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A Theoretical Review on the Status and Trend of Exports (Goods and Services) and Investments (Foreign and Domestic) in Assam and North-East India and their Untapped Impact on the Economic Growth of the Region: The Story so far

Rashmita Barua[a] and G.G. Banik[b]
[a]*Asst. Prof. and Research Schohar,Assam Don Bosco University, Airport Road, Azara, Guwahati-781017, Assam, India*
[b]*Associate Prof, Gauhati Commerce College, R.G. Baruah Road, Guwahati- 781021, Assam, India*

ABSTRACT: *A number of studies reveal that export expansion is widely regarded as a means to attain higher rate of economic growth. In a dynamic setting, trade usually enhances technological up-gradation, higher rates of productivity, attracts inward investment and facilitates economic growth. One of the most viable development strategies for a country"s economic success is to find its own niche in the global marketplace, which means to be able to tap the demands of the world economy. Many developing countries have been trying to overcome a dismal economic situation by promoting international trade. In these efforts, exports have been viewed as an „engine" of economic growth. With the emergence of the World Trade Organization, the institutional framework for freer multilateral movement of goods and services has been strengthened. Although the Indian Economy has been benefited from the time new economic reforms were initiated since 1991, North-Eastern Region still remains to be far from the purview of India"s rapid development. With its geographical remoteness, inherent deficiency in infrastructure and the bad publicity for recurrent ethnic strife and militant activities, the region obviously could not become an attractive destination for private and foreign capital investment. But in this period of globalization, where closer cross-border economic ties are being speeding up in many parts of the world, border trade has come to be looked upon with a lot of expectation in this region to break free from the shackles of geographic remoteness. Given the natural and human resource potential of Assam, the need for higher growth has recently been felt by various sections of the people as well as the State and Central Governments.*

Keywords: *ASEAN; Investments; Trade; Exports; Merchandize; Connectivity; FDI; Private Investments; Economic Growth.*

1. INTRODUCTION

As it would appear, a significant part of the literature deals with issues relating to economic backwardness of Assam. A number of studies reveal that export expansion is widely regarded as a means to attain higher rate of economic growth. The starting point of the discussion, over the relationship between a region‘s economic performance and its exports, can be traced back to the founding fathers of modern economic thought. Classical economists Adam Smith and David Ricardo emphasized the importance of International trade in a region‘s economic growth. They argued that a country could benefit considerably if it specialized in a certain commodity and then exported it to the foreign countries that lacked that commodity ***(Smith, 1776; and Ricardo, 1817)***.

In a dynamic setting, trade usually enhances technological advancement, higher productivity, attracts investment and facilitates economic growth. With the emergence of the World Trade Organization, the institutional framework for freer multilateral movement of goods and services has been strengthened. But as has been addressed, ***(M. P. Bezbaruah, 2006)*** Assam, and more importantly, North-Eastern Region, is one of the pockets that do not seem to have profited in the changed economic environment. In the strong state controlled economic regime of pre-liberalised India, the region has not fared very well. Although the Indian Economy has been benefited from the time new economic reforms were initiated since 1991, North-Eastern Region still remains to be far from the purview of India‘s rapid development. With its geographical remoteness, inherent deficiency in infrastructure and the bad publicity for recurrent ethnic strife and militant activities, the region obviously could not become an attractive destination for private and foreign capital investment. But in this period of globalization, where closer cross-border economic ties are being speeding up in many parts of the world, border trade has come to be looked upon with a lot of expectation in this region to break free from the shackles of geographic remoteness.

The trend in international relations has shifted the focus from high military activities to low politics of economic and humanitarian activities in the post cold war era. Today, in the pace of globalization every bilateral and multilateral interaction arrests more space in co-operating in trade and commerce, economy and humanitarian areas. This change is overruling the preoccupation of high politics leading the world into a stage of increased interests in mutual interdependence. No state can stay in isolation in this stage of emerging inter-state regional cooperation ***(Akshay Jyoti Sarma, 2011)***. The NAFTA in North-America, European Union in Europe, ASEAN in Asia, African union in Africa and SAARC in South Asia, etc. are some transnational regionalism with varying degree of cooperation and integration formed beyond the border of a nation state to realize the pace of globalization and multi-lateral co-operation. In all these cases, economic prospects and trade considerations along with historical and socio-political affinity are vital in defining the regional identity but the level of success in the process of cooperation and integration is depended upon domestic circumstances of the participating states ***(Baruah, 2005)***.

The India-ASEAN relations could be seen as a geo-political reality of economic activities. India‘s relations with South East Asia have grown over the years and especially in the recent two decade. The end of cold war augured well for India to start a new chapter in the chequered history of its relations with South-East Asia ***(Chetty, 2003)***. Relations with the countries of South-East Asia, East Asia and the Pacific constitute an important dimension of India‘s –Look East Policy‖, initiated in 1991 to qualitatively enhance the synergic and progressive linkages with the dynamic East and South-East Asian region ***(MEA annual report 2010-2011)***. During the last two decades and particularly after inception of India‘s Look East Policy (LEP), one could observe the dynamics of the India-ASEAN relationship. The first and foremost of that was granting Sectoral Dialogue Partner status to India in 1992 in Trade, Investment and tourism. Since then there were a number of milestones of the India- ASEAN relations ***(ASEAN and India – Shared Vision, 2009)***. The Framework Agreement for Comprehensive Economic Cooperation was signed in 2005 and this instrument has a tremendous role in advancing the further economic cooperation with ASEAN. Under this, free trade in goods, services, investments are facilitated.

The North East India (NEI), one of the areas with great potentialities remains backward for lack of visionary initiatives of political leadership in the post- independent India. NEI is often recognized for its rich cultural and ethnic diversities and that makes the region a showcase of rich cultural diversities. The rich but untapped natural resources including its beautiful landscapes are acclaimed attraction of the region. The peripheral and landlocked Northeast region is stereotypically put outside the purview of mainland India‘s rapid development. The inception of LEP and subsequent engagements with South-East Asia has brought the NEI into the forefront of the country‘s policy circle ***(Agenda for Assam and the North-East – Issues and Trends, 2008)***.

NEI, being the only point of surface connectivity with SEA enjoys a geo-strategic significance in India‘s foreign policy. But from the perspective of development, NEI has been nothing more than a transit route between mainland India and SEA nations. This region has not been able to reap the benefits through increase in export base even after sharing 98% of International border with 5 nations.

Assam is the largest state among the seven sisters in the NER of India. The per-capita income of Assam was a little higher than the all-India level in the early 1950s. It has not grown as fast as the per capita income in India since then and consequently slipped down to remain substantially lower than the national average in recent decades. Further, the gap between the state‘s average level of living and that of the national average has been increasing in recent years. The social, economic, and political environments are considered to be the major decelerators in the slow growth process of Assam. Given the natural and human resource potential of Assam, the need for higher growth has recently been felt by various sections of the people as well as the State and Central Governments ***(Report- Planning Commission, Strategy for Assam's Development, 2002)***.

2. REVIEW OF LITERATURE

From this part onwards, we will revisit the prospects and challenges present within the purview of NEI, growing ties between India and South-East Asia, extent of trade from the region of NEI and specifically Assam and the scope of achievements in this regard in the field of International Trade and Investments (domestic and foreign).

