NORTHEAST INDIA'S EXPORT :
AN INTERNATIONAL BUSINESS PERSPECTIVE

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Abstract

There has been a remarkable acceleration in the process of trade liberalization and globalization since 1991. The North East Indian (NEI) economy along with Indian economy has become increasingly integrated to the global economy with removal of various quantitative restrictions. The region is endowed with immense natural resources. But in spite of such richness, the potential for the region's exports has not been explored to the fullest extent which calls for an introspection with regard to its export performance. The paper makes an attempt to study (i) the country-wise share of NEI's export trade, (ii) comparative advantage of NEI's export trade and (iii) the impediments to export trade from NEI. In order to carry out the present study, certain research questions have been formulated as (i) whether there is any increase in export trade from NEI since 1991, (ii) whether export trade is competitive in international market and (iii) whether there exist impediments to export trade from NEI. The study is based both on primary and secondary information. Primary sources comprise of interviews and responses collected from exporters engaged in commercial ventures of the region. The data base has been framed from a sample of 150 exporters. The secondary data has been collected from office of the Commissioner of Customs, Shillong, Meghalaya. The study reveals that there has been a year to year variation in volume of trade with its trading partners and NEI has been competitive in exporting minerals and agricultural and allied products. However, inadequate infrastructural supports have been the immediate cause of major deterrent in boosting trade.

Key Words: *North East India, Export Trade, International Competitiveness, Revealed Comparative Advantage (RCA) and Revealed Symmetric Comparative Advantage (RSCA), Infrastructure Interventions and Non-Tariff Barriers.*

INTRODUCTION

Exports are the major focus of India's trade policy. It is a core sector in economic growth of a country and is important for addressing macro economic issues. In India, as in many other nations, export expansion is widely regarded as a means to attain higher rate of economic growth. Since 1991, a number of measures have been undertaken to correct the 'anti-export biases' of policy regimes. These measures have impact not only on volume and composition of foreign trade from India as a whole but also from North East India (NEI).

NEI comprising of the states of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura has an area of 2.62 lakhs square kilometers (7.9% of the country's total area) and has a population of 39 million (3.8% of all India population, 2001 census). NEI shares 2% of the border with mainland of the country and more than 98% is linked with international border i.e. Bangladesh, Bhutan, China, Myanmar and Nepal. This region is bountifully endowed with bio-diversity, hydro-potential, oil and gas, coal, limestone and other mineral resources. It is also rich in forest resources which occupy nearly half of the total area in the region. Forest resources include rubber, cane and bamboo timber, hardwood, medical plants and herbs. Even then industrial development in the NEI does not seem to be significant. Only a negligible percentage of the country's total number of factories is in the region. Most of

which are engaged in manufacturing of food products, wood and wood-based items and non-metallic mineral products. Tea and petroleum are the two important industries and both these industries are playing a vital role in NEI's economy. The other large and medium-scale industries include cement, paper, sugar, jute, fertilizers and spinning. In medium and small-scale sector plywood, handicraft and handlooms are occupying a significant share.

REVIEW OF LITERATURE

There has been a remarkable acceleration in the process of trade liberalization and globalization from the second half of 1990s. NEI economy along with Indian economy has become increasingly integrated to the world economy with the removal of quantitative restrictions. A number of researches were carried out to study trade liberalization programmes, the increase in volume of foreign trade due to its liberalization and the impact of globalization on Indian business environment. Kumar (2001) argues that so far India like other developing countries has been responding to implement her commitments with respect to liberalization of their trade and investment regimes passively. It has not geared itself up for the new emerging global business environment to expand her access to the world market. Banik (2001) has identified a set of factors that appears to be responsible for the decline in India's export growth rate during the post-reform era. The analysis brings out the nature of demand side factors as well as supply

side bottlenecks that have constricted the growth of export. He focuses on achieving price competitiveness, creating potential demand and removing trade barriers including non-tariff barriers that stand as demand constraint. Bhattacharyya (2000), Paul, Ramanathan (2000) and George (2001) have analyzed the impact of EXIM policy on Indian economy and have shown the impediments to foreign trade and globalization process.

