

## Cost of Being at Borders: North-Eastern Region of India

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### Abstract

*North East Region (NER) is a perfect case to visualize the development gap between mainland and marchland. Peculiarity of the region lies in sharing 98 per cent of its border with the foreign countries. This region is natural resource endowed, especially with spices. Even then it shares less than 3 per cent of India's GDP which is an indication of the low standard of living of the people. The present study attempts to find if this region is paying the cost of being at borders? It argues that lack of infrastructure, means of communication, transportation and mobilization of resources in particular convert it into marchlands as far as pace of economic activities is concerned. At the same time, in the absence of appropriate trade policy formulation, interdependence of the people on the two sides of the political boundaries is getting translated into informal trade practices and sometimes even illegal trade practices. The paper seeks to examine how the lack of infrastructure development has adversely affected the integration of the region with the rest of India and thereby has exacerbated its development problems.*

Keywords: North Eastern Region of India, border states, GDP.

### I. Introduction

North-Eastern Region (NER) is the easternmost part of India and constitutes the geographical, political and administrative division of the country. It is comprised of eight states – Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura. It is connected with the eastern part of India only through the Siliguri Corridor in West Bengal which is popularly known as “Chicken’s Neck” and has a narrow stretch of land with the approximate width of just 22 kms. NER shares an international border of 5437.15 kms with the neighbouring countries. Out of India’s total international land border (15,106.7 kms), 36 per cent is shared by North East India with its neighbouring countries, i.e., Bangladesh in the southwest, Bhutan in the northwest, China in the north, Myanmar in the east and Nepal in the west (CUTS & FICCI 2017). This region possesses some peculiar characteristics that make it different from other parts of the country. For instance: (a) 73 per cent area of it is hilly and the remaining 27 per cent is plain area which is in contrast with the other regions of the country; (b) it shares only 2 per cent of its border with the main land of the country and the remaining 98 per cent is connected with the foreign countries, i.e., international border; and (c) it is the home of extraordinarily diverse mosaic of ethnic groups having distinctive social, cultural and ethnic identities. Seventy major population groups in NER speaks nearly 400 different languages and dialects (Surjya, 2015).

The above facts confirm that the region has certain characteristics which make it distinct for the analysis, especially it being alienated from the mainland and having borders with the neighbouring countries. In this background the present study attempts looks at the north eastern states of India with the particular objective of analysing the cost that it is paying by being at the borders. After introducing the theme of the study, the second section provides a brief description of the data and methodology used in the study. Third section deals with the economic status of the region by taking Gross Domestic Product (GDP) as a measure of economic progress. More importantly, this section raises the main question of the study. Fourth section takes an account of the infrastructural backwardness of the region and also analyses the current status and prospect of its border trade with the neighbouring countries. Fifth section concludes the study.

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## II. Data and methodology

The study is based on secondary data collected from (a) Handbook of Statistics on Indian Economy, (b) Reserve Bank of India, and (c) Ministry of Statistics and Programme Implementation (MOSPI); and (d) web sources. Depending upon the availability of data, share of Indian states in GDP has been evaluated for the year 2013-14 while infrastructure figures have been taken for the year 2014-15. There has been no structural break during these years. Therefore, this gap of one year doesn't make a difference. For analysing the share of NER states in total border trade, eight-year period has been taken up from 2009-10 to 2016-17. For analysing the trend [i.e. Compound Annual Growth Rate (CAGR)], a semi log linear model has been applied in which time has been taken as an independent variable and share in total border trade has been taken as a dependent variable. The form of the model is:

$$\log y = \alpha + \beta t$$

where  $y$  is a dependent variable (i.e., share in total border trade),  $\alpha$  is intercept term and  $\beta$  measures the CAGR,  $t$  stands for time. The CAGR has been calculated in the following manner:

$$[e^{\beta} - 1] * 100$$

## III. Economic performance of the NER

Economic performance of a region is generally measured by the size of its economy and the level of economic activities. An attempt has been made here to measure the same and for that Gross State Domestic Product (GSDP) has been taken as a yardstick to measure the size of state economies and accordingly their role in Indian Economy. Table 1 presents the data on State GDP along with India's GDP and the respective shares of the state economies in India's GDP.

The difference of mainland and borderland is evident from the Table as a majority of the mainland states are at the top. On the other hand, NER states except Assam of borderland are at the bottom. If the Union Territories (UTs) are left out, the results will be more shocking as the seven states, out of the total eight NER states, rank lowest. The shares of almost 20 mainland states range between 1 per cent and 13 per cent while those of the NER states lie between 0.26 per cent and 0.10 per cent except Assam whose share is around 1.52 per cent. This state is the world's largest tea-growing region and this is the reason for it.

