LOOK EAST, LOOK SOUTH:
Backward Border Regions in India and China

Sushil Khanna
Indian Institute of Management Calcutta

Even by the standards of developing countries, the border between India and China is characterized by large regions that are economically backward and under developed. Moreover, ethnic strife and people's movements for autonomy are distinctively noticeable and common on both sides of the border. It's only in recent years that both the countries have tried to launch new initiatives to develop these regions.

This short paper attempts to trace the policies of the two neighbours towards their border regions and understand the recent changes in strategy for regional development against the background of the two booming Asian economies and its increasing integration in the global economy.

In the case of India this region comprises the so-called north-eastern states (formerly known as Assam and NEFA) and includes the state of Sikkim, which in 1976 was forcibly included in the Indian Union. In the case of China, the western and south western tip of the country comprise of the provinces of Yunnan, Guangxi, Guizhou and the autonomous region of Tibet (we exclude the north western border regions of Xinjiang and Inner Mangolia).

It is significant that in both the countries, the border regions are the most backward and underdeveloped (Table 1 and 2). The high rate of growth in the two economies has only increased the regional gap and inequalities in both the countries. It's only during the last decade or so that both the governments have sought to tackle the growing inequality and discontentment among the people of these sensitive regions. In the case of India, the problem is further compounded by the ethnic strife and armed insurgencies that have resulted in wide-spread violence and state repression accompanied by the militarization of the entire region.

Section-I : China's Backward Regions And Development Strategies

Historically, Chinese economy has been characterized by uneven development. If we divide China into the coastal, central and western regions, we find that the coastal region has been far more developed industrially than the central region, which in turn is superior to the western region in terms of development.

The coastal regions are also more heavily populated. Though the coastal area consists of only 14 percent of the total area in the country, 41 percent of the country's population are

crowded in the region. On the other hand, 23 percent of the Chinese population live in the western region spread across 57 percent of the area.

In 1950, 70 percent of the country's industrial assets and output were concentrated in the coastal area with bulk of the output concentrated in eight coastal cities. When China launched its planning and development strategy in the 1950s, it regarded the coast-interior imbalance as irrational and outcome of foreign intervention that extracted concessions from weak Chinese state. Because of this historical development the industrial production in the coastal areas was very far away from the raw material sources of the interior market; this was a major strain on the poor transport system. Secondly, as the war in Korea and Vietnam expanded western presence in its neighbourhood, the coast was exposed to foreign military intervention, and posed a national security risk.

From the very first Five Year Plan, China directed fresh industrial investment (including Soviet-aided projects) towards the interior regions. The emphasis on this area continued to increase in the late 1950s during the Great Leap Forward. Also in the 1970s, the increasing tension with the Soviet Union and the intervention by the United States in Vietnam led to the defence- oriented industries being set up in the interior provinces. Due to all these, by 1970 the share of the interior regions in the total national investments in fixed assets rose to over 70 percent. On the other hand, by 1983, the value of fixed assets in the coastal regions had fallen to 43 percent from a high of 72 percent in 1950 (Yang, D.; 1990).

Recent Chinese scholars argue that though investments in backward regions may have provided more balanced industrial distribution, it reduced economic efficiency and lowered the rates of growth. The improvement in equity, scholars argued, came at the expense of efficiency. This is because in the interior regions, the infrastructure is more backward, education level low and the industrial culture poor. Hence during the Deng Era, Mao's regional development strategy came under sharp attack and was regarded as being responsible for inefficiency retarding China's technological progress.

In the post Mao period a host of reforms were implemented. Among them in the countryside it led to dismantling of the commune system and price reforms resulting in an initial surge in rural income. This narrowed income inequalities between the rural-urban areas as well as between the agricultural interior and the more industrialised coastal region.

But soon there was a shift to export-oriented industrialisation and China's development strategy became largely coast oriented. Chinese planners began to encourage the notion of comparative advantage between regions. Thus the coastal areas were seen to be better endowed with infrastructure for foreign trade and had a long legacy of industrial production, better education and more innovative culture. The Central Government now encouraged the coastal regions to surge ahead and become internationally competitive. Preferential policies and tax concessions and setting up of Special Economic Zones (SEZs) made the coastal region attractive for foreign investment.

For the development of the backward interior region, the government appears to have put its faith in the trickle down policies. It hoped that the rapid growth and example of innovation and technical development will be imbibed by the interior parts of the country.