There are very few studies undertaken to find out the potentiality of trade in NEI. Baruah (2000) reported a large amount of unofficial export of horticultural products, agro-products, mineral products, coal and lime from NEI to its neighbouring countries. He has gathered from informal discussions with the exporters and officials of enforcement agencies that the volume of unofficial exports will be 4 to 5 times higher that the volume of official exports. Dutta (2000) and Dass (2000) also argued the same fact. Das (2000) advocated through his study that the unofficial exports indicate that there is a hidden demand for export. Bhattacharyya (2000), in his paper identified that in order to boost NEI trade with neighboring countries and to remove illegal trade along the border, Government should provide necessary infrastructure facility at different trade route. Husain (2000) has viewed that a strong vigilance has to be maintained against illegal trade, unlawful activities and infiltration in the border without jeopardizing the interests of the border trade. Gogoi (2004) claims that if formal

trade is developed, it can be said that on the basis of specialisation based on the thrust areas, NEI can emerge as an important exporter to Myanmar, China and other South East Asian countries. Baruah (2000) has articulated that in order to take advantage of new liberalized trade regime in the South East Asian region, all the border trading states of NEI must take adequate steps to improve the infrastructural facilities. Bezbaruah (2000) has emphasized that some economic and legal adjustments have to take place on both sides of the border for healthy and mutually beneficial export trade to grow. Choudhury (2004) has studied the need for infrastructure improvement for enhancement of foreign trade in NEI. He had suggested that NEI requires an up-gradation in all infrastructures if the objective of activating the export trade in the region is to be achieved. Bhuyan (2000), in his paper emphasized that to improve the regional economy and to sustain it, the infrastructure may improve the traditional sector of farming and manufacturing in NEI.

OBJECTIVES OF THE STUDY

NEI is a very significant part of the country as far as trading is concerned. Owing to its richness in tea, coal, limestone and other mineral, agricultural and allied products and forest resources, the region has natural trading advantages. There is a wide scope of generating economic activities through the interaction of exports with its

trading partners. In fact, its neighbouring nations had been the traditional markets for a variety of goods and services provided by NEI before its traditional links were disrupted by partition of the country. However, there is a renewed focus on trade in view of the need to forge closer commercial and economic links with larger markets in the fast developing South East Asian economies. The challenge is in terms of utilizing the natural trading advantage of the region for export promotion through establishment of multi-dimensional relations in terms of trade, business and commercial activities. Hence, the paper makes an attempt to study (i) the country-wise share of NEI's export trade, (ii) comparative advantage of NEI's export and (iii) the impediments to export trade from NEI

RESEARCH QUESTIONS

In order to carry out the present study, certain research questions have been formulated which are mentioned as follows. These have been designed to find out the correct explanation of a phenomenon through a meaningful investigation :

1. Whether there is any increase in export trade from NEI since 1991.
2. Whether export trade is competitive in international perspective.
3. Whether there exist impediments to export trade from NEI.

METHODOLOGY

As a part of investigation in the present study, data have been accumulated from both primary and secondary sources. Primary sources comprise of interviews and responses collected from exporters engaged in commercial ventures of the region. The official record of Directorate General of Foreign Trade (DGFT) at Guwahati, which the present researcher visited once in the month of April 2006 and again in January 2007, shows that the registered exporters were 4900. But it has been reported than many of them are negligently perusing business as a result of which many of them have withdrawn subsequently. From the DGFT authority it has gathered convincingly that around 500 exporters are actively participating in trading from NEI. Hence this forms the total universe. Against this universe the size of the sample chosen for the present research work is 150 registering around 30% of the total universe. The reason for selecting 150 registered exporters is to derive inferences from the faithful representation of the universe. The secondary information has been gathered from the Office of the Commissioner of Customs, Shillong, Meghalaya; Government publications and records; journals; magazines and newspaper. In order to fulfill the objectives, a few statistical tests have been carried out namely cross tabulation, percentage, measures of Revealed Comparative Advantage (RCA) and Revealed Symmetric Comparative Advantage (RSCA).

The RCA index of NEI for a commodity category j is often measured by the commodity's share in NEI's export in relation to its share in India's export.

$$RCA_{NEI\,j} \;=\; (X_{NEI\,j}/X_{NEI\,t}) \,/\, (X_{India\,j} \,/\, X_{India\,t})$$

where $X_{NEI\,j}$ and $X_{India\,j}$ are the values of NEI's export of commodity j and India's export of commodity j and where $X_{NEI\,t}$ and $X_{India\,t}$ are the values of NEI's total export and India's total export. A value of less than unity implies that the country has a revealed comparative disadvantage in the particular commodity category. Similarly, if the index exceeds unity, the country is said to have a revealed comparative advantage in the product.