Some of the areas that have been covered under this section for review are:

2.1 Economic Co-operation between India and ASEAN (Association of South-East Asian Nations) and the role of North-Eastern States of India: Current Status, Future Prospects and Transport Connectivity

Assam is clearly the gateway to the North East, neighboring Myanmar, China, Bangladesh, Nepal & Bhutan making it positively viable for trade with ASEAN countries.

One of the most viable development strategies for a country‘s economic success is to find its own niche in the global marketplace, which means to be able to tap the demands of the world economy. Many developing countries have been trying to overcome a dismal economic situation by promoting international trade. In these efforts, exports have been viewed as an ‗engine‘ of economic growth. With conspicuous imbalance in the distribution of wealth between varied nations, ***Fumitaka Furuoka (2009)*** , in his paper, tried to answer an important question as to how can poor nations break free from the ‗vicious circle‘ of poverty and boost the much needed economic growth and development. This study empirically analyses the relationship between exports and economic growth in five selected ASEAN countries, namely Malaysia, Indonesia, Thailand, the Philippines and Singapore. The one-way fixed effects model lead to the conclusion that there exists a significant positive relationship between the size of the national income and the volume of exports. This implies that with an increase in export earnings, the size of GDP in these five ASEAN countries have also been expanding. Findings of the research encouraged a closer look at other factors that may influence the pace of economic growth in ASEAN countries.

Following the initialization of the economic reforms in India in 1991, with regards to liberalization booming up at that point of time, there has been a rapid involvement of Indian companies abroad. The scope and density of economic relations between India and ASEAN countries had been rapidly rising since then in merchandize trade, trade in services, investments, tourism etc. A number of studies have been taken up over the years to analyze the current status of trade relations between these nations. A broad study taken up on assessing the current status and future prospects between these nations was taken up by ***Rahul Sen, Mukul G. Asher and Ramkishen S. Rajan, (2006).*** This paper had analysed recent trends in merchandize trade, services, investments and manpower flows between India and ASEAN and tried to have an access for future prospects for economic cooperation. The analysis in the paper was consistent with the view that India‘s economic structure is largely complementary to ASEAN economies, and therefore there are significant opportunities for mutual gain. The first section of the paper reviewed the existing economic relations between India and ASEAN in merchandize trade, trade in services, investments, tourism and manpower flows. In terms of merchandize trade relations, it was observed that exports to ASEAN had more than tripled from US$ 1.0 billion in 1991-92 to US$ 3.4 billion in 2001-02. Singapore was witnessed to be one of the largest markets in ASEAN for India‘s merchandize exports, followed by Malaysia, Thailand, Indonesia, and the Philippines. But alarmingly, it was found that India‘s imports from ASEAN had outpaced those of its exports, resulting in trade deficit and balance of trade going in favour of ASEAN. A study undertaken in this area indicated that pharmaceuticals, metal scraps, leather goods, textiles, machinery and electronic components and gem and jewellery are among the product areas with clear potential for future merchandize trade expansion between ASEAN and India. Although trade in services is still considered to be rather negligible, this paper tried to analyse some of the areas where trade in services was rather promising between India and ASEAN countries like in the field of ICT (Information and Communication technology), Tourism, outsourcing, etc.

In continuation with the above study, complementarities and areas for mutual economic partnership in trade and investment relations was also considered. The study in this area indicated that Indonesia was considered to be India‘s second largest export market in ASEAN. In terms of trade exchanges, both countries appeared to have complemented each other although bilateral trade tended to be in Indonesia‘s favour. Similarly it was found that bilateral trade between India and Malaysia was heavily in favour of Malaysia. The pattern of trade flow between the two countries suggested lot of rooms for further trade expansion **(*Fatimah Mohd. Arshad, 2006)***. The above study suggested that ASEAN and Indian economies complement each other more than they compete. India‘s asset for ASEAN countries includes its large diversifies and liberalized economy, reservoir of manpower and scientific talent, natural resources, industrial base and one of the largest rapidly growing markets. An FTA between ASEAN and India has been found to be a bridge for trade and investment.

Another study in the related field utilises the international parity conditions to analyse the current level of economic integration between India and the ASEAN-5. The analysis indicates that India and the ASEAN-5 have linkages with respect to goods and services markets, but not in financial market. Therefore, the beneficial impact on financial market will be greater than on the goods and services markets when future liberalization measures like FTA between India and ASEAN are implemented. The results of the analysis also suggest that India and ASEAN-5 are relatively linked by the flow of goods and services. This suggests that the two regions could further deepen their partnerships in FTA, both in goods and services markets and financial market with their main aims of FTA to exploit the complementarities and synergies in factor endowments, economic structure and skills and capabilities in diverse areas, including trade and investment, infrastructure development, science and technology and tourism for an optimal mutual benefit. Only then India could move forward on its way to becoming a trillion dollar economy **(*Lee, Lee and Liew, 2007).***

With greater focus on the post- Cold War era, this article **(*Naidu, 2010)*** broadly examines various dimensions of India- South-east Asia relations. Besides providing a brief backdrop, it elucidates the genesis of the _Look East Policy‘ and locates in the new, post-cold war foreign framework while touching upon the contours of this policy as it evolved over the years. Naidu, in his article tried to bring to our notice that poor economic bonds continue to be India‘s weakest link with a region whose defining feature is economic dynamism. He supported his article by showing the growth of India-ASEAN bilateral trade in the past decade or so. Although India proposed the India-ASEAN Framework Agreement on Comprehensive Economic Cooperation (IAFACEC) in 2003, it took nearly six years of arduous talks to conclude the trade in goods agreement. However, it is expected that India will reap major benefits from agreements on services and investments. The Trade in Goods part have become operational since January 2010, and the services and investments segments are being negotiated. The immediate upside of IAFACEC is likely increase in trade from US$44 billion in 2010 to US$55 billion in 2011. Yet, there is no denying the fact at present that whereas ASEAN‘s share in India‘s total trade is 9.54% in 2010, that of India‘s in ASEAN is about 2.5%. Similarly, the two-way foreign direct investment barely reached $3 billion as compared to $10 billion between China and ASEAN. ***Kondapalli (2010)*** too traces India‘s growing profile with this region in economic, technological, diplomatic, political and military spheres. Another aspect that is overwhelming is India and a majority of the East Asian countries are into trade and investment. The current phase of globalization has witnessed an expansion in trade between these countries. But on the whole, India‘s trade comprises of raw materials exports to the East Asian region and more often ends up in an unfavourable balance of payments problem.

The process of economic integration has many dimensions to it. As different sub-regions of the continent pursue a distinct course of economic integration within, they simultaneously enter into economic arrangements across sub-regions. ***Batra (2010)*** undertook an evaluation of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Co-operation (BIMSTEC), an inter-sub-regional organization, for its ability to act as a bridge between South and South-East Asia. The analysis in this article shows that the BIMSTEC has performed well below expectations. As a regional trade arrangement, the BIMSTEC was designed with the aim of achieving a relatively deeper level of economic integration among the member economies. The study also showed that the performance of the BIMSTEC has not been effective to take the regional economic integration among the member countries to a higher level. Access to a larger market through the trade bloc has not done much good to increasing trade or investment flows for the smaller member economies.