The above quantitative analysis shows a huge gap in the development level of the mainland and borderland. The table also depicts that five states of South India share 26 per cent of GDP while eight states of North-East India share merely 2.64 per cent. This share is even below the individual contribution of 16 states in GDP. Low level of GDP in NER states implies low pace of economic activities. Here the more critical issue is despite being naturally resource endowed, what causes the low level of GDP? The next section of the study explores the same.

## IV. Backwardness of the NER

From the previous section it is elucidated that NER states are backward in comparison of other mainland states of India as far as the size of the economy and the level of economic activities are concerned. In identifying the factors that have held this region back, the study endeavours to examine whether the state of infrastructure is one of the possible causes of underdevelopment. Infrastructure development is closely associated with the level of economic development of a region. Developed infrastructure not only incentivizes the local producers but also attracts the external investors.

Since the economic aspect of development is dealt with in the present study, the social side and consequently social indicators have not been taken into account (social overheads). Human face

of development is nonetheless important. However, the nature of the present analysis confines itself to economic aspects alone.

Table1: Gross State Domestic Product, 2013-14 (at current prices)

Rank	State	GSDP (INR in crore)	Share in India's GDP (%)
1	Maharashtra	1,510,132	14.42
2	Uttar Pradesh	862,746	8.24
3	Tamil Nadu	854,238	8.16
4	Gujarat	765,638	7.31
5	West Bengal	706,561	6.75
6	Karnataka	614,607	5.87
7	Rajasthan	517,615	4.94
8	Andhra Pradesh	464,184	4.43
9	Madhya Pradesh	434,730	4.15
10	Kerala	396,282	3.78
11	Telangana	391,751	3.74
12	Delhi	391,125	3.73
13	Haryana	388,917	3.71
14	Bihar	343,663	3.28
15	Punjab	317,556	3.03
16	Odisha	272,980	2.61
17	Chhattisgarh	185,682	1.77
18	Jharkhand	172,773	1.65
19	Assam	159,460	1.52
20	Uttarakhand	122,897	1.17
21	Jammu & Kashmir	87,570	0.84
22	Himachal Pradesh	82,585	0.79
23	Goa	48,897	0.47
24	Chandigarh	29,076	0.28
25	Tripura	26,810	0.26
26	Meghalaya	21,922	0.21
27	Puducherry	21,077	0.20
28	Nagaland	17,749	0.17
29	Manipur	14,324	0.14
30	Arunachal Pradesh	13,545	0.13
31	Sikkim	12,377	0.12
32	Mizoram	10,297	0.10
33	A & N Islands	6,150	0.06
	India	10,472,807	

Source: Ministry of Statistics and Programme Implementation (2015). Indian States by GDP.

Three indicators of physical infrastructure have been considered here, namely, transportation, energy and financial institutes. Power is an essential input for each sector of the economy be that agriculture, industry or services. Figures on per capita availability of power (see Table 2) reveal that all the eight states of NER are below the national average. If an account of total availability of power is taken, then the picture will be even worse because NER states have low level of population in comparison of the other states of India. For instance, Assam has highest population among the NERs and as a result its level of per capita availability of power is the lowest after Manipur.

Second important factor that determines pace of economic activities is transportation. Developed transportation connects the production site to the market and reduces the turnover period. Road and railway transportation has been taken into account here and it presents a dismal picture. Total length of roads at national level shows that all the NER states except Assam have their share below 1 per cent. The share of NER as a whole is 10.38 per cent which is less than the share of

Maharashtra alone which is around 13.52 per cent. Share of the NER states in the total railway routes at national level is almost negligible. The region as a whole shares a mere 4.02 per cent of the total length of railway routes.

Table 2: State of Infrastructure in NER States (2014-15)

North eastern states	Per capita availability of power (Kilowatt-hour)	Share in the total length of roads at national level	Share in the railway route at national level	Share in total distribution of offices of scheduled commercial banks
Arunachal Pradesh	441.2	0.54	0.018	0.10
Assam	254.3	6.96	3.75	1.61
Manipur	249.1	0.48	0.0015	0.10
Meghalaya	551.3	0.29	-	0.22
Mizoram	389.5	0.21	0.003	0.11
Nagaland	337.7	0.81	0.0197	0.11
Sikkim	656.6	0.14	-	0.09
Tripura	285.5	0.92	0.229	0.29
All India	851.8	10.38 (for the entire region)	4.02% (for the entire region)	2.65% (for the entire region)

Source: Reserve Bank of India (2017), *Handbook of Statistics on Indian States 2017*.