Table 1: **China : Provinces & Per Capita GDP 2006**
(current prices)

	Province	**RMB¥**	**Prov/China**	
1	Shanghai	56,733	4.42	
2	Beijing	49,505	3.86	
3	Tianjin	40,961	3.19	
4	Zhejiang	31,684	2.47	
5	Jiangsu	28,685	2.23	
6	Guangdong	28,077	2.19	
7	Shandong	23,546	1.83	
8	Liaoning	21,802	1.70	
9	Fujian	21,152	1.65	
10	Inner Mongolia	20,047	1.56	
11	Hebei	16,894	1.32	
12	Heilongjiang	16,268	1.27	
13	Jilin	15,625	1.22	
14	Xinjiang	14,871	1.16	
15	Shanxi	14,106	1.10	
16	Henan	13,279	1.03	
17	Hubei	13,169	1.03	
18	Hainan	12,650	0.99	
19	Chongqing	12,437	0.97	
20	Hunan	11,830	0.92	
21	Ningxia	11,784	0.92	
22	Shaanxi	11,762	0.92	
23	Qinghai	11,753	0.92	
24	Jiangxi	10,679	0.83	
25	Sichuan	10,574	0.82	
26	Xizang	10,322	0.80	
27	Guangxi	10,240	0.80	
28	Anhui	10,044	0.78	
29	Yunnan	8,961	0.70	
30	Gansu	8,749	0.68	
31	Guizhou	5,750	0.45	
China Whole		12,841	1.00	

Source: Authors computation with GDP data from
http://anywherechina.com/newfiles/province/province_gdp.php

The development strategy thus consciously raised regional inequalities by providing concessions to foreign investors to move to designated areas along the coast. For the backward interior region, it puts its faith in the “ladder-step doctrine” that compares different regions to the steps on the ladder with the coastal region on a higher step (Fan, C.C, 1995). It was felt that by concentrating development efforts in the more advanced coastal region it would provide the fastest returns and rate of growth. The argument is: as the coastal regions already possess significant industrial infrastructure and culture, it is easy to turn it into a processing centre for inland raw materials and China’s exports. By absorbing foreign technology and practices it may lead the country through technological innovation and serve as a “growth pole”.

It is widely believed that the policy of favouring coastal regions through setting up of SEZs and declaring 14 coastal cities as “Open Cities” and later, “Economic Open Areas” with special incentives has exacerbated regional inequalities. The impact of these regional differences was further strengthened by the restrictions in the movement of workers between provinces. Under this, the poor households are prevented from moving to the faster developing coastal provinces.

Some scholars compute that the regional differences by the late 1990s reached a new historic peak comparable to the regional differences during the famine of the Great Leap (Kanbur, R & Zhang, X., 2002).

Many Chinese scholars had been warning that social stability and unity of the country was at stake due to increasing regional inequities. In response to the growing and increasing regional inequalities (compounded with growing rural-urban disparities), peasant protests and revolts, the Chinese government began special programmes to redress regional inequalities in the late 1990s.

In recent years, the poorer regions have received greater central grants and development funds (though as the share of state investment in the economy has declined substantially, non-state actors are the more important players).

Some SEZs have been established in the central interior provinces and there is a clamour from others for the same. Yet, the concessions and subsidies are still largely confined to coastal cities and SEZs. When the evidence of growing gap between regions became overwhelming by the early 1990s, the Chinese planners encouraged interior provinces to seek cooperation and joint enterprises between provinces and regions (Yang, D.T, 2002).

The interior regions were encouraged to establish “economic entities, service organization and enterprises in cooperation with coastal provinces”. Coastal regions were specifically encouraged to transfer investment and technology to backward regions.

However, many of these cooperation arrangements between the coastal and interior companies in fact were to secure sources of raw or semi-processed materials. There is little evidence that such cooperation has in any way provided a growth impulse to the backward regions. (Yang, Dali, 1990).

All this does not seem to have stemmed the increasing gap between the coastal and the interior regions. There is now considerable agreement amongst scholars that the regional inequality declined in the first few years of the reforms (1978-84) but then began to increase as China focussed on attracting FDI to accelerate its export oriented industrialisation (see Khan AR and Riskin, C, 2001, Kanbur & Zhang, 2002 and Ran, J.et al, 2007). Overall, the indices of regional inequality showed moderate decline but than rose sharply (Kanbur & Zhang, 2002).

The sectoral and regional income differences declined in the initial years of the reforms due to successful rural reforms during 1978-84 that quickly raised farmer's income. It was followed by widening differences in urban-rural income and between regions and provinces. Throughout the 1980s and 1990s, the coastal provinces attracted a disproportionately high share of foreign investment and became the main driving force behind China's phenomenal growth. As a result, the inland coastal contribution through overall inequality to increased several-fold becoming the largest component in the regional inequality decomposition (Kanbur & Zhang, 1999; Yao & Zhang, 2001).