Rupa Chandra (2007) presents the Indian case of liberalization of trade in services, an area which still remains to be unexplored. She shows that the services sector has played an important role in India‘s recent growth process and its integration with world markets. The growth in the services sector has been accompanied by a rapid growth in India‘s trade and investment flows in services. Consequently, India has managed to increase its exports in the services sector to 2.3% by 2005. It is also observed that the composition of exportable services has shifted from traditional services to miscellaneous services. It has been perceived from the study that India could achieve a win-win situation from regional and bilateral frameworks covering services, as it can attain progress on difficult issues such as movement of natural persons, recognition, and labour market tests, while also facilitating investment flows into India in important services to further its own growth and efficiency objectives. In this regard, the trade and investment potential in services still remains largely untapped within the South Asian region.

But all these studies indicated that connectivity between these nations had been a major setback for robust growth in trade and investment between these countries. The major trading route between India and the ASEAN countries is the North-Eastern part of India. A report on ***Transport Connectivity and economic Opportunities- South and South East Asia (2006)*** suggested that the transport integration among countries around NE India is totally out of step with the global trend towards regionalism. The countries concerned have to make a decisive departure from the present situation in order to be fully integrated into the on-going globalization process. It further suggested the countries under consideration to address the issue as it stands the risk of foregoing many of the economic opportunities that the process of globalization can provide**. *Arnold (2006)*** said that a basic strategy for expanding trade is through diversification in the range of products offered in the markets served. The former is generally accomplished through value addition and evolution of the existing exports rather than creating new products with new markets. He supplemented his words by saying value addition includes:

- Moving up the supply chain by improving quality of existing products through better management and productiontechnology or by providing additional processing.
- Producing related products requiring similar inputs or production technology.

Diversification on the other hand includes entering new countries and expanding the coverage in countries already served. He concluded his study by summarizing that trade competitiveness is associated with trade facilitation and reducing the time and cost for processing of imports and export shipments and The NER has so far not enhanced its comparative and competitive advantages through improvements in logistics and supply chains.

2.2 Importance of gaining Comparative Advantage for countries in International Trade: Some evidences through the use of Revealed Comparative Advantage

The importance of Comparative advantage dates back from the time of Adam Smith and David Ricardo, who said that a country can benefit from International Trade if if it specialized in a certain commodity and then exported it to the foreign countries that lacked that commodity, which they termed it as comparative advantage.

With more and more countries moving from protectionism to liberalization of trade barriers, has greatly paved the way for fostering productivity gains, thereby helping nations across the globe to restructure its economy towards gaining its comparative advantage. In this quest, India has taken up a number of policy initiatives to improve its trade potential to revive its economy and superimpose more exposure for its goods in the foreign market. Notable among these was the effort of Liberalization Policy that it undertook way back since 1991. It is therefore obvious that trade liberalization in India would have led to changes in the composition of exports so as to reflect India‘s comparative advantage in the global economy. A country‘s comparative advantage is influenced by a wide range of factors like its factor endowments, production, GDP, consumption and increased trade integration with countries.

Much empirical research on trade has been devoted to testing theories of comparative advantage. A majority of these studies use data on export shares. ***Balassa (1965)*** has undertaken an analysis of the pattern of comparative advantage of industrial countries for the period 1953 to 1971. He uses the RCA index in conjunction with the changes in the pattern of export structures to identify inefficiencies in trade pattern for countries. A study was made ***by Nowak, Vollmer and Martinez (1998)*** to prove whether comparative advantage makes countries competitive or not. The results reflected that low-cost countries do gain a comparative advantage at least in some export sectors like textiles, furniture, beverages. ***Moenius (2006)*** derived and compared several measures of comparative advantage using a Ricardian model of trade. The results were used to construct a measure of relative export performance based on Balassa‘s index of RCA which was further decomposed into their respective comparative advantage and relative trade cost components. The indices obtained from the decomposition of the Balassa Index demonstrated that both comparative advantage and costs of trade are affected by remoteness.

Another study made by ***Utkulu and Seymen (2004)*** analyzed the competitiveness and the pattern of trade flows/trade specialization from Turkey to the EU on sectoral levels. The research was mainly based on different measures of Revealed Comparative Advantage (RCA) measures (in addition to simple Balassa Index). Accordingly, alternative RCA indices were calculated. The stability of different measures of RCA was also tested.

Aulakh, Masaki, Hildy (2011) developed a framework for export strategies of firms from emerging economies and their performance in foreign markets. Hypotheses derived from this framework were tested on a sample of firms from Brazil, Chile, and Mexico. Findings suggested that cost-based strategies enhanced export performance in developed country markets and differentiation strategies enhance performance in other developing countries. Adapting marketing mix variables to the specific needs of developed countries also enhances export performance.

Smit (2010), in his article tried to clarify the meaning of international competitiveness at the country level within in the context of ***Porter's (1990)*** thesis that countries, like companies, compete in international markets for their fair share of the world markets. At a country level, there are two schools of thought on country competitiveness: the economic school, which rejects Porter's notion of country competitiveness, and the management school, which supports the notion of competitiveness at a country level. This article reviewed and contrasted the theories pertaining to these two schools of thought with specific reference to trade theories and the ‗theory' of the competitive advantage of nations originally advanced by Porter. ***Braunerhjelm and Thulin (1999)*** analyzed how increased R&D expenditures and market size influence the distribution of comparative advantage. The study shows how an increase in R&D-expenditures by one percentage point implies a three-percentage point increase in high-technology exports, whereas market size fails to attain significance.

Yeats (1997) studies the possible distortions in trade patterns on account of discriminatory trade barriers that are characteristic of the RTAs. He uses the index of revealed comparative advantage in conjunction with the changes in the regional orientation of exports to identify any apparent in-efficiencies in trade patterns for the Mercusor group of countries. ***Richardson and Zhang (1999)*** have used the Balassa index of RCA for the U.S to analyze the patterns of variation across time, sectors and regions. They find the patterns to differ across different parts of the world, over time as also for different levels of aggregation of the export data. Differentials are accounted for by factors like geographical proximity of trading partners and per capita income with the extent of influence of these factors varying over time and across sectors/sub sectors. ***Yue (2001)*** uses the RCA index to demonstrate the fact that China has changed its export pattern to coincide with its comparative advantage and that there are distinct differences in export patterns between the coastal regions and the interiors in China. ***Bender and Li (2002)*** examine the structural performance and shift of exports and revealed comparative advantage of the East Asian and Latin American regions over the period 1981-1997. It examines, if there is a relation between changes in export pattern among different regions and shifts in comparative advantage between regions.

2.3 Status and Trend of Exports (Merchandize and Services), Infrastructure and Investments (Domestic and Foreign) in NEI specifically Assam: The story so far

In recent years, India has also realised that the South East Asian countries can also play a pivotal role in developing her North Eastern Region, which has fallen far behind the rest of the country in terms of economic growth and overall development, since independence. In this context India has been quite active in her attempts to engage the NER (North Eastern Region) and the South East Asian countries ***(Das, 2010).***

Sarma (2011), in his study, tried to bring to our notice the various areas of strengths of NE region. Despite all the strengths of the region, it has been seen that it is lagging behind the rest of the country and even decelerating. In 1999-2000, only Mizoram among the NE states had real per capita income a little above the all-India average per capita income (1.3%). He suggested a new paradigm of development perspective. One relates to overemphasis on security/ strategic considerations rather than a development perspective in development efforts. The other relates to minimum intervention in the traditional systems. For putting this development perspective into operation, he suggests that immediate priority should be to build the required infrastructure right up to the border area, establishing connectivity and communication links to the cross- border points through which trade and economic exchanges with the countries neighbouring the North-east region are proposed to be promoted under the Look East Policy. The internal economic integration of the NER will serve as enabling conditions for augmenting the gains from trade and economic exchanges with the countries neighbouring the NER that are proposed to be promoted under the Look East policy. It is because a unified market provides a large market access and thus facilitates the gains of scale economies. That will in turn enable each of the states to specialise in economic activities according to their respective comparative advantage. Concrete steps for internal market integration of the region as a follow-up would serve as a first step toward a resurgent North-East India.

