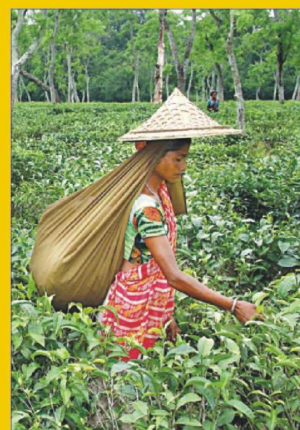


ASEAN

A Potential Export Destination for Products from Northeast India



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1

Introduction

Geographically discriminatory trade policy is the defining characteristic of a regional trade agreement (RTA). Regional economic integration occurs when countries come together to form free trade areas (FTAs) or custom unions (CUs), offering members preferential trade access to each others' markets. An FTA is formed by removing tariffs on trade among nations that are FTA members without changing tariffs on imports from non-members. Under a FTA, the countries involved agree to abolish tariffs, quotas and preferential trading arrangements (PTAs) on most goods that are traded between the regions concerned. It is usually done to facilitate economic development through trade between the two or more contracting parties.

RTAs have become a very prominent feature of the global trading system in recent years. The surge in RTAs has continued unabated since the early 1990s. Some 421 RTAs¹ have been notified to the General Agreement on Tariffs and Trade/World Trade Organisation (GATT/WTO) until 2008. Of these, 230 agreements were in force at the end of 2008 and it is expected that by 2010, close to 400 RTAs are scheduled to be implemented. Out of these, FTAs will account for over 90 percent, while CUs account for less than 10 percent of all Preferential Trade Agreements (PTAs). Besides offering economic benefits for the member countries, the recent surge in the number of existing and proposed FTAs is also intended to enhance the bargaining power of the regional groups at multilateral platforms. There is, however, little evidence to suggest that regionalism has either facilitated or retarded negotiations for multilateral liberalisation.

The recent signing of FTA between India and Association of Southeast Asian Nations (ASEAN) is one of the most important developments for India (and also for the region as a whole) since the introduction of economic reform process in early 1990s. This FTA² is expected to be beneficial for both the regions, especially for India's Northeast region (NER). It is expected that this FTA will fill up the development gaps of the NER that have remained unattended over

the last five decades. The expected benefits to the Northeast region are premised on its geographical proximity with the ASEAN and the regions' vast untapped resource potential.

The basic objective of the paper is to identify products from NERs which could be exported to the ASEAN market. The paper provides an enumeration of economic potential and facilitating factors for economic integration of the region with ASEAN. It is followed by a brief description focusing on basic characteristics and potential of the NER, especially in terms of its mineral reserves and other resources. The basic need for economic integration of the NER with the ASEAN are also analysed in this section. The paper also highlights emergence of ASEAN and India as economic powerhouses and focuses on highlighting the current dynamics of two markets. It analyses the current trend in two-way trade between India and ASEAN and intra and extra-regional trade of ASEAN and seeks to identify Northeast products and their export potential to the ASEAN market. Products available and products that enjoy cost advantage in the Northeast and their demand in the ASEAN market is also explored. It puts forward the measures required to make the Northeast a business hub for all trade and related activities between two groups and concludes.

2

Potential for Economic Integration with ASEAN

The recent initiatives focusing on economic integration of India, in general, and Northeastern States in particular, with the ASEAN have been the culmination of 'Look East' Policy followed by the Indian government since the early 1990s. These initiatives overshadow the missed opportunities of over three decades of formation of ASEAN in 1960s, when India declined to get associated with ASEAN in the 1960s despite being offered a full membership. Since 1990s, however, things have changed. While India launched its economic reforms and liberalisation programme, initiatives for effective integration of ASEAN also gathered momentum during the period. This was further reinforced by the simultaneous launch of India's 'Look East' Policy.

Facilitating Factors for Economic Integration: India's Look East Policy

India's Look East policy, initiated in 1991, was a strategic move that changed India's approach for its own development and its vision of the evolving global economy. Essential philosophy behind this policy was to forge closer and deeper economic integration with its eastern neighbours. The Look East policy is said to be the product of emergence of a new global regime focusing on globalisation and liberalisation in the post cold war era. The emergence of regional economic groupings around the world, a shift in power dynamics with the formation of a multi-polar world, and the slow process of economic integration within South Asia can be identified as just some of the important facilitating factors for India's Look East Policy. The geographical proximity of India's NER with East and Southeast Asia further reinforced the idea of focus on the NER and its integration with ASEAN.

Following the establishment of the ASEAN-plus-one (India) process³ and after six years of negotiations, ASEAN and India finally signed the ASEAN-India Trade in Goods (TIG) Agreement in 2009. The signing of the ASEAN-India

Box 1: India's Journey towards Economic Integration with ASEAN

- A sectoral dialogue partner with the ASEAN in 1992
- A full dialogue partner in 1995
- A member of the ASEAN Regional Forum (ARF) in 1996
- A summit level partner (on par with China, Japan and Korea) in 2002
- First India-ASEAN summit in 2002
- India accedes to the Treaty of Amity and Cooperation in Southeast Asia at Bali summit 2003
- Signed Framework Agreement for Comprehensive Economic Cooperation in 2003
- India-Thailand sign FTA in 2004
- Negotiations with Malaysia begins on Comprehensive Economic Cooperation Agreement in 2004
- India-Singapore sign Comprehensive Economic Cooperation Agreement in 2005
- Joint study group set up for Comprehensive Economic Cooperation Agreement with Indonesia in 2005
- Finalised FTA negotiations in August 2008
- Signed India-ASEAN FTA in August 2009

TIG Agreement paves the way for the creation of one of the world's largest FTAs – a market of almost 1.8 billion people with a combined gross domestic product (GDP) of US\$2.75tr. India-ASEAN FTA is also significant because it is the first multilateral FTA which India has signed.