Revealed Symmetric Comparative Advantage (RSCA) of NEI for a commodity category j is measured by

$$RSCA_{NEI\,j} = (RSA_{NEI\,j} - 1) \,/\, (RSA_{NEI\,j} + 1)$$

A positive value of RSCA implies a comparative advantage in exporting the particular commodity category whereas a negative value implies a comparative disadvantage in exporting the particular commodity category.

In order to ascertain the perceptions about infrastructure interventions, Likert scale is used. Here four ordered response levels are used assigning 4 weightage to outstanding level, 3 weightage to good level, 2 weightage to average level and 1 weightage to poor level of satisfaction. After the questionnaire is completed, an aggregated score for a group of items is created out of the responses gathered to assess the overall level of staisfcation.

In the likert scale based on the sample size of 150 numbers of exporters, six groups of items and weightage assigned to each level of satisfaction; different scores obtained are shown below:

High level of satisfaction   Low level of satisfaction

3600	2700	1800	900
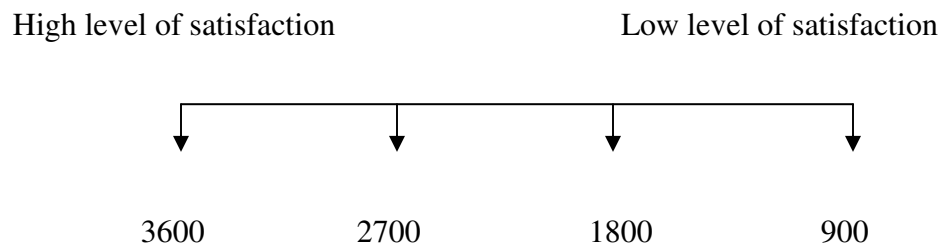
Likert Scale method is also used to ascertain the perception about non-tariff barriers to export trade. In this likert scale, the level of barriers encountered by the exporters are measured. Here four ordered response levels are used assigning 4 weightage to too much level, 3 weightage to much level, 2 weightage to average

level and 1 weightage to not at all level of barriers. After the questionnaire is completed, an aggregated score for a group of items is created out of the responses gathered to assess the overall level of barriers.

In the likert scale based on the sample size of 150 numbers of exporters, six groups of items and weightage assigned to each level of barriers; different scores obtained are shown below:

High level of barriers   Low level of barriers

3600   2700   1800   900
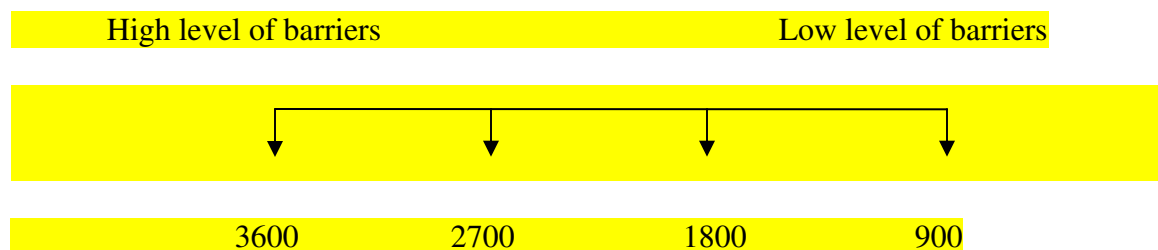
FINDINGS

(a) Country-wise Share of NEI's Export Trade

The export from NEI takes place both directly and indirectly. Direct trade flows through the Land Customs Stations (LCSs) / custom check posts along the international border between NEI and neighbouring countries of Bangladesh, Bhutan and Myanmar. Hence the items of trade, quantities and values are recorded at LCSs. However, in case of NEI's export to countries like Germany, Ireland, Japan, Kenya, Netherlands, Pakistan, Singapore, Sri-Lanka, United Arab Emirates (UAE), United Kingdom (U.K.), etc are through Inland Container Depot (ICD), Amingaon and Lokpriya Gopinath Bordoloi International (L.G.B.I.) Airport. All these countries together have been categorized as 'other countries' for the study purpose since trading to those counties individually is very negligible and insignificant. NEI's exports through L.G.B.I. Airport started its operation in the year 2000-01. In Sikkim, there is no LCS or ICD as of now. But, in case of indirect trade, it is very difficult to estimate the contribution of NEI as the goods produced in the region are exported from the place outside its geographical boundary, after value addition in the process of production of exportable items.