A report released by ***IIFT (Ministry of Commerce/Govt. of India, 2008)*** on Agricultural and Industrial Development of the NER showcases the various agricultural and industrial potential of NE states. Notable among these is the findings it made on Assam. Among all other states, Assam is most strategically situated close to India‗s international borders with as many as four countries, i.e., China, Myanmar, Bhutan and Bangladesh. Assam has been a pre-dominantly an agricultural state with about 74% of the state‗s workforce engaged in agricultural and allied activities. Tea industry occupies an important place in the State‗s economy. Other agricultural and horticultural products produced in this area are rice, jute, cotton, oil seeds, sugarcane, potato, orange, banana, pineapple, coconut, mango, and jack-fruit. The state has rich potential of agricultural resources and offers enormous scope for development apart from the traditional items. The potential is particularly sizeable in horticulture, live stock farming, pisiculture, and floriculture. The study confirmed that the industrial scenario of the state is expected to get further fillip in the future with the completion of some major ongoing projects in various parts of the state. It also found that there are 25,000 small scale and tiny sector registered units in the state. But 45% of these units have been found to be either closed or untraceable in the recent past. The state also has vast reserves of crude oil. After tea and petroleum industry, plywood industry is also slowing gaining momentum. Production of other minerals items like coal, industrial gas and limestone is also increasing. The state has tremendous potential for exporting various products manufactured locally to the East and South East Asian countries due to its strategic location. Some of the factors that have been found which is inhibiting the industrial development in the state are:

- Poor purchasing power of the people compressing the size of domestic demand.
- Lack of infrastructural support like land, power, transport, communication etc.
- Lack of local entrepreneurship and skilled labour.
- Low saving rate and the banking system reluctant to provide the much needed capital to the first generation entrepreneurs.
- Inadequate support from the Govt.
- Lack of proper investment climate.

The report further envisaged some indicative areas for development of Industries, Exports and Opportunities for Investment. Those identified areas are: natural gas based projects, granite based projects, fruits and vegetable processing, banana puree processing, mushroom cultivation, papaya processing, spice oils, aquaculture projects, silk based projects, electronics and software, tourism, petroleum based products, ceramic based projects, meat and poultry processing, medicinal plants and herbs based units, diversified jute products, agro-machinery and tea packaging.

Bruner and Cali(2006) in their study, emphasized on giving importance to trade promotion and trade facilitation to break the shackles of economic backwardness of a region. In this regard, they said that –these efforts are particularly crucial to enable the least developed economies or regions, such as Nepal and NER, to garner gains of trade from closer integration into the world trading system‖. The key findings of the study suggested that:

- India is rapidly putting in place a supportive trade policy regime with the intent of doubling the country's share of world exports to around 2% of the total and beyond.
- India's leadership, including the Prime Minister, envisage the NER as a key platform to leverage economic relations with Nepal, Bhutan, Bangladesh, china and Southeast Asia; a component of the framework is the Look East policy.
- Despite recent rapid growth of over 20% or more per year, India's export mix has not changed very much and is still reliant on few natural resources and labour intensive products; an implication that NER is well=positioned to join other comparatively isolated regions of the country in the second wave of globalization.
- State and product-level data show that there is no dynamism in the industrial structures of the NER than is commonly believed.
- The NER's landlocked economy and fragmented terrain create substantial barriers to domestic and international commerce. In addition, modern, financial, commercial and corporate institutions are poorly developed, adding further to transactions costs.
- The region's location between three giant economies China, South-East Asia and mainland India means that NES can be characterised as ‗entrepot' economy.
- The study further attempted to locate the hubs of formal activities in the Eight Sister states. This offers the starting point for the mapping of trade linkages from the hubs of productive activity to the markets in which their latent comparative advantage can be realised.
- An attempt had also been made to analyse the export potential of small-scale industries.
- He further found that in value terms, nearly three-fourths of the total exports are from unregistered enterprises, which underlines their significant export potential. The states of Assam and Nagaland together account for about 96% of the total exports from the NER and 98% of the exports made by the SSIs.
- Finally he infers that the growth of SSI would have high importance in designing a strategy to connect the region with the global market. Export gains and rising market shares can only be built on a solid foundation of efficiency, productivity and competitiveness.

Another research **(*Adikary, Bora and Sikidar, pg-156-200, 2009)*** was undertaken to find out the potentialities of trade in NEI. As has been quoted in their 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 the recent past, 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 study found that the share of NEI in India's total export in the category of mineral products is the highest followed by agricultural and allied activities. However, the share of mineral products decreased gradually. The importance of export trade for the economic development of NEI has made imperative to ascertain the comparative advantage of NEI's export trade. The study used measures like RCA (Revealed Comparative Advantage) and RSCA (Revealed Symmetric Comparative Advantage) to help assess the region's export potential. The results indicated that NEI has been quite competitive in exporting materials as RCA values hovered around 8.9% to 16.7% from 1991-92 to 2004-05 and RSCAs were close to 1. Similarly, in case of agricultural and allied products, NEI showed comparative advantage in exporting as revealed by more than unity values for RCAs and positive values for RSCAs. However, in case of other products, it indicated a comparative disadvantage to NEI in exporting these items as revealed by less than unity values for RCAs and negative values for RSCAs, indicating inefficiency in exporting other items.

Hence, the study made an attempt to study the present status of export trade from NEI and attempted to find the impediments to export trade from NEI.

- The exports from NEI in terms of value during the period 1991-92 to 2005-06 were presented. The figures made it clear that exports have increased since liberalisation in India. But NEI has exhibited a fluctuating trend in the past 15 years. In value terms, exports have increased from Rs. 85 crores in 1991-92 to Rs. 437 crores in 2005-06.
- In order to identify the major trading partners in NEI‘s export trade, the country-wise shares in NEI‘s exports reveal that NEI has major trade relationship with neighbouring countries like Bangladesh and Myanmar.
- Positive growth of export was witnessed in case of exports to Bangladesh but at the same time it was affected by the variations witnessed in export trade to Myanmar and also exports of tea to various other trading nations. The year 2003-04 was witnessed to have a favourable growth of exports which can be attributed because of factors like increase in demand of NEI‘s products in Bangladesh. But again in the subsequent years, downfall of growth could have been observed.
- The researchers in the study further carried out a survey to find the impediments to export trade. They observations from the survey revealed that the lack of infrastructural facilities remains to be the major problem for export promotion from NEI.
- They further assessed that a few number 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 source of origin in NEI, although the items have been included in the export list.
- They could also find that unofficial and illegal trade exists between NEI and its neighbouring allies. It was also learnt that the volume of illegal trade has been higher than the volume of official exports.

Finally they concluded by emphasising on the fact that 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 vitality of socio-economic transformation of its 39 million people residing. Thus the strategy in this regard is to identify new market for trade and improve upon infrastructural constraints.