The ASEAN-India FTA will see tariff liberalisation of over 90 percent of products traded between the two dynamic regions, including the so-called “special products”, such as palm oil (crude and refined), coffee, black tea and pepper. Tariffs on over 4,000 product lines are expected to be eliminated by 2016. The ASEAN-India TIG Agreement will enter into force from January 2010 once India and at least one ASEAN Member State notify completion of their internal ratification process.

The potential impact of FTA on economies of both India and ASEAN member countries continues to be controversial, especially in smaller and underdeveloped countries. Anecdotal evidence from other such global FTAs, however, suggests that small and underdeveloped countries appear to be the largest beneficiary of such RTAs. It has been observed that in the post integration phase, countries with low income benefit more from integration than the other members.

Basic Characteristics of the Northeastern Region of India

Northeast India consisting of eight states, located in the NER of the country is ethnically, linguistically and culturally very distinct from the rest of India. NER as a whole represents 8.9 percent of India's geographical area (262,187 sq.

km.), 3.8 percent of India's population (39.04 million in 2001), and a little over two percent of India's GDP. Assam is the largest state of Northeast representing 30 percent of the region's geographical area, 68 percent of its population, and 30 percent of Northeast's net state domestic product (NSDP).

NER offers plenty of energy and mineral resources such as natural gas, crude oil, coal, limestone, etc. It accounts for 20 percent of hydrocarbon (oil and gas) potential, large quantities of low ash coal resources, limestone and dolomite deposits, as well as other minerals, such as kaoline and graphite. Assam and Tripura offer high natural gas reserves; together they are estimated to have 48 billion cubic meters of natural gas reserves. Besides, Northeast also has huge reserves of coal, limestone, and dolomite. In addition, substantial amount of clay, white clay, kaoline, graphite, quartzite, sillimonite, uranium, etc. have also been mined in the region recently.

The basic characteristics of the region have been summarised in Box 2.

Box 2: Basic Intra-regional Economic Characteristics of NER	
1.	While the region is diverse and heterogeneous in some, it is homogeneous in other aspects
2.	There are differences among the eight States in the NER with respect to their resource endowments, level of industrialisation as well as infrastructural facilities. The industrial sector has mainly grown around tea, petroleum [crude], natural gas etc. in Assam and mining, saw mills and steel fabrication units in other parts of the region
3.	The economy of the region is still primarily agrarian but its full potential is yet to be exploited
4.	The pressure for employment is on the service sector
5.	The contribution of agriculture to State domestic income is much higher in this region, except for Meghalaya and Nagaland
6.	Mining in case of Meghalaya and forestry and logging in case of Arunachal Pradesh and Nagaland are important contributors to NSDP
7.	The contribution of construction is also high in this region
8.	Growth in per capita income is almost stagnated in Assam since the 90's, was better than the national average in Meghalaya, an increasing trend in case of Arunachal Pradesh, Manipur, Nagaland, Sikkim & Tripura
9.	Despite being rich in natural resources, development in the NER has lagged behind the rest of the country
10.	The region's economy is generally characterised by low per-capita income, low capital formation, inadequate infrastructure facilities, geographical isolation and communication bottleneck, inadequate exploitation of natural resources like mineral resources, hydro power potential, forests etc., low progress in industrial field, lack of private and foreign direct investment (FDI) and high unemployment rate among the relatively high literate people

The potential opportunities arising out of natural and other resources, which would give the region an advantage, are summarised below:

- (i) The region has the potential to develop into a vibrant source of energy, oil, natural gas, coal, and limestone. Additionally, it is also endowed with India's largest perennial water system – the river Brahmaputra and its tributaries – which can help generate hydro-power based energy, transforming the region into a source of clean energy powerhouse.
- (ii) The Brahmaputra valley provides fertile soil for cultivating horticultural products, plantation crops, vegetables, spices, rare herbs, and medicinal plants. Currently, three agricultural export processing zones are in operation.
- (iii) Potential for immense tourism opportunities exist due to the region's rich bio-diversity, rare flora and fauna, natural scenic beauty, unique performing arts, and varied cuisine and handicrafts.
- (iv) Geographical advantage exists due to proximity to countries in South and Southeast Asia. Northeast can emerge as a strategic base for foreign/ domestic investors to tap markets of South and Southeast Asia.
- (v) Opening of a border custom station between Myanmar and Northeast (Moreh in Manipur) along with the possibility of a second border trading point opening at Champhai, the region is seen as a corridor for flow of goods and services between India and Southeast Asia.
- (vi) Northeast's internal waterway network connects the region with Bangladesh and Myanmar, giving access to the ports of Chittagong (Bangladesh), Calcutta and Haldia (West Bengal in India), and Sittwe (Myanmar).
- (vii) Industrial growth centres in NER has already been converted into tax-free zones for the next 10 years. Moreover, the government also offers incentives on transport, capital investment, and interest subsidy on working capital.

Need for Economic Integration of NER with ASEAN

India's economic growth could benefit from developing NER and exploring areas of potential in the region. Socio-economic indicators show a high level of regional imbalance and socio economic backwardness among Northeastern states. The region is lagging behind other states in terms of per capita income, industrial growth, foreign investment and infrastructure. Even after 60 years of planned economic strategy the country has not succeeded in providing basic infrastructure and resource base to this geographically isolated and ethnically sensitive region. India's approach towards a balanced and sustainable economic growth under globalisation and liberalisation is not expected to achieve its targeted objective unless the compelling issues of regional imbalances are tackled with effective policy framework.

