoption of improved agricultural practices in the plains requires training through agricultural extension services to raise high-yielding, short-duration crops. In the hills, introducing horticultural crops and organic farming should gradually help the tribal population to switch from shifting cultivation to commercial crops. Surely, this requires significant efforts at building capacity for the cultivation of horticultural crops and organic farming. This also calls for building market institutions and strengthening the cold storage and processing facilities.

In general, as mentioned earlier, the literacy rate is high in the region, but this has not translated into employability in productive occupations. There also appears to be reluctance among people to enter into self-employment ventures, perhaps because of the absence of such a tradition in most NER states, so that those who do are first generation entrepreneurs. This is evident from the slow response to various proposals for self-employment initiated by the Central and State Governments. However, the region has a large base of very talented people who, with training, can be gainfully employed in a variety of areas including agro-processing, information technology, paramedical, biotechnology, aviation, and the entertainment and hospitality industries.

At present youth in the region have free opportunities for expanding their horizons and realize their potential. Remedial measures need to be taken as early as primary and secondary school, where the goal will be to increase access to schooling for all, improve the quality of education, especially mathematics and science, through appropriate teacher training and curricula oriented to the local environments, and fully equipped schools and classrooms. There are few higher educational institutions, and the focus of those that exist has been to prepare the youth for routine government jobs. Indeed, the NEC has taken the initiative to constitute the North Eastern Regional Educational Council (NEREC) for the holistic development of education in the region. The NEREC's proposed 15-year perspective plan would do well to emphasis scientific and technical subjects such as engineering, mathematics, science, information technology and bio-chemistry. It is equally important to initiate measures aimed at qualitative improvements in the education system.

While there has been a tendency to emphasis general subjects in education, vocational education etc but does not find the required focus. Skill development is extremely important to expand people's employment opportunities in the manufacturing and tertiary sectors and to create a pool of employable skilled personnel, which would act as an attraction for private investment. For example, the expansion of the hospitality industry, which has great potential in the region, requires a large number of trained personnel. In fact, development of the hospitality industry can expand employment opportunities in nursing and it can expand productive employment opportunities for women in the region. In fact, as the employability of people increases, the private sector will also enter to provide the required skills. Proper regulation of the quality of training and education and ensuring access to vocational education through proper financial support, such as bank loans, would also be required to improve the quality of the skilled workforce.

Focus on other aspects of human development such as basic health needs is equally important for capacity development. Health indicators in the region show significant improvement over the years, nevertheless, there is considerable scope for raising the health and nutrition status of the region especially for children and women. The shortage of medical specialists and lack of tertiary facilities in several states need to be addressed, along with issue such as the high incidence of AIDS, cancer, malaria and other diseases, and the wide gaps in rural urban provisioning of basic services. Good sanitation and drainage, clean water, electricity and permanent structures for all homes are now considered necessities and pre-conditions for development. While states have made efforts to increase the reach to these services, thousands of households still do not have access to them. The poor access to amenities in rural areas coupled with the lack of non farm employment opportunities has propelled young people to urban centres. Increasing urbanization along with the expansion of the administrative sector over the past decade have in almost every state resulted in untrammeled, unplanned urban growth, and pressures on urban amenities, with serious implications for the environmental and economic sustainability of these towns.

An important part of capacity building is increasing awareness in the rest of the country about people in the NER, and within the region itself through increased social interaction. This would require promotion of sports and cultural exchanges within the NER as also between the region and the rest of the country. Capitalizing on the rich cultural heritage of the region by engaging the youth in creative activities while promoting a two-way understanding with the rest of the country is a possibly. Organizing annual music and dance carnivals in different parts of the NER with competitions at the district, state and regional levels would increase youth involvement in creative activities. These events could become important tourist attractions from east and south east Asian countries, with national and international participation, which, with good publicity should attract a large number of tourists, who can be carried through chartered flights. Increased sports activity including regular inter-district, inter-state and regional-level competitions would also engage young people creatively. This would, inter alia, require significant up gradation in sports infrastructure.