If one examines the extent of trade from NER, it would be quite visible that NER‘s export is mainly concentrated into the regions of Myanmar and Bangladesh. As it is evident from the following studies made by ***Bezbaruah (2006)*** where he tried to assess the extent to which the expectations regarding the prospects of Indo-Myanmar border trade through the NER are realizable and discussed the issues that need to be addressed for realizing these potentials. The main findings of the above analysis could be summarized in the following points:

- Although the volume of formal trade across Indo-Myanmar border is negligible as percentage of total trade between the two countries or as a proportion of the domestic income of the NER, the volume of informal border trade is significant.
- The existing composition of informal border trade, mainly serves only the consumption demands in the NER and Myanmar. The productions and income generating effects in the two regions are minimal.

- Changes in domestic policy regime and multilateral trading agreements are now abating the trade policy related hindrances in bringing the hitherto informal trade to the formal channels.
- If the initiatives to forge regional trading arrangements with East and Southeast Asian countries through Myanmar bear fruit, that will integrate India and South Asia economically with the newly industrialized eastern bloc. But the share of benefit for the NER from such integration will depend on how much of the trade traffic move through the land routes via north-east.

Further, it is seen that India- Bangladesh trade pattern does not follow strictly the principle of comparative advantage. The reason is that some of the goods produced are in common in both the countries due to similar factor endowments and factor intensities ***(Raychaudhuri, 2005).*** The study didn‛t go into the informal trade aspects. The study also did not mention the service trade at all as one paper by ***Rahman (2000)*** clearly puts the informal trade in education and health services at a very high proportion. In conclusion, he further added that India Bangladesh trade promotes some activities which may be consistent with relative comparative advantage but not global. However, some of these may give impetus to the growth of some industries where a country may enjoy potential comparative advantage which might develop in future with suitable technological up-gradation and government support.

Both the theory and evidence suggests that trade not only strengthens the relations between the trading partners but also acts as an engine of growth. The same is true for investments. Both the host and parent countries gain from the investment in each other‛s country. This paper ***(Ghuman and Madaan, 2011)*** too has attempted to discuss and analyse the trade and investment relations between two neighbouring countries. The foregoing discussion on the paper explains the very low share of trade between India and Bangladesh. This paper has tried to discuss the present status of trade and investment relations between India and Bangladesh since 1975. Though their mutual trade has been increasing since 1975, yet, it could not exploit the latent trade potentialities. The limited export capacity of Bangladesh to India seems to be one of the reasons. Given the size of the Indian economy, it is suggested that India needs to explore the inclusion of new items in its import list from Bangladesh. The Indian investment in Bangladesh and joint ventures in Bangladesh and India could be of great help to enhance their mutual trade. Resolution of some long-pending issues between the two countries and continuous dialogue can certainly help enhancing trade and investment.

The report ***(Report - Indian Institute of Foreign Trade; Ministry of Commerce, 2008)*** on exports estimation mentioned an important limitation in the form that ‗estimating exports that take place from the NER is fraught with several limitations due to lack of proper information and data in almost all the seven concerned states‛. Exports from the NER can be broadly divided into three categories:

- Products of NER but exported primarily from the outside region like tea, jute, silk handlooms, cane and bamboo crafts. Tea constitutes the bulk of exports.
- Items exported through the customs check posts located at the borders within the region. Many of the items are produced locally like ginger, dry chilly, fruits and vegetables etc.
- Products that fall in the third category are those which are produced from outside the region and exported to the neighbouring countries like Myanmar, Bangladesh, and Bhutan etc. In this category are included essential commodities and many engineering goods and pharmaceuticals. However, since there is hardly any value addition in this category and the NER only acts as a transit route, such exports cannot legitimately claim to be North-Eastern origin.

The study found figured out some key constraints that led to low exports from the region. These constraints were- limited export houses and exporters from NER (North-East Region), too much of informal/illegal trade, insurgency, land acquisition act, lack of infrastructural facilities, high incidence of duty and taxes, narrow range of products in authorized trade, closure of ‗border haats' for trade, inner-line permit adopted by Mizoram, Nagaland, Arunachal Pradesh. The report showed the total exports that took place from the NER during 1995/96 and 1996/97 in various categories of goods ranging from agro-based products to textiles, tea, minerals, handicrafts, forest-based products etc. Finally against the backdrop of current production and future scenario, the strengths and weaknesses of the economy and trade had been examined through the construction of a BCG Matrix. The matrix reflected the composition of the items produced vis-a-vis its exports from the region as a whole. Further, the study estimated exports from the NER at Rs. 2176 crores by 2005.

A report compiled by ***Planning Commission (Strategy for Assam's Development, 2002),*** came with the following findings on Assam‘s slow economic development. These findings are:

- The most striking fact of Assam‘s economic development is that it is falling behind the rest of the country. In 1950-51, per capita income in Assam was 4% above national average. In 1998-99, it was 41% below the national average at 1980-81 prices. What is even more alarming is that the gap is growing. Between 1980 and 1990, per-capita income at 1980-81 prices grew by 20% in Assam compared with 40% for all India.
- While the Indian Economy grew at 6% over 1981-2000, Assam state GDP grew only at 3.3%. While the growth rate of the Indian Economy accelerated in the 1990s over 1980s, Assam‘s economy decelerated in the 1990s. The poor growth performance could be seen in all the sectors.
- Industrial growth in Assam has been very poor growing at only 2.6%. Industries grow when the demand for their products grow. If the local market does not provide enough demand, then external markets are needed. Industries in Assam and other NE states have not had adequate markets. Outside the region, they have not been able to compete because of the high transport cost. Within the region, they have lacked good infrastructure.
- The partition of the country imposed on Assam and the NE a huge transport and access disadvantage. As the Shukla Committee puts it, –Partition further isolated an already isolated geo-politically sequestered region. It was left with over 4500 km of external frontier with Bhutan, China, Myanmar and Bangladesh but no more than a slender 22 km connection with Indian hinterland through the tenous Siliguri corridor, the gateway to the North-East. The very considerable market disruption, socio-economic distancing and retardation that resulted has not been adequately appreciated and compensated‖. This transport disadvantage discourages industry from locating in Assam. Only those industries that are based on special raw materials available in NE are likely to locate here.
- One major reason for low-income growth aret in Assam is low rate of investment. The Gross Fixed Capital Formation (GFCF) rate was only 12.3% for Assam in 1980-81 when the all-India rate was high at 21.4%. Unless this difference is narrowed down, Assam‘s income growth cannot catch up with rest of India. Assam would not be able to attract large-scale private investment till insurgency problem is solved.
- The disruption of partition not only increased transport costs but it also dislocated the traditional markets of the North-East. It also increased transactions cost and reduced access to finance. The road distance to rest of India increased, connectivity through waterways became poor, and loss of access to the ports of Chittagong meant international markets also became less accessible. Coupled with these, poor power sector development and difficulties of getting financial credit have also been contributed to poor development of industries in Assam.
- The transport disadvantage and loss of markets has shifted the growth of industries in Assam. State Govt. policies have not been able to overcome these handicaps.

- Faulty strategy was also reflected in wrong type of capital investment, inadequate and low quality infrastructure such as power, roads, and other infrastructures. On the other hand, the state govt failed to create a favourable environment for private investment to supplement its efforts.
- The state is not only deficient in administrative, social and economic infrastructure, but also human capital, all supply side factors. This coupled with poor and uncertain law and order situation does not make Assam a favoured destination for private investment even with tax holidays or freight subsidy as has been extended.