Box 3: Need for Economic Integration of NER with ASEAN

Some inducing factors for Integration:

- Cultural proximities with some of the ASEAN countries;
- Accessing ASEAN market for Northeast people can be easier in terms of time and money spent on travelling than accessing some far flung market within India; and
- Scope for economic development to be enhanced post integration due to various factors: (a) increased economic activities, (b) increased exports from the region, (c) increased movement of tourists (d) increased investment by domestic and foreign companies (e) transfer of technology, knowledge and (f) indirectly from higher level of international exposure of the local producers.

The integration of the NER with the ASEAN can lead to:

- increased per capita incomes, which is presently very low compared to the national per capita income;
- development/creation of infrastructure in the region; and
- enhance the productivity and efficiency of the local producers.

3

Emergence of ASEAN and India as Economic Powerhouses

ASEAN currently with ten member states has a population of about 575 million, a total area of 4.5 million square kilometers, a combined GDP of over US\$1,280bn, and a total trade of over US\$1,400bn. ASEAN was established in 1967 in Bangkok by the five original member countries, namely, Indonesia, Malaysia, Philippines, Singapore, and Thailand, while Brunei Darussalam (1984), Vietnam (1995), Lao PDR and Myanmar (1997), and Cambodia (1999) joined at later dates.

Box 4: Overview of Similarities between India and ASEAN

- Both have recently gained prominence in terms of market size
- Both are growing at a relatively faster rate than many other countries
- Both are pursuing economic reforms to liberalise their economies
- Both are in the process of integrating their economies with the global system

ASEAN is now a dynamic, rapidly growing region that strives to effectively manage both its diversity and growth. Trade is a major priority and an important engine for growth in the region. ASEAN economies have the highest trade to GDP ratio in the developing world. From 1990 to 2005, ASEAN trade experienced a per annum growth rate of over 10 percent. In contrast, over the same period, trade expanded by just over six percent in the European Union (EU), nearly seven percent in North American Free Trade Agreement (NAFTA) member countries, and by 8.7 percent in *Mercado Comun del Sur* (MERCOSUR) countries. Further, growth in intra-regional trade among ASEAN member countries was also impressive. East Asian intra-regional trade grew at a per annum rate of 13.4 percent and trade within ASEAN grew by 12.4 percent. Thus, increasingly the fuel for trade growth is coming from within the region.

Similar to ASEAN economy, India has also attained a place of prominence at the global stage. In 2007, India's GDP was valued at US\$1.237tr, making it the 12th largest economy in the world or fourth largest by purchasing power adjusted exchange rates. India's nominal per capita income of US\$1,043 is ranked 136th in the world. India's growth rate, which has averaged 7.5 percent a year in recent years, is expected to double the average income within a decade.

The two regional markets can be combined to yield a market of huge potential for growth and investment by both domestic and international investors. The emerging geographical and economic configurations of the two regions are shown in Table 1.

Table 1: India-ASEAN: Current Status and Potential (2007)			
Economic Indicators	India	ASEAN	Combined Market Size
Geographical Area (th.skm)	3290.0	4464.3	7754.3
Population (mn)	1122.0	575.5	1697.5
Gross Domestic Product (US\$bn)	1160.0	1246.9	2441.9
Merchandise Trade (US\$bn)	298.6	1404.8	1703.4
Foreign Direct Investment (inflows US\$bn)	32.4	63.3	95.7
Number of Greenfield Projects (Source)	213.0	242.0	455.0
Number of Greenfield Projects (Destination)	682.0	981.0	1663.0
Foreign Exchange Reserves (US\$bn)	273.0	391.5	664.5
<i>Source: Compiled from different sources (World Economic Outlook Database, 2008, ASEAN Secretariat)</i>			

Post economic integration, the combined region would create a market of over 1.7 billion people with a combined GDP of over US\$2.7 tr, merchandise trade of US\$1.7tr, and foreign exchange reserves of over US\$660bn. The market size is huge, and so are the opportunities for both domestic as well as international investors. Both the regions could potentially benefit immensely from economic integration.

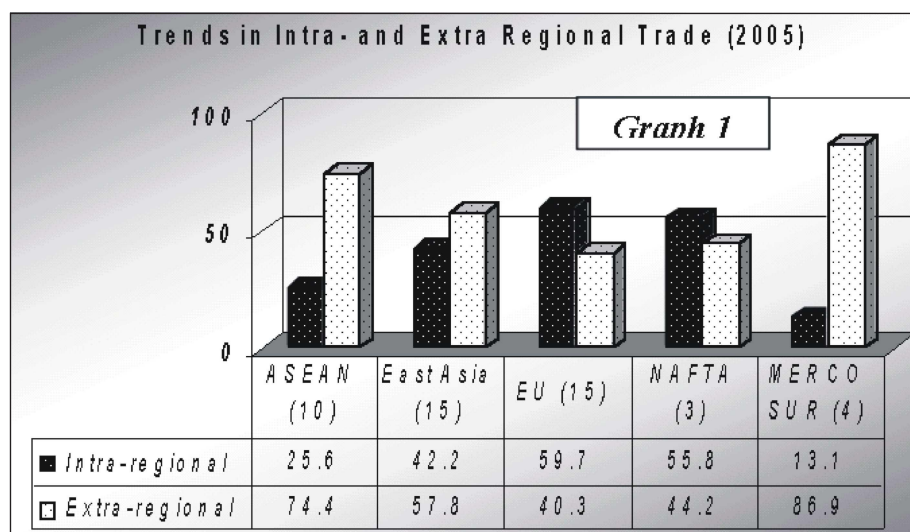
Trends in Regional Integration and Opportunities for India and ASEAN