Opening up the South-west to ASEAN

The Chinese development paradigm places great emphasis on exports and integration with the global economy. Chinese see their fast growth as a direct result of the policy of encouraging FDIs and technology imports to push up exports and employment. Since the coastal areas have benefited from this strategy, the interior regions were also encouraged to imitate. Several provinces were allowed to establish SEZs and attract FDIs. However, the transport costs and closed borders in the west and south of the country limited the impact of the policy.

During the last few years, China has made conscious efforts to open up the south-western region to the neighbouring countries, specially Myanmar and other ASEAN countries. Through the opening up, the Chinese sought to improve trade and economic ties with the neighbouring countries.

In 1996, ASEAN accepted China as a Dialogue Partner at the 29th AMM (Asean Ministerial Meeting) in reduction and other measures towards a free trade arrangement (FTA) from 2003- Jakarta. In November 2000, Chinese Premier Zhu Rongji proposed the establishment of a free trade relationship with ASEAN. China proposed tariff reduction over a seven-year period. ASEAN responded cautiously proposing a 10-year phase-in-period without specifying a starting date.

Though observers in India, saw it as a Chinese move to consolidate their growing links with countries on India, eastern flank, the Chinese scholars saw it as a move to provide isolated and backward south western region , economic ties with a thriving business grouping.

In 2001, China offered to open its own market in some key sectors unilaterally to ASEAN countries, five years before they could reciprocate. It also offered to grant special preferential tariff for some goods from the less-developed ASEAN states i.e. Cambodia, Laos and Myanmar.

ASEAN accepted this proposal. At the ASEAN-China Summit in Cambodia in November 2002, a Framework Agreement on Comprehensive Economic Cooperation was signed. It lists guidelines, principles, scope and modalities for the FTA, including early harvest and special and differential treatment of new ASEAN members, Laos, Cambodia, Myanmar and Vietnam allowing them five more years to join the FTA (Lijun, S. 2003).

The origin and conception of China-Asean FTA (CAFTA) can be traced to 1995 when Thailand for the first time proposed a special economic zone with China's southern provinces. China cautiously pursued the proposal. But preferred to deal with all the members of Asean multilaterally. However, it immediately began to invest in the road links with Myanmar and Thailand.

According to Sheng Lijun (Lijun, 2003) while the Chinese experts in Beijing pay overwhelming attention to the geo-strategic implications of the CAFTA and appear to be more optimistic, most of the Chinese ASEAN experts point to the economic difficulties in building CAFTA and are less optimistic. (DEVELOP)

To overcome the difficulties some scholars suggest that China should begin with sub-regional cooperation such as Greater Mekong Sub-regional (GSB). (MORE) There is a proposal to make Yunnan and Guangxi as the bridge heads to CAFTA by building a zero-tariff FTA between China's Yunnan and Guangxi regions and ASEAN.

International observers feel that China is more comfortable engaging with ASEAN than with the more developed east Asian economies of Japan and S. Korea. China has also widened talks and economies cooperation and FTA with individual ASEAN member states. (Lijun, 2003) China prefers to engage all the 10 countries together rather than discuss bilateral economic ties with border states like Myanmar and Thailand.

ASEAN-China trade expanded rapidly and by 2002 had reached US$ 55 bn and US$ 100 billion by 2004 (Table 2). China is vigorously pursuing policies to increase cross border trade. Large investments have been made in infrastructure with new highways and raids to link the south western provinces to Myanmar and Thailand. China has already emerged as an important trading partner of ASEAN and a FTA is on the cards.

In other words, Chinese strategy to develop its border regions has shifted to open up the border provinces to its south-western neighbours. It has also made small efforts to open its border to India. Though small amount of border trade has opened up, it has no material impact on the total trade.

2. India’s Backward North East and its Changing Development Paradigm.

India’s relationship to what today is called the North-eastern states has been a troubled one. Historically, the British India Government too had tenuous control over some of the areas of what was then known as Assam. This is especially true of the region of Arunachal Pradesh (earlier NEFA) and Nagaland. Later, in order to accommodate growing discontent and weak integration, the state of Assam was split up into seven states. In 1976, the Indian State, then led by Mrs. Indira Gandhi, annexed the independent kingdom of Sikkim. As some of the new states were earlier districts in Assam, and are sparsely populated, they continue to depend heavily on central grants to meet their day-to-day expenditure and thought to be economically unviable. Today, the entire region has come to be called “North-east India” in official usage.

As the new Indian State imbibed the ideology of development and industrialization, it imposed this ideology and its consequences on even the remotest regions and districts. But India was a large country and the state of Assam was rather far from the centre. In the early days, its resources – oil and gas as well as tea from its plantations – were valuable to the development of the state. In the early 1950s, tea exports constituted a significant proportion of India’s exports. Soon two refineries (Guwahati and Barauni) came to be built based on Assam crude oil.