The key factor responsible for such a poor state of transportation in the region is its geographical location. As mentioned earlier, around 73 per cent area of these states are hilly, and therefore the cost of constructing road and railway routes is higher requiring huge investment. Another aspect of infrastructure pertains to the sources of mobilizing resources because it, in turn, determines the availability of finance for productive purposes. Banks are those agents that mobilize the resources and a closer examination of the NER states reveals that their share in distribution of offices of scheduled commercial banks is low. It is evident from its value being below 1 per cent in the case of every state of the region except Assam whose share is slightly above 1 per cent. The region's share is 2.65 per cent and more importantly there is a wide gap between the shares of NER and regions. For instance, although western region is the second lowest region, still it has a share of around 15.19 per cent. Thus, as far as the sources of finance are concerned, NER is backward both absolutely as well as relatively.

The second important factor that the study figures out, apart from infrastructural bottlenecks, is concerned with the geographical location of the region. As mentioned earlier, NER shares major part of its border with foreign neighbouring countries. Therefore, the region benefits more if it has healthy trade relations with them both in terms of quantity and value.

In this respect, the present scenario of NER's border trade leaves much to be desired because the volume of trade has been low even after 25 years of India's initiatives through its Look East Policy and partnership with Association of Southeast Asian Nations (ASEAN). For instance, NER shares 1,640 kilometres (1,020 miles) of its international boundary with Myanmar in the east which is around 31.65 per cent of its total international boundary. Even then its border trade with Myanmar has not been robust. Manipur and Mizoram are connected to the Myanmar from trade point of view. Border trade with Myanmar commences via Moreh in Manipur's Chandel district which connects with Tamu located in Sagaing in northwest Myanmar. Another border trade point is via Zowkhatthar in Mizoram with the corresponding point of Rhi in Myanmar. However, Moreh remains the biggest border trade point. "Though India and Myanmar signed the border trade agreement on January 21, 1994, and it was made operational the following year, the bilateral border trade figure stands at \$50 million -- a poor comparison to Myanmar's trade with China, which was around \$6 billion last year" (Business Standard, 2017). Plausible reasons are inadequate investment in infrastructure to connect with neighbouring countries and recent termination of barter system of trade with those countries. For example, NER may be connected to Myanmar via road but that requires massive amount of money and Indian government does not seem to have put that much funds in place. Official end of

barter system has also lowered the pace of border trade because the inhabitants of both sides of the border have informal relations and exchange goods. This has also led them to illegal trade practices. On the other hand, to increase the volume of formal border trade, the concerned region should possess a good deal of produces. However, the NER is suffering from economic backwardness. From the previous section, it is also evident that the cost of import is also high for the region because it is not well connected with the mainland. China is making the most of it and has made a huge investment for better connectivity with Myanmar. For a better idea of the border trade, a quantitative analysis is essential and Table 3 has been produced here to serve that purpose.

Table 3: Trade of NER states with the neighbouring countries

NER	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	CAGR
Assam	21.90	18.17	15.78	18.65	24.29	32.90	34.28	47.23	13.12
Meghalaya	34.54	35.26	46.06	47.87	49.50	19.85	27.30	24.91	-7.0
Tripura	41.05	45.86	37.51	28.65	19.20	31.61	24.15	15.01	-13.2
Manipur	2.50	0.71	0.66	4.82	7.01	13.23	9.25	7.47	35.5
Sikkim	0.00	0.00	0.00	0.00	0.00	2.41	5.02	5.18	38.5
Neighbouring Countries (share)									
Bangladesh	91.16	89.77	80.68	85.45	80.85	65.43	60.99	49.57	-8.0
Bhutan	6.03	9.52	8.53	9.39	12.05	18.92	24.74	37.79	24.12
China	0.00	0.00	0.23	0.33	0.00	2.41	5.02	4.88	69.28
Myanmar	2.50	0.71	0.64	4.28	7.01	13.23	9.25	7.47	35.8
Nepal	0.31	0.00	9.93	0.01	0.09	0.00	0.00	0.30	-17.11

Source: CUTS & FICCI (2017). *Harnessing the potential for cross-border trade between north east India and its neighbouring countries*, p. 10.

Notes: CAGR: author's calculation. Data for Arunachal Pradesh, Nagaland and Mizoram are not available. Value of shares at 0.00 means that data is not available for those years.