Despite ongoing global initiatives for the creation of a multilateral trading system, a large number of countries are currently actively engaged in negotiations for regional agreements for development of domestic economies due to economic, political and strategic considerations. Regional and bilateral considerations appear to be a more viable proposition for these countries. Also, such trade arrangements benefit developing countries, since they limit exposure to global economic shocks, and prepare the economy through development of skills and market for a more

Table 2: Trends in Intra- and Extra-regional Trade					
Region/Economic Group	Share of Regional Trade			WMS* Change (in percent)	Annual Growth Rate (in percent)
	1990	2000	2005	1990-2005	1990-2005
ASEAN (10) to World	100.0	100.0	100.0	1.8	10.2
Intra-regional	19.0	23.0	25.6	0.7	12.4
Extra-regional	81.0	77.0	74.4	1.0	9.6
East Asia (15) to World	100.0	100.0	100.0	8.7	11.5
Intra-regional	32.6	38.2	42.2	4.9	13.4
Extra-regional	67.4	61.8	57.8	3.8	10.4
EU (15) to World	100.0	100.0	100.0	-9.4	6.1
Intra-regional	65.5	61.1	59.7	-8.4	5.4
Extra-regional	34.5	38.9	40.3	-1.0	7.3
NAFTA (3) to World	100.0	100.0	100.0	-1.9	6.9
Intra-regional	41.3	55.7	55.8	1.4	9.0
Extra-regional	58.7	44.3	44.2	-3.3	4.9
MERCOSUR (4) to World	100.0	100.0	100.0	0.2	8.7
Intra-regional	08.9	20.9	13.1	0.1	11.5
Extra-regional	91.1	79.1	86.9	0.1	8.3
World Exports (US\$bn)	3224.8	6233.1	9859.0	-	7.7
* WMS – World Market Share					
Source: Calculated from United Nations (UN) Comtrade Data, 2007					

extensive trade arrangement at the multilateral level. More importantly, a large number of countries have immensely benefited from their approach to regional integration. Table 2 demonstrates the current trend in intra and extra-regional trade of selected major regional blocks.

In comparison to other major regional blocks, ASEAN countries appear to have a relatively low level of intra-regional dependence on the member countries. Only a quarter of their trade comes from the member countries. It is ranked second to MERCOSUR region in which intra-regional trade accounts for only 13 percent of the total trade. For other regions the share of intra-regional trade is as high as 60 percent for EU, 55 percent for NAFTA and 42 percent for East Asia.



It is also interesting to note that over the last 15 year period, intra-regional trade for all the major regional groupings has increased except for EU. This reflects an increased dependence on the member countries. The decline in intra-regional trade among the EU member states could mainly be due to a high base of the group's intra-regional trade, accounting for more about three-fifth of total trade. This may also be indicative of the fact that the group's requirements are more diversified than other regions.

The country-wise picture, however, demonstrates a different trend. One very distinguishing feature of most of the regional groupings is that while the relatively developed countries depend more on extra-regional trade, underdeveloped and developing countries seem to be more dependent on intra-regional trade. Another important feature of regional integration is that while regional integration meets the need for a more extended market for the products of the relatively developed countries, it also helps to create consumer surplus in the developing countries. And, therefore, it is beneficial to both – developed and developing countries.

Table 3 clearly shows that for Lao, PDR, the least developed country (LDC) of the group, intra-regional trade accounts for almost 80 percent of their total trade. Another country, Myanmar has also a similar trading pattern, with about three-fourth of the total trade originating within ASEAN. For other relatively developed countries, the share of intra-regional trade is quite low – 28.6 percent for Singapore, 25.7 percent for Malaysia, 20.3 percent for Thailand, 23.4 percent for Indonesia and 19.1 percent for Columbia. Seeing the current trend in intra-regional trade among the ASEAN counties, especially in the case of imports, it can be argued that the task of integrating Northeast with ASEAN will be very challenging and its success will depend on ground level product wise and sectoral assessment of intra-regional trade patterns among the ASEAN countries.

Table 3: Countrywise Trend in Intra- and Extra-ASEAN Trade (2006)

	Exports		Imports		Total Trade	
Country	Intra-ASEAN	Extra-ASEAN	Intra-ASEAN	Extra-ASEAN	Intra-ASEAN	Extra-ASEAN
	Share (in percent)	Share (in percent)	Share (in percent)	Share (in percent)	Share (in percent)	Share (in percent)
Brunei Darussalam	24.8	75.2	50.1	49.9	28.9	71.1
Cambodia	6.7	93.3	33.9	66.1	19.1	80.9
Indonesia	18.3	81.7	31.7	68.3	23.4	76.6
Lao, PDR	72.0	28.0	85.2	14.8	79.8	20.2
Malaysia	26.1	73.9	25.2	74.8	25.7	74.3
Myanmar	61.2	38.8	55.5	44.5	59.0	41.0
The Philippines	17.3	82.7	19.7	80.3	18.6	81.4
Singapore	30.9	69.1	26.1	73.9	28.6	71.4
Thailand	22.2	77.8	18.5	81.5	20.3	79.0
Viet Nam	16.8	83.2	31.0	69.0	24.2	75.8
ASEAN	25.2	74.8	25.0	75.0	25.1	74.9

Source: ASEAN Secretariat, www.aseansec.org

4

Trends in Two-way Trade between India and ASEAN

Within the ASEAN, India's major trade partners are Thailand, Malaysia and Singapore. Almost 50 percent of India's exports to ASEAN consist of mineral products (fuels and oils) and gems and jewellery. Another 20 percent consists of organic chemicals, iron and steel and animal fodder and waste. In the case of India's imports, about 50 percent consist of electrical and non-electrical machinery, vegetable oils and fats and mineral fuels and oils. It is expected that the FTA with ASEAN will be helpful in further expanding the intra-regional reach of Indian and ASEAN products to other members of the group and also to the extended market.