Building capacity in the institutions is important for maximizing self-governance, to design and implement planning at grass root level and ensuring efficient delivery of public services. Creating institutions of self-governance right from the village level and activating them to ensure maximum participation of the people, particularly women and vulnerable sections, is necessary to maximize self governance. Planning will require capacity building at all levels of the NEC. The planning process will have to start from the level of the NER. The planning process, will have to start from the level of Gram Sabhas and Ward Sabhas in the areas covered under Part IX and IX-A of the Constitution. In some states, it is necessary to create block development centers and build their capacity to design and implement plans. Capacity-building for planning entails preparation of plans, their implementation and instituting, monitoring and control systems. Similarly, capacity building for efficient service delivery calls for proactive administration and instituting a system of checks and balances. This calls for capacity building at the level of government right from the village level and including the line departments of various ministries of the State Governments. Responsive administration requires competent personnel and special efforts will have to be put in place to ensure this. Given that many of the States are small and there are considerable gains to be had by states working in coordination, the institutions for capacity-building could be created through joint initiatives by states in the region. Capacity development is not confined to government department alone. There is considerable need to educate the public on their rights and responsibilities and how to demand accountability from government departments. Similarly, there is a need to build capacity in various non-governmental organizations.

The NEC has the responsibility coordinating the policies of different states, promote cooperation among them and undertake planning for the region. It is important to have people with sector specialization in various departments of the NEC rather than having people drawn from the military. The council should develop capacity not only in coordinating policies and programmes among states but also in preparing and coordinating plans drawn up by different states through the grassroots process. It should also draw up plans for creating infrastructures spilling over to more than one state. Building capacity to design and implement plans, and undertake the task of monitoring and control is necessary to make it an effective institution in fostering the development process in the region.

The vision of peace and prosperity can be realized without providing the region with world-class infrastructure and building a network of connectivity. Improving connectivity is the most important measure for the resurgence of the NER. Good transportation networks are necessary to inter-link potential growth centres, promote tourism, connect to border trade points and support economic, social and security needs. Creation of common market is necessary for the region to develop as an entity and realize the goals of peace and prosperity (Barua, 2005). Faster movement of goods and people at lower costs is essential to provide impetus to economic activity. It helps the development of markets, reduces exploitation by middlemen, and in the process improves livelihoods of people in remote areas by enabling them to market their products at higher prices. By increasing social interaction among people of different states in the region, in promotes awareness and harmony. Opening up remote areas can also help improve the law and order situation, especially in areas affected by insurgency, and help protect people's property rights. All these are important preconditions for attracting the private investment needed for development in the region. In the human development context, better roads mean easier access to health centres for people and to schools for children, which apart from being desirable outcomes in themselves, will promote a more productive and better skilled workforce.

The biggest constraint in the NER has been the poor state of infrastructure, in particular, roads, railways, waterways and power. At 66km/100sq.km area, the road length in the region is lower than the average of the country (75km/sq.km) and the quality of roads in the region is extremely poor. The total railway track length in the entire region is 2,592 km, with broad-gauge track confined to Assam. Inland waterways in the Brahmaputra and smaller rivers, such as the Kolodyne in Mizoram and Barak in Assam, have become virtually non-functional after the partition of the country and at best, they can be used for the transportation of goods and not people. Air connectivity especially from East and Southeast Asian countries to the region is poor. Three of the state capitals do not have airports, and feeder services from

Delhi/Kolkata/Guwahati to the state capitals where airports exist are scare. Most intra-regional connection is routed through Kolkata, which is expensive in terms of both time and money.