The ***Economic Survey Report on Assam (2011-12)***, summarized the following points on the current economic scenario on Assam and the number of initiatives taken up the Government of Assam:

- The economy of Assam continues to be predominantly agrarian. The Agriculture sector in the State providing employment to more than 50 percent of the rural people. The net cultivated area of the State is 28.11 lakh hectare (2009-10) which is about 88 percent of the total land available for agricultural cultivation in the State. The contribution of Agriculture sector to the State Domestic Product was nearly 25 percent during 2010-11.
- The Industrial scenario of the State is mainly confined within the growth of employment oriented Small Scale Sector, which comprises of manufacturing and processing industries. The contribution of manufacturing sector to Gross State Domestic Product is estimated at 7.0 percent during 2010-11 which is not encouraging.
- The growth observed in the manufacturing sector was the result of benefit achieved in the production of some selected industrial items like Tea, Wheat Flour, Jute textiles, Cement, etc. over the level of production of the previous year.
- The Tea Industry of Assam, playing a vital role in the State as well as in the national economy. The Assam‘s Tea industry also possesses a significant reputation in the global economy.
- Among the Plantation crops, Rubber cultivation is also gaining its popularity in the State due to congenial agro climate as well as its eco-friendly activity.
- Assam has ample scope for Bamboo based industry like Paper manufacturing industry, since this region has highest concentration of bamboo i.e., around 60% of the total Bamboo of the country.
- Traditionally, Sericulture, a major cottage industry of the State, is practiced in more than 10532 villages and provided employment to more than 2.5 lakh of family. Assam has the monopoly in production of Muga, the Golden Silk in the world and 99% of Muga Silk produced in Assam. Assam has also achieved the right of ―Geographical Indication‖ in Muga Silk.
- Assam is richly endowed with mineral resources. The performance of Mining Sector during the year 2010-11 was observed as not satisfactory as compared to previous year. Apart from Natural Gas (utilized) the all other major minerals Coal, Petroleum(Crude) and Limestone of the State have shown downward volume in production during the year
- It has been observed that the contribution of Agricultural Sector to the State economy [GSDP at constant (2004-05) prices] has been recording gradual fall during the period 2005-06 to 2009-10 but shown slight recovery in 2010-11(Quick estimate). On the other hand, the trend of growth of the agriculture sector [GSDP (at constant 2004-05 prices)] was erratic during the same period and finally pegged at 7.5 percent 2010-11 (Quick estimate).
- Assam is traditionally rich in horticultural production due to its diverse and unique agro-climatic condition which is conducive for growing wide range of horticultural crops like

various fruits, vegetables, flowers, spices, nuts, tuber crops and medicinal and aromatic plants. World citrus belt encompasses Assam within it.

- The state produces surplus quantity of fruits & vegetables to the tune of 26 lakh MT. Due to lack of adequate marketing & processing facility about 20% of the produce is lost. In such a scenario, processed food is a great boon for value addition & better commercial gain. 6 nos. of processing units of Pineapple, Orange are set up with support from MFPI. 1 more units are in the pipeline. Still there is huge scope for processing industries in the State.

Export Initiatives

- **Pineapple:** Pineapple cubes are being exported to meet the export demand of 300 MT.
- **Orange:** Assam has started export of Orange recently.
- **Flower:** Dendrobium Orchids are an attraction in Kolkata Market. Anthurium from Kamrup district has become a part of export from North-East.
- **Bhot Jalakia:** Commercial cultivation of Bhot Jalakia, the hottest chilli (a special germ plasm of Assam) has been started recently.

- Assam is a surplus State in respect of production of Vegetables. The farmers faced a lot of problem for marketing of these perishable commodities. Besides there are some other related problems highlighted below:
  - During peak season of harvest from January to March, the markets are overloaded with the Rabi Vegetables and farmers failed to catch remunerative price and compelled to dispose their produce at a very low price during the market day due to non availability of cold storage facility near the market.
  - Inadequate availability of processing units/ cold storage / post harvesting infrastructure like godowns/warehouses.
  - Inability of small and marginal farmers to carry their produce at distant markets where they can fetch justified market prices.
  - Inadequate transfer of off-season Vegetable Technology.
- In Assam, Handloom Weaving is a way of life. It is inexorably linked with Assamese Culture and Heritage. Handloom Industry of Assam is known for its rich glorious tradition of making handloom and handicraft products. It also plays a very important role in the socio-economic development of the State. Assam is a proud owner of more than 13.00 lakh looms out of the total 28.00 lakh looms in the country. In spite of being intensely connected with the culture of the State, the Handloom Industry has not flourished in commercial sphere to the required extent. At present about 2.80 lakh looms are being utilized for commercial weaving in the true sense. About 5.70 lakh looms run semi-commercially and earning subsidiary income. Rests are domestic looms and are run to meet the domestic requirements.
- For facilitating the export-import business with various neighbouring Countries bordering North-East India, Government of India has taken a new initiative to create all infrastructure facilities for the exporter of the region. The Government of India has approved for setting up of two numbers of border trade centre- one at Sutarkandi in Karimganj district and the other at Mankachar in Dhuburi district to facilitate the border trade with the neighboring country of Bangladesh. The main objective of the Border Trade Centre is to provide high standard infrastructure, information and service facilities to the exporter and importer.
- Tourism is a fastest growing industry in the world. Tourism in Assam is based on wildlife, natural beauty, unique flora & fauna, holy shrines, lush green tea gardens, turbulent rivers, vibrant and colourful cultural festivals. Assam has immense tourism potentials, which are to be explored as commercial resources. Eco-tourism is one of the fastest growing tourism segments and therefore the State Government of Assam has given tremendous thrust with relevant to natural beauty and bounty. For the growth of tourism sector, special emphasis has

been given on Tourism Circuit Development, Destination Development, Wayside Amenities etc., through public and private partnership to tap the unexplored potential opportunities. Assam Tourism Policy, 2008 has also been adopted by the State Government giving special emphasis to encourage private investment in Tourism sector by providing financial and logistic support. Efforts have been made to establish linkages with the neighbouring North-eastern States and countries of Bhutan, Nepal, Bangladesh and Thailand for Assam as a regional tourism hub. The State Government has also proposed to create an East India circuit linking Assam, Bihar, Odisha, West Bengal and Sikkim.

- The announcement of the North East Industrial Investment Promotion Policy (NEIIPP), 2007 by the Government of India is another important step towards industrialization of the State where special emphasis has been given on the word **―INVESTMENT‖**. Through this Policy, the Government of India has approved a package of fiscal incentives and other concession for the entire North Eastern Region (NER) and Assam will be the leading State to reap benefit from it.
- Further, special provisions like providing comprehensive insurance subsidy, incentives for setting up of Bio-Technology Industry, Power Generating Plants (both from conventional and non-conventional sources) up to 10MW, Transport Subsidy Scheme etc are incorporated into the Policy to attract more and more investors to the region.
- Assam intends to attract maximum Foreign Direct Investment (FDI) and will put sustained efforts to achieve the objective. The State Government has constituted a separate cell – The Industrial Investment Secretariat Cell (IISC) to facilitate investment and a High Level Committee to accord fast track clearance for investment proposals.
- To generate economic development by accelerating the process of industrialization and to generate employment and increase income, the Government of Assam has declared ***Industrial Policy 2008*** with high expectations to attract more investment from other parts of the Country as well as to provide more support to the local entrepreneurs. The policy also aimed at revival of sick industries as well as gives more focus to Micro and Small Sector.
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The General Agreement in Trade in Services (GATS) under the World Trade Organization (WTO) divides services into four independent modes of supply:

Mode 1 - cross border supply
Mode 2 - consumption abroad
Mode 3 - commercial presence
Mode 4 - movement of natural persons

Many studies confirm a strong association between trade in services and economic growth of a country. Services are considered to be major inputs in the production of goods since some services encourage trade efficiency through improvement in labour productivity. In India, services trade has seen massive increases in the last one decade. In 2008/09 services exports were around US $ 88 Billion, of which 50% was accounted by software exports. Software services exports grew at CAGR of 32% from 2000-2008. Apart from software exports India exports mainly transport, travel, business, financial and communication services ***(CII Report, 2011)***.