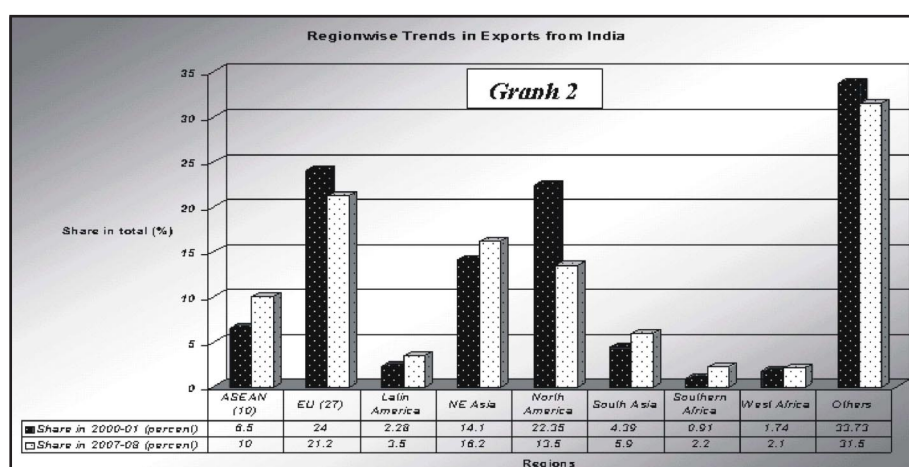
India's trade with ASEAN has increased at a very impressive rate during the last few years. At the time of the first India-ASEAN summit in 2002, trade between India and ASEAN was US\$9.7bn. Over a period of six years, it has reached a level of about US\$40bn, a fourfold increase. It is estimated that at the current rate the two way trade would reach the level of US\$50bn by 2010. During the past seven years, 2000-01 to 2007-08, as indicated above, total trade has expanded by over four times. This growth surpasses that with any other region.

Exports within the same period (2000-01 to 2007-08) from India to ASEAN have increased by nearly five times, higher than that with any other region except with Southern Africa which however, to begin with was at a low base.

Exports from India to ASEAN appear to have the most impressive growth compared to any other region. This increase in trade with the ASEAN is an anomaly given the declining trend in India's trade with other major trading partners. Table 4 shows that the share of Indian exports to two major export destinations, namely the EU and North America has declined during the same period.

Table 4: Regionwise Trends in Exports from India			
(Unit: in US\$bn)			
Region	2000-01	2007-08	Change (No. of times) (in 2007-08 over 2000-01)
ASEAN (10)	02.91	14.67	5.04 times
EU (27)	10.69	23.82	2.22 times
Latin America	01.12	04.58	4.09 times
NE Asia	06.28	20.12	3.20 times
North America	09.96	12.03	1.20 times
South Asia	01.95	07.67	3.93 times
Southern Africa	00.40	03.21	8.05 times
West Africa	00.78	02.70	3.46 times
Others	10.47	40.53	3.87 times
Total Exports	44.56	129.33	2.90 times
Source: compiled from ITPO's www.tradeportalofindia.com			

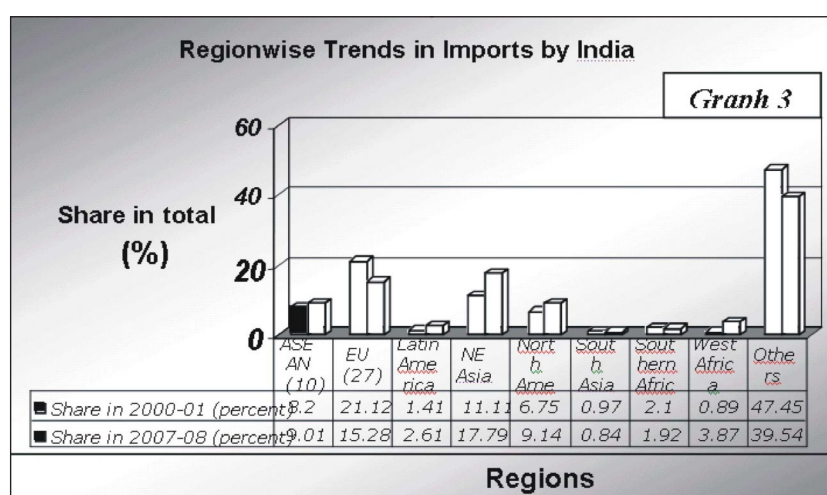
Import figures from ASEAN also demonstrate a similar trend, having increased nearly five times during the analysis period (2000-01 to 2007-08). Growth in imports from the region is higher than imports from other regions, with the exception of imports from North America which exhibited a six fold increase.