Realizing the vision of peace and prosperity through participatory growth is impossible unless significant initiatives are taken to improve connectivity. Given the difficult terrain and strategic situation of the region, road density should be even higher than the national average of 75km/100sq.km and the quality of the roads should be improved significantly to make them motorable. The Central Master Plan for road connectivity in the region should be executed at a faster pace and completed by 2015, and sub-divisional headquarters should be connected through all-weather roads. National highways need to be upgraded to four lanes. A detailed plan should be prepared and implemented for connecting all state capitals in the region with a broad-gauge rail line by 2020. Rail projects under construction must be completed by 2010 and more trains introduced, particularly from Guwahati to New Jalpaiguri. The extension of the railway line to Sabroom would improve connectivity to the Chittagong port. Air connectivity must be improved by shifting the hub to Guwahati from Kolkata. The nine old airstrips in different parts of the region should be developed for commercial use and a reliable private airline could begin operating regional air services between the different state capitals, with a hub at Guwahati, which could be subsidized until it becomes economically viable.

Activating inland waterways and providing access to the sea port requires significant diplomatic initiatives with Bangladesh. The eventual goal would be to have a common market with Bangladesh. Indeed, with the threat of terrorism looming large, and a number of terrorist groups reportedly operating from Bangladesh, a complete change in the mindsets of both countries would be beneficial. It will not be easy to initiate the process, but there are significant gains to be had for both countries from a common market. Access to the Chittagong port and opening up of the inland water route could lead to economic resurgence of the region. The construction of a bridge by India across the 110 meter wide Feni River, and helping Bangladesh to modernize the Chittagong port, could go a long way in building confidence and goodwill for the benefit of the peoples of Bangladesh as well as of North Eastern India. Bangladesh could have access to Indian markets by enabling free trade in the land routes, which would mitigate its unfavorable balance of trade with India considerably. The people-to-people contact could bring greater understanding and social harmony.

Infrastructure and connectivity could support the LEP and provide an impetus to trade with the Eastern part of the globe. Although the policy has been in place for a decade and a half and has benefited the rest of the country appreciably, the NER has gained very little. It is important to note that the NER shares 98 per cent of its borders with the neighboring countries of Bhutan, Nepal, China, Bangladesh and Myanmar and the Look East Policy focus on the region can help it to access the markets in East Asia and Southeast Asia. Indeed, there is considerable potential for the policy to benefit the region but that would call for a qualitative change in the relationship with the neighboring countries, particularly the larger countries of Bangladesh, China and Myanmar. Given that the fortunes of over 38 million people depend on good neighborliness, the bureaucratic and defence-dominated approach to relationships must given way to the one based on mutual economic gains. A qualitative change in the relationship is necessary to improve connectivity, provide for better management of water resources of the region including flood control, foster trade and improve cultural exchanges. Bangladesh, by allowing transit facilities for goods and gas pipelines from Myanmar to India can charge transit fees which could significantly reduce the trade imbalance with India. The latter, on her part should unilaterally abolish import duties on Bangladesh goods traded in the areas bordering Bangladesh, which could also help to reduce the trade imbalance, besides improving confidence between the two countries. Given the implications of good neighborliness to the NER, there must be a consultation process for involving the states of the region with the Ministry of External Affairs, and the MDONER should play a vital role in facilitating the consultation process. Furthermore, the policy focus of the LEP should shift so that South East Asia begins with Norther Eastern India itself. To this end, it is necessary to build bridges – diplomatic and infrastructure.

Despite improvements in infrastructure linkages at points like Moreh, very little trade benefits seem to accrue to the NER states. This is probably due to the fact that existing trade agreements (like the one with Myanmar) are restrictive towards trade in agricultural products. This is also true of agreements on border trade with Bangladesh and China (via and Nathu La). Yet it is these products that have the potential for trade in the NER in the near future. Sikkim however, is likely to benefit as 'transit location' for border trade with China, but this may not bring in significant dividends to other NER states.

The Asian Development Bank has recently completed a study of trade infrastructure in India's Northeast. It has identified three products available in the Northeast which can convert India's LEP into product opportunity. They are pineapple, bamboo and rubber. The government of India is in the process of looking at this report to identify the key areas of investment in these commodities to enable the Northeast to emerge as a major centre of production for the rest of Asia. This is essential so that the region can participate in the process of economic growth and economic prosperity that trade itself will bring.