Services sector growth can also complement growth in manufacturing sector. There are sectors where a lot of complementarity exists between services & manufacturing growth e.g.

Telecom Services and Telecom equipment manufacturing, electronic hardware & software where a hardware-software combination can accelerate growth of both hardware and software as suggested in the Medium Term Export Strategy (MTES) of the Department of Commerce, healthcare services and pharmaceutical sector, shipbuilding along with ship repair & maintenance services and shipping where growth is sure with growth in volume of trade, R&D services and pharma & biotech sectors, etc. Identifying and promoting the growth of these sectors with considerable backward – forward linkages can help growth of both services and manufacturing and some manufacturing sub-sectors can ride piggy back on the success of the complementary services to achieve quick growth. The recent growth in export of professional services is an example of the potential of other services. The world Investment Report 2004 has stated that world over there is a shift in FDI towards services. This is more so with India‘s FDI inflow to services sector. Another important development in the services sector is the ongoing negotiations at WTO on Services. A clear-cut strategy for services highlighting the potential gains for India in terms of growth, employment and exports is needed to give a possible new direction to the Indian strategy in WTO negotiations ***(Report by Directorate of External Affairs, 2007)***.

The role of the service sector in the transformation of economies of the world has been significant. It has an advantage over economic activities in most countries, not considering the level of economic development. Approximately 60% global output and around 30% global employment is made up of services. Even in many developing countries, services represent more than half of their GDP, with agriculture and industry each making up less than 30 percent of total production. Moreover, the service sector now diverts an emergent section of cross-border trade and investment business. Its rapid expansion has outpaced the growth in merchandise trade. Between 1990 and 2002, world trade in services grew by 155 percent in contrast to 40 percent for agriculture and 97 percent for manufacturing. Much of this growth can be attributed to the advances in information and communication technology and the deregulation and privatization of the service sector around the world, which have made services increasingly tradable. Hong Kong and Singapore became richer than European nations only when they switched from manufacturing to services. The share of services in GDP in Hong Kong is 83 percent, the highest in the world. The share in the United States is 71 percent, and has made the country an economic powerhouse in the 1990s. Manufacturing will still matter in the future, but services will matter more. The South Asian region, comprising India, Bangladesh, Nepal, Pakistan and Sri Lanka, is no exception to this trend. Services have come to occupy between 40 to 50 percent of GDP in these countries. The service sector is the second most important source of employment, after agriculture, in these countries, absorbing about 20-30 percent of the labor force. Certain sectors such as information technology (IT), business process outsourcing (BPO), tourism, construction, and energy services are important contributors to value added, employment, exports, and investment flows in these countries. Countries like India have emerged on the global map due to their success in exporting IT and BPO services. If one examines the composition of services trade, no clear pattern emerges for most of the countries. Only in the case of India, has there been a strong and consistent structural shift in services exports away from traditional areas like travel and transport services and towards other services, mainly business services such as information technology, business process outsourcing, and various professional services as well as tourism (***Sanzgiri**, **2010)***.

While the prospect of export in services is varied, but if we look at the literature, there is hardly any exports in services and FDI inflows in services from Assam.

2.4 Correlation between FDI, Exports and Economic Growth: Some Evidences from the past

It needs little emphasis that a nation‘s international competitiveness today crucially depends upon the growth and technological dynamism of firms belonging to knowledge-based industries.

These high-technology firms lead innovations and create knowledge, which results in enhancing a nations‘ ability to sell more in the world market ***(Nagesh and Pradhan, 2005)***. This paper thus examines the export performance of Indian manufacturing enterprises particularly in the knowledge-based industries. The researchers cited some instances by trying to show the picture of Indian manufacturing industries which is witnessing increasing exposure to foreign direct investment (FDI) by Multinational Enterprises (MNEs). It is also emphasized in the literature on international production that foreign firms have advantages over domestic firms in respect of export performance. In view of their access to parents‘ resources such as ownership of new technologies, skills, brand names, aggressive advertising strategies, globally established marketing channels and distribution networks, and experience of operating in international markets. With access to such intangible assets, foreign firms can be instrumental in promoting exports from the host developing countries. Therefore, this study examines the role of foreign firms in the export performance of Indian Manufacturing. The findings of the study suggests that foreign presence is an important factor for achieving export success as it enhances the capability of exporting firms to ensure better after-sales services and interaction with global buyers.

A number of econometric studies have been done in the recent past to prove the validity of the relationship between FDI infusion in an economy and economic growth. A panel data analysis was done to examine the relationship between Foreign Direct Investment (FDI), financial development and economic growth using Generalised Method of Moments in a group of 70 developed and developing countries from 1988 to 2002 **(*Choong and Lam, 2011)***. It was found that FDI has a negative and significant impact on economic growth in developing countries. The interpretation for the negative sign of FDI is that the weak regulations and the low degree of the financial sector development in developing countries lead to misallocation of this private capital flow, which reduces and even reverses its impact on economic performance. To support this idea, the researchers interacted FDI with different measures of financial sector development. The finding is that when FDI was interacted with financial development indicators, the interaction terms are positive and significant. The finding supports the notion that a certain level of financial sector development is a significant and prerequisite for FDI to have a positive effect on economic growth. The major findings of the study are that FDI generally has a positive impact on the economic growth rate of countries. To host country, FDI offers much more than necessary investment as it raises the factor productivity as well as enhances the ability to better integrate the domestic industries with global markets. A time-series analysis was also employed to prove the causal relationship between FDI and economic growth of Bangladesh using annual data from 1975 to 2005 **(*Md. Gazi Salah Uddin and Md. Wahidul Habib, 2008)***. The Granger Causality test and Error Correction Models were employed taking care of stochastic properties of the variables. Time-series analysis indicates the causal nexus between export, FDI and growth. The results indicated that FDI and exports are co-integrated and suggest a one-way causation from FDI to export growth. This implies FDI causes export growth in the long-run but does not influence in the short-run. The specific objective of the study was to identify factors affecting export in the economy and to test co-integration relationship between a few variables affecting FDI in the country.