The imports from the region also show an upward trend registering an increase of over five times during the period 2000-01 to 2007-08. This is the fourth highest increase compared to imports from any other country or group except for Northeast Asia and West Africa (which is at a low base).

Table 5: Regionwise Trends in Imports by India			
(Unit: in US\$bn)			
Region	2000-01	2007-08	Change (No. of times) (in 2007-08 over 2000-01)
ASEAN (10)	04.14	22.67	18.53 (5.47 times)
EU (27)	10.67	38.43	27.76 (3.60 times)
Latin America	00.71	06.56	01.85 (7.83 times)
NE Asia	05.62	44.75	39.13 (7.96 times)
North America	03.41	23.00	19.59 (6.74 times)
South Asia	00.49	02.11	01.62 (4.30 times)
Southern Africa	01.06	04.63	03.77 (4.36 times)
West Africa	00.45	09.74	09.29 (21.64 times)
Others	29.99	99.47	69.48 (3.31 times)
Total Imports	50.54	251.56	201.02(4.97 times)
Source: compiled from ITPO's www.tradeportalofindia.com			

The India-ASEAN FTA is considered as a vital development in promoting trade and export-led growth in the region. Due to the impact of the recession on the US, Japan and the EU, exports from countries such as China, India and ASEAN to these regions have fallen sharply. This should be an opportune time for India and other countries to move ahead with the purpose of harnessing other regional countries for enhanced trade and economic relations through promoting cooperation in the region. This is consistent with one of the critical policy recommendations from the G-20 summit that recommended increased trade relations among countries. The India-ASEAN FTA has, thus, become more relevant from the Indian point of view.



5

Identifying Exportables for the Northeast and Their Export Potential vis-a-vis the ASEAN Market

The prospects of NER reaping the benefits of increased trade and economic cooperation between India and ASEAN critically depend on complementarities between availability of products in the NER and their demand in the ASEAN market. Product identification, therefore, is based on the following necessary criteria:

- (a) Availability of products in the region,
- (b) The region's capacity to produce and process products,
- (c) Existence of basic infrastructure for a sustained production,
- (d) The potential capacity of the local producers, and
- (e) Existing/proposed capacity creation or capacity building.

To make the production identification more useful and effective, four other qualifying criteria have been used as outlined in Box 5.

Box 5: Qualifying Criteria for Products' Selection

- **Firstly**, there should be existing government programmes focused on export promotion from the NER
- **Secondly**, the identified products should be directly or indirectly available in the region
- **Thirdly**, identified products should have adequate infrastructure for sustained production/processing
- **Fourthly**, there must be sufficient demand for the identified products in the ASEAN market

Government Initiatives for Export Promotion

With a view to promote exports from the NER, a North East Cell has been set up in the Department of Commerce. The region has the support of an Export Development Fund (EDF) serving the objective of promoting exports from the region. Activities which have a linkage with exports from the region are eligible for assistance from the EDF. The Agricultural and Processed Food Products Export Development Authority (APEDA) works as a nodal agency for sanctioning projects received under the EDF (NER). The following major projects have been undertaken with support from EDF:

- A project for setting up of International Marketing Cell in for North Eastern States by Export Promotion Council for Handicrafts (EPCH)
- Project on Bamboo Shoot Processing in Nagaland
- Project for Export Promotion of Infrastructure for two tryptophan hydroxylase (TPH) Passion Fruit Processing plants in Manipur. The plan has the following provisions: (i) remunerative prices for farmers growing passion fruit in Manipur and neighbouring states; (ii) reduced wastage and value loss; and (iii)

Box 6: Export Promotion Plans in/under Progress/Consideration

Agri-Export Zones (AEZs)

- The government has approved four AEZs in NER: (i) for pineapple in Tripura, (ii) for floriculture (orchids) and cherry Pepper in Sikkim, exports of orchids have already started, (iii) for ginger in Sikkim, and (iv) for fresh and processed ginger in Assam. During 2006-07 ginger exports worth Rs 21.7mn have taken place from this area.

Coffee

- Coffee development in NER is one of the components for the XIth Plan under the scheme of "Development Support", presently under consideration by the government. Production of coffee is targeted to improve from the present level of 200 tonnes to 600 tonnes and productivity from 75 Kg/Ha to 150 Kg/Ha by the terminal year XIth Plan. There is provision for extending processing and marketing support, which will help the growers to gain value addition and improved realisations.

Spices

- For promoting market for products of the Northeast, an agreement was signed in 2007 between Nagaland government, Spices Board and ITC. This programme intended to expand cultivation of quality chillies in Nagaland, its procurement, trading and export. The other similar agreements to be signed are between states of Meghalaya (lakadong turmeric, ginger and other spices) and Sikkim (large cardamom, fresh ginger and other spices).

Forest & mineral based products

- Bamboo Industrial Complex for Export (BICE), Kanmun Area under Assistance to States for Creating Infrastructure for the Development and Growth of Exports (ASIDE). The project will create infrastructure for export of bamboo and bamboo products and other exportable goods with focus on Bangladesh through Sutterkandi (Assam).

stimulation of agricultural production of horticulture crops by obtaining marketable products with higher value addition.

- Project for creation of integrated trade information and stay facility centre for traders at Moreh, Manipur
- Project for floriculture in Mizoram

There are a number of other export promotion plans under progress for the region. Some of these include creation of agri-export promotion zones and planning for improvement in production and processing of tea, coffee, spices, rubber, and forest based products.