The Table presents the shares of NER states in their total border trade with the neighbouring countries along with reflecting the same for the neighbouring countries. Assam has witnessed positive growth in its share in total border trade of NER and it is worthwhile to mention here that in infrastructure, Assam is in a better position. Manipur has registered a positive growth in its share during the period of eight years. Notably, its share has shown consistency except for two years. Annual average growth in the share of Sikkim has been highest but this growth is illusionary as its absolute share in the total border trade is almost negligible. Surprisingly the shares of Meghalaya and Tripura have declined sharply and therefore their compound annual growth rates have been negative. The common characteristic of these two states as far as trade is concerned is their sharing of border with the same country, i.e., Bangladesh. Further analysis of the Table corroborates this fact by showing the drastic decline in the share of Bangladesh in total trade of NER states with the neighbouring countries. It happened due to the diversion of trade from Bangladesh to towards Myanmar and Bhutan. Second part of the table lends support to this notion as Bhutan has seen a stupendous growth in its share from single digit to double. Moreover, trade balance in the case of Bhutan has been in India's favour. "Trade of NER with China has started after Nathu La pass became functional in the year 2006. Growth rate of the share of China in total trade has been higher (,) however in absolute terms it remains considerably low. Initially in 2006 only 15 goods were permitted to be imported from China and 29 goods for export to China. However, in 2012 the number extended to 20 and 37 respectively" (CUTS & FICCI, 2017). Myanmar is connected with the four states of the NER i.e. Arunachal Pradesh, Mizoram, Nagaland and Manipur and therefore has positive and rising share in total trade but its share is below the expected level. Furthermore, "India accounts for only 0.80 per cent share of total border trade of Myanmar whereas China and Thailand account for 87 and 12 per cent share respectively" (CUTS & FICCI, 2017). China could reap the benefit of higher share in trade because of the huge investment made on developing infrastructure for better connectivity with Myanmar than India. Border trade of NER with Nepal is low as well as has remained inconsistent over the years. Although the country is on three sides surrounded by India, only Sikkim, among the NER states, shares the border with it. Sikkim has low potential from the viewpoint of serving as the station supplying goods to Nepal from the rest of India because it has neither air connectivity nor the rail routes (almost disconnected).

## V. Discussion and results

NER has peculiar characteristics by having just 30 per cent area as plain and remaining as hilly, and also by sharing 98 per cent of its borders with the foreign countries. Despite being highly natural resource endowed, the region suffers from low level of development. Based on secondary data, the study has made an attempt to identify the factors responsible for its backwardness. It finds that the most important factor is the lack of infrastructure. Taking an account of the physical infrastructure and leaving the social overheads, the states of the region are lagging behind other states of India. Given the parameters of physical infrastructure, i.e., energy, transportation and finance, none of the NER states is doing well. Second important factor is its being located on the international borders. As the region is not connected to the mainland of India, it suffers with the lack of resources. However, this location factor may turn out the region into an advantageous position if the border trade is developed with the neighbouring countries. A huge amount of investment is required to strengthen the connectivity of the region with those countries. For example, developing roads in NER requires more funds than in the mainland because of heavy rainfall and landslides, and repairs and maintenance cost is higher.

To overcome the lack of infrastructure development in the short run, promoting the setting up of Border Haats may be a viable alternate. They aim at enhancing the standard of living of the people living in remote areas across the borders of two countries by founding the traditional system of marketing the local produce through local markets. It may also prove instrumental in formalizing the informal channels of trade. On the other hand, for a sustained development, the government's role becomes crucial in formulation of policies that strengthens ties with the neighbouring countries. Moving forward in this direction, the Government of India has evolved the Look East Policy and Act East Policy (LEP & AEP) for shifting its focus from west to east. Because of providing a gateway to the emerging markets of Southeast Asia, NER becomes important and a likely beneficiary. For instance, tea industry can find new outlets for exporting its products to the South East Asian countries, provided such regional economic cooperation is developed through LEP & AEP. After the introduction of this policy, there has been an emphasis on developing the infrastructure of the region by widening the roads, expanding air connectivity, extending railway networks, opening new as well as facilitating border trade and transit points. Such activities also have serious implications on the use and extraction of resources from the region. The latter also suffers from the lack of skilled labour, and hence the implementation of the LEP & AEP will lead to immigration of labour that will exert an impact on the socio-economic scenario of the NER. All such issues need to be addressed to ensure insurgency, that has plagued the region in the past, does not reoccur.

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