The exports from NEI in terms of value during the period 1991-92 to 2005-06 are presented in tabular format in Table 1 (Annexure). In value terms, the total export has increased from Rs 85.78 crores in 1991-92 to Rs. 105.62 crores in 1992-1993 and then decreased to Rs. 104.13 crores in 1993-94. It gradually increased from Rs 141.78 crores in 1994-95 to Rs. 401.04 crores in 1997-98 and then dipped to Rs. 388.73 crores in 1998-99. The volume of export further increased to Rs. 404.07 crores in 2000-01 and then dived to Rs. 379.15 crores in 2001-02. It then increased to Rs. 435.03 crores in 2003-04 and then again dipped to Rs. 392.03 crores in 2004-05. The total export volume from NEI finally increased to Rs. 437.81 crores in 2005-06. A perusal of the table makes it clear that even though export has increased since liberalization in India in 1991, NEI has exhibited a fluctuating trend in the past fifteen years.

In order to identify the major trading partners in NEI's export trade, the country-wise shares in NEI's export are also presented in the same Table 1 (shown in brackets in percentage). It has been found from the inception that NEI's exports to all the other countries together ranges from 42.66% to 100%. The volumes of export to those individual nations are not available for the study purpose. In regards to trade with neighbouring countries, export to Bangladesh though fluctuating dominated NEI's export followed by export to Myanmar. Bangladesh's share in the region's total export ranges from 31.98% to 54.94%.

Myanmar's share ranges from 0.32% to 9.72%. NEI's export to Bhutan has been very negligible and it ranges from 0.04% to 4.00%. Bangladesh is the single major destination for export from NEI and is determined by several factors such as geographical and political proximity, difference in comparative advantage and degree of trade barriers, among other factors.

(b)   Comparative Advantage of NEI's Export trade

The importance of export trade for the economic development of NEI has made imperative to ascertain the comparative advantage of NEI's export trade. Measures of Revealed Comparative Advantage (RCA) and Revealed Symmetric Comparative Advantage (RSCA) have been used to help assess a nation's export potential. Generally it is used to compare a nation with the world. However, it can also be used at state or region level to compare with the data at the national level. The RCA indicates whether a region is in the process of extending the products in which it has trade potential, as opposed to situations in which the number of products that can be competitively exported is static. It also provides useful information about potential trade prospects with new partners. Liesner (1958) was the first to use post-trade data to quantify comparative advantages, and he attempted this by devising indices of relative export performance as proxies for comparative cost so as to measure the effect of an entry into the European

Common Market on UK industry. The most frequently use measure is, however, Balassa's (1965) 'revealed' comparative advantage which adjusts Liesner's methodology by normalizing the export measure formulated. Balassa's (1965) revealed comparative advantage (henceforth RCA) approach assumes that the 'true' pattern of comparative advantage can be observed from post-trade data. RCA measures can be employed to analyse the changing pattern of comparative advantage across commodities as a result of a process of accumulation of physical and human capital that characterises economic development (Balassa, 1979). The RCA measure can be distorted by availability of data at various levels of aggregation and data biases can be created by government policy interventions such as non-tariff barriers (NTBs) and through export subsidies.

The values of RCA and RSCA for NEI export are presented in Table 2 (Annexure)

The results indicate that NEI has been quite competitive in exporting minerals as RCAs values hovered around 8.9% to 16.7% from 1991-92 to 2004-05 and the RSCAs were very close to 1. Similarly, in case of agricultural and allied products, NEI has comparative advantage in exporting as revealed by more than unity values for RCAs and positive values for RSCAs. However, in case of other products, in almost all the years indicated a comparative disadvantage to NEI in

exporting these items as revealed by less than unity values for RCAs and negative values for RSCAs. It indicates inefficiency in exporting of other items.

(c)   Impediments to Export Trade

To have an elaborate study of the impediments to export trade, this part is put forward in two sub-groups namely, perceptions about infrastructure interventions and perception about non-tariff barriers to export trade.

Perceptions about infrastructure interventions

In order to ascertain the perceptions about infrastructure interventions as stated in the objectives and methodology, a partial field survey was conducted among 150 registered exporters.

The findings of the survey on the level of satisfaction about export related services and available infrastructure have been presented in the Table 3 (Annexure). The information so received against the questionnaire has been synthesized into Likert Scale as indicated in the methodology to assess the actual impact.

The aggregate score in Likert Scale is 1287 which shows that the exporters are not satisfied with the prevailing available infrastructure.