A macroeconomic study in this area of study was conducted to validate the importance of FDI in a region. As has been rightly quoted by the authors **(*Verma and Arora, 2008)***, –FDI continues to gain in importance as a form of international economic transactions and as an instrument of international economic integration‖. In judging the significance of FDI especially from the viewpoint of developing countries, the peculiarity amid macro-economic and micro-economic effects of FDI becomes obligatory to elucidate. Whereas the macro-economic effects of FDI are connected with the issue of domestic capital formation, improving balance of payments crisis, creating employment opportunities and taking advantage of external markets for achieving faster growth rates, the micro-economic effects are associated with the issue of cost reduction, product quality improvement, making changes in industrial structure and developing global inter-firm linkages. The study thus tried to check the existence of long-run causal relationship between FDI and economic growth in India. The overall conclusions that emerged from the empirical analysis suggested that FDI is an important variable to augment economic growth. Domestic Investment in the avenues of infrastructure, skills formation, and private corporate sector especially in the manufacturing sector can play a lead role to attract FDI inflows in the economy. Thus the study confirms that the economy can get the benefits of filling up investment gap in the domestic economy through globalization in general, domestic investment and FDI in particular. Further, proper skill development can also help the disguisedly unemployed workers to adopt advanced technology, transferred through the channels of FDI.

In the last three decades, FDI flows have grown rapidly all over the world. This is because many developing countries see FDI as an important element in their strategy for economic development. The FDI has both benefits and costs and its impact is determined by the country‘s specific condition in general and the policy environment in particular. It is a fact that FDI is one of the most effective ways by which developing economies are integrated with the rest of the world, as it provides not only capital but also a medium of acquiring skills, technology, organizational and managerial practices and access to markets. The relationship between FDI and economic growth is very controversial as it varies from country to country. The basic objective of this paper was therefore to investigate the causality between economic growth and FDI in India and China. ***Ganesh Kumar (2011)*** examines the direction of causality between FDI and GDP for India and China using the Granger Causality test. It is evident from the study that in the world total FDI, the shares of FDI inflows in India have increased from 0.15% in 1980 to 3.11% in 2009. However, in case of china it has increased from 0.10% in 1980 to 8.53% in 2009. In the case of China, a high level of economic growth can generate more FDI but a high level of FDI cannot generate additional economic growth. The inflows in a country should be in such a way which leads to the economic growth of the country. For this, such sectors should be explored which actually require FDI for the development of the country.

A study made by ***Balamurali (2004)*** examines the relationship between foreign direct investment and economic growth of Sri Lanka for the period 1977-2003 using Johansen‘s full information maximum likelihood method by considering relationship between real gross domestic product, foreign direct investment, domestic investment and openness of the trade policy regime. The results indicate that foreign direct investments exert an independent influence on economic growth and there is bidirectional causality between foreign direct investment and economic growth.

Roy and Mandal (2009), examined the dynamics between economic growth and FDI for a selected group of Asian economies namely India, China, Hong Kong, Malaysia and Philippines. This paper examined the issue of crowding-in or out effect between foreign and domestic Investment in the long-run. Although it may be seen natural to argue that FDI can convey great advantages to host countries***. Laura (2003)*** showed that the benefits of FDI vary greatly across sectors by examining the effect of FDI on growth in the primary, manufacturing and services sector. An empirical analysis using cross-country data suggested that total FDI exerts an ambiguous effect on growth. Another paper ***(Ilan, 2007)*** investigates the impact of foreign direct investment (FDI) on economic growth using detailed sectoral data for FDI inflows to Indonesia over the period 1997-2006. In the aggregate level, FDI is observed to have a positive effect on economic growth. However, when accounting for the different average growth performance across sectors, the beneficial impact of FDI is no longer apparent. When examining different impacts across sectors, estimation results show that the composition of FDI matters, for its effect on economic growth with very few sectors showing positive impact of FDI and one sector even is showing a robust negative impact of FDI inflows.

International policy makers have long advocated that developing countries should attract the right FDI to tap into the new international production systems of transnational corporations (TNCs), perhaps the most dynamic elements of international trade. The importance of export-platform FDI in stimulating economic growth is well established ***(Lall, 2000)***. Export platform FDI is that in which foreign affiliates of multinational enterprises (MNEs) export most of their output, with the local market in the host country being less significant to the MNE‘s location decision ***(Markusen, et al. 2007)***. Such FDI exhibits two distinctive characteristics. First, there exist certain industries that may exploit the international fragmentation of technologies; for example, products developed in high-tech industries such as electronics, information technology and pharmaceuticals. Low transportation costs in those industries then allows fragmentation in production and benefits from differences in factor costs across economies ***(Arndt and Kierzkowski 2001)***. Second, it is typically actively promoted by policy makers in small economies that explicitly seek access to international technology for ―export-driven‖ growth. MNEs then utilize low cost factor resources and use the host country as the export platform to cater to demand in foreign markets. Export platform firm level FDI may exert two positive effects: (1) the firm will decide to export (which is arguably good for the economy), and (2) firms that already have exported, will export more. Firms that export generally show high productivity growth and contribute to increasing the overall productivity of the host country ***(Kimura & Kiyota 2006; Baldwin & Gu 2003)***, thus justifying host country policies to attract such FDI.

In addition to the studies made which dealt with assessing the overall impact of FDI on growth, a study made by ***Singh (2011)*** focused on the impact of foreign investment on host country industrial structure with special reference to India‘s manufacturing sector during post reform period. The paper discussed various indicators related to liberalization such as foreign investment, export and import intensities, share of foreign firms etc. Moreover, the core variable of the study namely foreign presence indicated positive and significant association with industrial market concentrations. Among other, the other variables such as import intensity and different levels of technology had positive and significant impact on firm‘s concentration ratio. Therefore, the findings of the study point to the regulatory authority to be more vigilant in order to ensure the efficient function of the market in the liberal investment regime.

3. GAPS FOUND IN THE STUDIES MADE SO FAR:

- Lack of adequate data and focused research has not been taken up yet in the NER of India.
- Research is mostly inadequate in finding out the commodities where Assam can gain comparative and competitive advantage over other countries.
- Since Assam is considered as the gateway of north-east and the only thin line of connectivity between mainland India and the rest of the NER, Assam has only confined itself in becoming a transit route rather than an export hub.
- Lack of strong manufacturing base has limited the scope of increasing exports beyond the locally manufactured products.
- Trade in services is completing a neglected area (future prospects considered so far).
- Investment (domestic and foreign) flow in the region is almost negligible.
- The region never tried to revive itself from the clutches of backwardness through the adoption of trade facilitation and infusion of investments.

4. CONCLUDING REMARKS

International competitiveness has become a key issue in the context of the current economic reforms and the global integration thereof pursued by developing countries ***(Nagesh, 2005)***. In a globalized world, the export success of a nation is ever more critical for its long-term economic performance. Export success is likely to lead to productivity growth by reducing technical inefficiency and enabling greater exploitation of economies of scale by augmenting the size of the market. It may also result into higher innovative activity as exporting firms are conscious of technological development abroad in order to stay in the business. Higher export expansion through establishment of export processing zones and a reduction of anti-export bias in inward looking policies can even attract higher quantity and quality of FDI into the economy. And thus generate additional growth impetus. Therefore, the importance of FDI in development is being emphasized by increasing number of developing countries. According to ***Cable and Persaud (1987)***, ―FDI is considered as a means of obtaining not only capital but also technology, scarce management and skill and improved marketing know-how and outlets for non-traditional exports of manufactures, processed commodities and traded services‖.

The mixed findings pertaining to the export performance of foreign and local firms across countries may suggest that some countries have been successful in harnessing the potential of MNEs through expanding their manufactured exports. However, lack of adequate data and focused research has not been taken up yet in the NER of India and specifically in the region of Assam and it still remains to be an untapped field.

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