To strengthen infrastructure for furthering export of agriculture and horticulture produce from NER, APEDA has provided assistance for establishment of the following facilities in the NER:

- A pack house along with four collection centres for processing ginger for exports in Assam.
- A laboratory in Assam for conducting tests on food products for purposes of monitoring, pre-shipment testing and issue of test certificates.
- Canned mushroom project for exports in Nagaland.
- Beekeeping development project for exports in Manipur, which provides employment opportunities to women folk.
- Setting up Integrated Pack house facility for floriculture in Sikkim and Mizoram.
- Training programme for beekeepers in all the states on good beekeeping practices.
- Walk in type cold rooms at Agartala, Aizawl, Imphal and Dimapur.
- Centre for Perishable Cargo (CPC) at Guwahati.

Some Existing Export Products from the Northeast

There are a large number of products in the region which, with a little support from the different stakeholders could become potential export products. Below are some of the products from the region that could do well if allowed access to the ASEAN markets:

(a) Handicrafts

Though the NER accounts for over three-fourth of total production of handicrafts in India, its share in the country's handicrafts exports is estimated at less than one percent, according to an Export-Import (Exim) Bank study.

The region is endowed with a rich repository of arts and crafts, like bamboo and cane items, basketry, carving, hand embroidery, textiles, jute craft, that are eco-friendly. However, despite the presence of such products, their export from the region has been insignificant. Products from the Northeast could reap this potential

by reinventing these products. This can be done through upgradation in production techniques, diversification and the introduction of information and communication technologies (ICT) interface in the value chain.

While price is an important decisive factor, aesthetic appeal, finishing, quality and presentation, and timely delivery are also other major decisive criteria that may be kept in mind while marketing handicraft products. Exports from NER of India usually suffer due to lack of these features for the international market. A highly integrated approach is required by the stakeholders to remove these bottlenecks for promotion of exports from the region.

(b) Spices

The contribution of the Northeast to India's spice exports of about US\$80mn (in 2006-07) is very small but there is great scope for increasing this contribution. For this, the Union Ministry of Commerce is establishing cold storage facilities at Guwahati, Aizawl, Imphal, Agartala and Dimapur airports and has announced a subsidy scheme in which 90 percent of air freight to Kolkata airport and 50 percent of air freight to New Delhi and Mumbai airports from Northeast airports (for all horticulture products destined for exports) is subsidised by the Union government. The products identified include ginger (Northeast already accounts for over 50 percent of the country's production), turmeric, chilli, black pepper, chilli and large cardamom.

(c) Tea

Of the country's annual average export of tea at 200 million kg, Assam tea accounts for around 22 million kg. According to industry experts, there is a great possibility of increasing the volume of tea exports from NER by creating the necessary infrastructure. It is surprising to note that despite having a production share of over 50 percent in the total tea production of India and having a share of 16 percent in the global production of tea, Northeast share in India's total volume of tea exports is only about 20 percent. Any attempt to increase exports of tea from the region will require substantial money to be invested in infrastructure required for tea processing. It might require hiking the total quantum of funds for the tea sector from the present Rs 3.5bn (US\$10mn) to Rs 10bn (US\$200mn) under the XIth Plan period as part of its strategy to upgrade the quality of Indian tea products. This initiative might support other measures in enhancing exports from the region.

Identifying Exportables for the ASEAN Market

Presently, India exports 98 different types of product groups to ASEAN. A two step strategy was followed in identifying the export products. The first step included identifying products which have recently realised a growth of more than 15 percent. From the list, it is observed that there are nearly 80 product

Box 7: Strategy Used for Identifying Final Exports

- Identifying products which realised growth of more than 15 percent
- Identifying high growth products from the export basket which are directly or indirectly available in the NER

groups which registered more than 15 percent growth. The second step focused on identifying high growth products from the export basket which are directly or indirectly available in the NER. The second step is indicative of the products that have high demand in the ASEAN market. By following this selection strategy, 23 products were siphoned from the list of potential products.

However, one also needs to consider that the identified products should not fall under the negative list of products included in the trade agreement with the ASEAN, which is at present not considered due to non-finalisation of the list from the ASEAN member countries. While India maintains a negative list of 489 items which besides others includes 303 items from the agricultural sector, 81 from the textile sector, 50 from the auto sector and 17 from the chemical sector, the negative list from ASEAN member states is not available. Under the FTA, gradual reduction of tariffs has been provided where India's duties on 10,885 tariff lines would be reduced between 2010 and 2019 under various tracks and different timelines.

Exportables

Following the criteria outlined above leads to elimination of more than three-fourth of the product groups, leaving a total of 23 potential products that can be exported to ASEAN market. The list of the products along with their demand growth, confined to exports from India is given in Table 6.

The identified products could be, with intensive cooperation from the stakeholders, produced and processed in the region for export to the ASEAN market.

Table 6: Recent Trends in Exports from India to ASEAN

S.No.	HS Code	Commodity	Growth (in percent) in 2007-08 over 2006-07
1.	15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable wax	104.03
2.	42	Articles of leather, saddlery, and harness, travel goods, handbags and similar articles of animal guts	56.76
3.	68	Articles of stones, plaster, cement, asbestos, mica or similar materials	62.79

Contd..