The important observation that emerges from the field survey is the lack of infrastructure which remains the major problem for export promotion from NEI. Infrastructural constraints in most of the LCSs are lack of weigh bridges, good dumping ground, cold storage warehouse, loading / unloading facilities, truck parking space in the various LCSs, drinking water facilities, electricity, credit availability for export financing, medical and telecommunication facilities to name a few. Absence of warehouses and cold storage facilities pose serious problems for exporters of perishable commodities. Inadequate infrastructural support has been the immediate cause of low volume of trade. In fact, this is the sole reason which has made a few of the LCSs defunct. Inadequate infrastructural support in the LCSs in neighbouring nations is also a reason for low volume of trade in some LCSs and lack of trade in others.

The field survey has revealed that the lack of coordination among various agencies relating to exports is another infrastructural bottleneck. Even, law and other situation, insurgency etc create numerous problems for export trade. Lack of awareness of export / import related information, marketing strategies and banking facilities are also some drawbacks for growth of export from NEI.

Therefore, NEI need to minimize trade infrastructural bottleneck by providing various trade related facilities. Export related problems can be tackled only through improved and integrated trading infrastructure, which is responsible for faster movement of goods and services across the nations.

Perception about non-tariff barriers to export trade

Trade liberalization has eliminated most of the distortions that a protectionist tariff system imposes on international business. However, nowadays non-tariff barriers represent a considerably larger barrier to trade than in past decades. The findings of the survey on the level of barriers encountered by exporters have been presented in the Table 4 (Annexure). The information so received against the questionnaire has been synthesized into Likert Scale method as detailed in methodology to ascertain their perception about barriers.

The aggregate score in Likert Scale is 2862 which shows that the exports are encountering barriers while exporting.

The highlights of the field survey are enumerated below:

Illegal / unofficial trade

Illegal / unofficial trade exists between NEI and neighbouring countries. Although it is difficult to arrive at any estimation of the volume of unofficial trade but such trade is substantial. It has covered most smuggling prone bordering districts of Assam, Manipur, Meghalaya, Mizoram and Tripura.

Statutory requirement of trade

At present there is no quarantine office to issue clearance certificate for exporting of agricultural / floricultural / horticultural items in Guwahati. In the entire NEI such facilities are at present available only in Karimganj & Agartala. As Guwahati is regarded as the gateway for the entire North East, a separate quarantine office may be set up for offering such facilities on Phyto- Sanitary measurers

Banking Transaction

With a view to create adequate banking infrastructure for international trade and border trade in the NEI, the banks functioning in this region should have

corresponding arrangements with banks in neighbouring nations. At the moment, these corresponding relationships are restricted to the banks functioning in Kolkata.

Limited items under export trade

A few numbers of items are offered for export in relation to the total export basket of NEI. The majority of items offered for export are not even exported from any of the source of origin in NEI, although the items have been included in the export list.

Transportation bottleneck

From the survey, it can be concluded that the transportation bottleneck remains the major problem of trade from NEI to Bangladesh, Bhutan and Myanmar. All the roads leading to different LCSs are in deplorable conditions. There is also frequent disruption of communication due to natural calamities. The roads from Karimganj to Sutarkandi LCS in Assam, Jowai – Dawki road in Meghalaya, Rahna Bazar in Tripura, Imphal to Moreh, Mon to Lungwa and Kohima to Pankhungri and Molei in Nagaland need to improve by widening and double laning to enable commencement of trade with emerging South Asian nations.

Illegal Taxation

Illegal taxation is a cause of major concern and prohibiting legal trade to flourish. The legal traders are of the opinion that illegal trades often overtake legal trade in a liberal atmosphere. There are also chances of high rate of growth of legal trade after the removal of illegal restriction on border trade. This will accelerate the general economic activities of this region because of inter-sectoral linkages and owing to push factors.

CONCLUSIONS

To make the vision of export promotion a reality, one has to assist NEI to benefit more from export of goods and services and generate opportunity needed for sustainable growth. NEI has natural trading advantages and is certainly capable of manufacturing items that meet market requirements. Market access is vital but more important is the investments which are needed in human resources, institutions and in building a well-equipped physical infrastructure for trade to take place. Transforming market access opportunities into concrete gains will also depend on willingness of the people to implement reforms at home to enable their firms to take advantage of untapped openings abroad which has enormous potential to foster export promotion. The very fact that the NEI is surrounded by

as many as five countries with almost a 5000-km stretch of international border, amply speaks of how important could be the role of trade with neighbouring nations in fuelling the engine of growth and adding to vitality of socio-economic transformation of its 39 million residing people. Thus, the strategy in this regard is to identify new market for trade and improve upon infrastructural constraints.