The challenges to ensure peace and progress in the region are formidable. The gap between the region and rest of the country in terms of various developmental outcomes, productivities and capacities of people and institutions is large and growing, and has to be bridged. Even within the region, there are vast differences, particularly between populations living in the hills and in the plains and between those living in the towns and villages. Given the vast disparities within the region, a development strategy will have to be evolved depending upon prevailing resources, conditions and people's needs and priorities. Further, the development strategy for the various tribes in the region will have to be participatory and should be calibrated in their own setting. Given the complexity of the task, augmenting investment to accelerate growth in the region is only a part of the story. The successful transformation of investments into developmental outcomes requires a variety of strategic initiatives.

Hereby we have put forward a strategy for encompassing (inclusive) development of the region, to meet the challenge of realizing the vision, which comprises six interdependent components-

I. Empowerment of the people by maximizing self-governance and participatory development through grass-roots planning. Such planning will help to evolve development strategy based on the resources, needs and aspirations of the people.

II. Rural development with a focus on improving agricultural productivity and the creation of non-farm avocations and employment.

III. Development of sectors with comparative advantage agro-processing industries, modernization and development of sericulture, investment in manufacturing units based on the resources available in the region, harnessing the large hydroelectric power generation potential and focus on developing services such as tourism that will help to accelerate development and create productive employment opportunities.

IV. Maximizing self governance, introduction of participatory planning, rural development and development of sectors with comparative advantage call for significant augmentation of capacity of the people and institutions both in the government and private sectors. Capacity development will have to address the issue of imparting skills among the people to enhance their productivity, generating a class of entrepreneurs within the region willing to take risks. They will also have to be provided with the necessary support through the creation and development of institutions at all levels to undertake planning.

V. Augmenting infrastructure, including rail, road, inland water and air transportation to facilitate a two way movement of people and goods within the region and outside, communication networks including broadband and wireless connectivity, and harnessing of the vast power generation potential, all of which will open up markets for produce from the region, attract private investment, create greater employment opportunities and expand choices for people of the region. Making the LEP meaningful for the region by connecting it with Southeast Asian markets connectivity of NER with ASEAN would require opening up the sea route through the chittagong port and the land routes through Myanmar and China.

VI. Ensuring adequate flow of resources for public investments in infrastructure, implementing a framework for private participation in augmenting infrastructure and creating an enabling environment for the flow of investments to harness the physical resources of the region for the welfare of the people.

5.4 Limitation of the study

Our study has it's own limitations. The study is affected by the lack of adequate data both for the country as a whole and the north east in particular. Again, we have not been able to go for a detail study of the problem because of constraints of resources and time. There is a scope for further research on this topic and the evaluation can be made more specific as well.

5.5 Summary

The road from the current anarchic situation to progress and prosperity is long and arduous, but it has to be trekked. This is a necessity, an imperative, for peace and prosperity in the region not only determines the future of 40 million people of the region but also the unity and integrity of the country. People in Delhi do not have the time to get involved in the complexities of the Northeast; their conscience is salvaged by putting in more money. Whenever there is a problem in the Northeast, New Delhi comes up with a new package. There have been four Prime Minister's packages for the Northeast in the last fifteen years. Until we create infrastructure in the Northeast, unless we see public expenditure benefiting the people of the Northeast, we will not see the progress and development of the region. The single most important area of reform is accountability on public expenditure. If civil society, if educational institutions, if faith based organizations are able to use the right to information to demand from the political class and political establishment, accountability and responsiveness then the people of the region will begin to see the emergence of a new Northeast.

A LEP would also gain impetus from bilateral growth poles or growth triangles across borders, which proved successful in Southeast and East Asia by creating critical building blocks for larger regional cooperation. This would build confidence, compel trade- facilitation and solve the last mile problem by forging the little links that makes things happen. Much else can be said: But if well begun, the job is half done.

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