S.No.	HS Code	Commodity	Growth (in percent) in 2007-08 over 2006-07
4.	22	Beverages, spirits and vinegar	88.17
5.	69	Ceramic products	122.64
6.	10	Cereals	554.54
7.	09	Coffee, tea, mate and spices	17.32
8.	04	Dairy products, bird's eggs, natural honey, edible products of animal origin, etc.	117.33
9.	94	Furniture, bedding, mattresses, mattresses supports, cushions and similar stuffed furnishing, lamps and lighting fittings, etc.	96.90
10.	13	Lac, gums, resins and other vegetable saps and extracts	24.79
11.	06	Live trees and other plants, bulbs, roots and the like, cut flowers, and ornamental foliage	25.04
12.	02	Meat and edible meat offal	54.92
13.	27	Mineral fuels, mineral oils and products of their distillation, bituminous substances, mineral waxes	16.79
14.	21	Miscellaneous edible preparations	60.92
15.	16	Preparations of meat, of fish or of crustaceans, mollusks, or other aquatic invertebrates	35.56
16.	67	Prepared feathers and down and articles made of feathers or of down, artificial flowers, articles of human hairs	75.91
17.	05	Products of animal origin, not elsewhere specified	456.71
18.	47	Pulp of wood or of other fibrous cellulosic material, waste and scrap of paper and paperboard	895.59
19.	23	Residues and waste from the food industries, prepared animal fodder	76.83
20.	40	Rubber and articles thereof	22.97
21.	44	Wood and articles of wood, wood charcoal	109.94
22.	51	Wool, fine or coarse animal hair, horsehair yarn and woven fabrics	84.06
23.	97	Works of art collectors' pieces and antiques	1,311.04
		Overall Growth in Exports to ASEAN Market	29.99
Source: based on data available at ITPO Trade Portal: www.tradeportalofindia.com			

6

Measures Required for Making the Northeast a Business Hub

As mentioned above, the development of the NER is essential with concrete steps needing to be taken to promote infrastructure development in the region. The reasons for underdevelopment of the Northeast are many – from its geographical location to various economic factors. The region for a long time remained isolated and very rarely found itself in the mainstream of Indian polity and economic initiatives except during the last 15 years. Some major initiatives and steps identified for the development of the region include: (a) strengthening the existing cross border trade link between Mizoram and ASEAN (Myanmar), and (b) connecting the point of cross border trade to other NER capitals and state business hubs.

Physical Infrastructure

Physical infrastructure including road, rail and air connectivity is a serious problem in Northeast. Any viable policy should therefore focus on the improving these facilities. Roads are real facilitator to transport connectivity and therefore need to be built and well maintained in the region. All the state capitals and district headquarters could be linked with good road networks. Currently, a major part of the region has *kucha* (unprepared) roads. The up-gradation of road network by the Union Ministry of Surface Transport along with the improvement of 1300 kms of road under a project by Asian Development Bank (ADB) is an important step in facilitating the transport of goods from one location to another, not to mention in increasing human mobility.

Moreover, meter gauge railway lines that exist in the railway lines need to be replaced with broad gauge to facilitate easy transportation of goods across the region. The network of railways should be extended to reach Northeast capitals.

Box 8: Suggested Measures for Improving Infrastructure Bottlenecks

- Strategise the whole region as one unit for export promotion
- Create intra-state connectivity by road, rail and air at various points for export promotion from the region
- Providing entrepreneurship training to local producers
- Providing financial and administrative support to local producers, especially in terms of marketing of the products

Meghalaya and Sikkim are yet to be linked with railways and there should be immediate policy initiative in this regard. Since the distances are long, rainfall is heavy, and landslides are frequent, the air services can play significant role in providing connectivity throughout the region. All the state capitals need to get connected with air network. Non-functioning airports should be rebuilt immediately for providing transport linkages. With the opening up of international trade with adjacent countries especially ASEAN another international airport might become necessary.

Other suggested measures for improving the business environment of the region should include the following:

- (1) Presently exports from NER to ASEAN countries are routed through Kolkata and Haldia ports in West Bengal, nearly 1600 km from Northeast. An arrangement with Bangladesh could probably help in reducing the distance which exporters from the Northeast need to cover for export of their products. It could also help the exporters save on transportation costs.
- (2) The lack of logistical support and communication bottlenecks continues to hamper the region from fully realising its export potential in handicrafts. Any plan for improvement in logistics must take an inclusive approach to include all stakeholders and should involve producers, processors, transporters, storage providers, packers and movers, and finally the commercial units that channelise the product to national and international market.
- (3) The role of development of export promotional organisations as alternative marketing channels, to promote craftsmen and their products is critical for the development of export from NER. Measures must also be taken for reducing the gap between the craftsmen/producers associations and the foreign consumers. Interface between such organisations and the craftsmen in the region appear to be minimal and therefore needs to be further encouraged.

Conclusion

The potential is vast and the task mammoth. Initiatives for economic integration of the NER with ASEAN need to be preceded by an effective integration of the region with the mainstream of Indian polity and economics. This requires the removal of the Northeast population's general sentiment that they are alienated from the rest of India, the creation of adequate infrastructure and a conducive environment for free movement of economic and non-economic resources, besides others. Appropriate economic policy for the region as a whole and creation of support infrastructure only could help the region realise its economic growth and trade potential especially in the context of newly signed India-ASEAN FTA.

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Endnotes

- 1 http://www.wto.org/english/res_e/reser_e/ersd201004_e.pdf
- 2 India-ASEAN FTA was inked on August 13, 2009 in Bangkok after six long years of negotiation which started in 2003 as a part of the Comprehensive Economic Cooperation Agreement (CECA) between India and the 10 Southeast Asian countries. The AIFTA, which at present only includes an agreement on trade in goods (TIG), has come into force from January 01, 2010.
- 3 The establishment of the ASEAN-plus-one (India) process in November 2002 paved the way for the India-ASEAN CECA signed in 2003 with the inclusion of goods, services and investments.



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