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Annexure

Table 1
Country-wise share in NEI's Export
(in Rupees crores)

Year	Bangladesh	Myanmar	Bhutan	Other Countries	Total Export
1991-1992	-	-	-	85.78 (100.00)	85.78
1992-1993	-	-	-	105.62 (100.00)	105.62
1993-1994	-	-	-	104.13 (100.00)	104.13
1994-1995	-	-	-	141.78 (100.00)	141.78
1995-1996	-	10.45 (6.09)	-	161.82 (93.91)	172.27
1996-1997	103.67 (32.65)	30.86 (9.72)	-	182.90 (57.62)	317.43
1997-1998	125.45 (31.28)	23.84 (5.94)	-	251.75 (62.77)	401.04
1998-1999	138.75 (35.69)	5.03 (1.29)	-	244.95 (63.01)	388.73
1999-2000	169.81 (42.89)	3.31 (0.84)	-	222.77 (56.27)	395.89
2000-2001	151.23 (37.43)	5.53 (1.37)	-	247.31 (61.21)	404.07
2001-2002	185.85 (49.03)	1.23 (0.32)	-	192.03 (50.65)	379.15
2002-2003	202.55 (49.41)	5.00 (1.22)	0.15 (0.04)	202.42 (49.34)	410.27
2003-2004	238.19 (54.75)	9.41 (2.16)	1.82 (0.42)	185.61 (42.66)	435.03
2004-2005	190.42 (48.57)	6.49 (1.66)	5.49 (1.40)	189.63 (48.37)	392.03
2005-2006	215.92 (49.32)	3.87 (0.88)	17.55 (4.00)	200.47 (45.79)	437.81

Source: Office of the Commissioner of Customs, Shillong, Meghalaya

Table 2

Revealed Comparative Advantage (RCA) and

Revealed Symmetric Comparative Advantage (RSCA) of NEI's Export

Year	RCA Index *			RSCA Index *		
	Mineral	Agricultural & allied products	Other Products	Mineral	Agricultural & allied products	Other Products
1991-92	-	5.591	-	-	0.697	-
1992-93	-	6.122	-	-	0.719	-
1993-94	-	5.532	-	-	0.694	-
1994-95	-	6.230	-	-	0.723	-
1995-96	-	5.203	-	-	0.678	-
1996-97	9.204	3.305	-	0.804	0.535	-
1997-98	8.771	3.878	-	0.795	0.590	-
1998-99	9.596	4.100	0.206	0.811	0.608	-0.659
1999-2000	16.701	3.806	0.101	0.887	0.584	-0.816
2000-01	13.980	4.654	0.190	0.866	0.646	-0.680
2001-02	16.715	3.822	0.155	0.887	0.585	-0.732
2002-03	12.699	4.030	0.254	0.854	0.602	-0.595
2003-04	14.636	3.840	0.182	0.872	0.587	-0.693
2004-05	8.923	5.052	0.672	0.798	0.670	-0.196

* The RCA Index and RSCA Index are calculated as per the formula indicated in the methodology.

Table 3

Export related services and available infrastructure: Field observations

Total Respondent: 150

Items	Level of satisfaction			
	Outstanding	Good	Average	Poor
Credit availability.	-	-	27 (18%)	123 (82%)
Service quality of land customs point.	-	-	126 (84%)	24 (16%)
Availability if export / import related information	-	99 (66%)	36 (24%)	15 (10%)
Availability of cold storage warehousing, weigh bridge	-	-	-	150 (100%)
Availability of loading/ unloading facility	-	-	-	150 (100%)
Getting foreign exchange	-	-	-	150 (100%) -

Source: Information collected through field survey

Table 4

Barriers encountered by exporters

Total Respondents: 150

Items	Level of barriers			
	Too much	Much	Average	Not at all
Illegal trade causing problem for legal trade	102 (68%)	48 (32%)	-	-
Fulfilling statutory requirement of trade e.g. phyto sanitary measures	-	105 (70%)	45 (30%)	-
Banking transaction.	-	102 (68%)	48 (32%)	-
Limited items for export trade	48 (32%)	102 (68%)	-	-
Transportation bottleneck	-	105 (70%)	45 (30%)	-
Illegal taxation	150 (100%)	-	-	-

Source: Information collected through field survey