However, this process of “nationalizing space” (Baruah, S., 2007) proved to be ineffective in the region. Assam’s long ties and trade with the regions that was reconstituted as East Pakistan and China were disrupted as the new nation states of Asia erected custom barriers, check posts and border guards. The process of defining the border became contentious and remains unsettled even to this date.

Soon the region came to be looked upon as an isolated distance province linked to the Indian mainland by a 40 km. “chicken neck” surrounded by hostile states. A border conflict with China in 1962 further exacerbated the feeling of vulnerability and the presence of the Indian army and border guards increased in the region. The revolt of the Naga tribes and later other ethnic and tribal groups has led to increasing and heavy militarisation and police presence in the area. Over the years, as the ethnic divisions became exacerbated, the Indian state responded by dividing the region with into smaller political entity with its own chief ministers and state assemblies. Today, the region comprises of seven tiny states around what remains of Assam.

In the very first decade of independent India, the Nagas took to arms on what they considered to be forcible annexation of their home-land by the emerging state. Over the years the region has come to be characterised by the numerous ethnic movements with dozens of armed militias. The response of the Indian state has been equally brutal. The entire area is heavily militarised with several central government agencies and the Indian army operating to contain these militias. Several parts of the state are under the Armed Forces Special Powers Act (AFSPA). Human rights violations are wide spread and demand for repeal of AFSPA is shrill in states like Manipur.

The response of the Indian states has been to comprehend the discontent in terms of failure of development. It did not confront the issue of close borders in what was a continuous internal market and porous borders with neighbouring countries, and led to the isolation of the region and made it a landlocked outpost of mainland India. The central government tried to placate the discontent groups with giving them new states and fiscal grants.

With the new economic policy of liberalisation and open trade regime in place from 1991-92 and reduction in trade and investment barriers in the Indian economy, the region for a while was left to fend for itself. It is true that the liberal grants from the Finance Commissions continued and large funds continued to be earmarked for the region in the central budget. Yet the new development paradigm had little space for state intervention and engineered development of backward regions. If anything, the government began to dismantle the controls and restriction that were meant to direct private investment to the backward states and regions. Now the market was the ruling deity and unless international and national capital found some foot-hold in the region, the backward regions could not be helped. The new national ethos in the Indian mainland was impatient with what it considered to be the fake whining of the poor and the backward.

Given the new development paradigm, which led to an end to location restrictions that were used in the earlier regime to direct investment towards backward areas, regions like the north east of India now went off the investment map of the private investors. As the state investment in economy declined, the income gap between the more advanced region of the country and the North-east began to increase (Table-3). The largest state in the region, Assam faced the sharpest decline. Its per capita income, which in 1992 was 25 percent below the national average, today is about 40 percent below the all-India per capita GDP. All states (except Mizoram and Tripura) faced a decline, with the gap between the mainland India and the north-east region widening. Thus, the fruits of rapid growth and closer integration with the global economy totally by-passed the border region of North East India.

Table 3: Indians North East Border States as Fraction of All India GDP, 2006

State	Arunachal Pradesh	Assam	Manipur	Meghalaya	Mizoram	Nagaland	Sikkim	Tripura
1993-94	1.14	0.74	0.76	0.90	1.08	1.19	1.09	0.72
1994-95	1.03	0.73	0.69	0.83	0.99	1.15	1.00	0.64
1995-96	1.08	0.69	0.68	0.85	1.08	1.09	1.01	0.67
1996-97	0.94	0.64	0.68	0.80	1.06	1.02	0.98	0.70
1997-98	0.92	0.63	0.69	0.81	0.98	1.03	1.00	0.76
1998-99	0.90	0.61	0.68	0.83	0.94	0.86	0.99	0.76
1999-00	0.87	0.65	0.71	0.84	0.95	0.81	0.94	0.84
2000-01	0.89	0.65	0.67	0.88	1.12	1.06	1.00	0.92
2001-02	0.88	0.64	0.71	0.89	1.11	1.06	0.99	0.98
2002-03 /	0.82	0.64	0.72	0.88	1.17	1.09	1.05	0.98
2003-04	0.83	0.61	0.70	0.86	Na	na	1.05	na
2004-05	na	0.59	Na	0.84	Na	na	1.04	na

Source : Authors Computation from SDP data from RBI(2007), Handbook of Statistics on Indian Economy, Bombay.

In 1997, the central government appointed an expert committee under the chairmanship of Mr. S. P. Shukla (India, 1997). The committee identified what it called basic needs deficit, infrastructure deficit, resource deficit and deficit of mutual understanding. The committee recommended large-scale investment to end these identified gaps, regenerate growth and employment and through major investment in infrastructure end the isolation of the region. The committee ***did not*** recommend that the isolation of the region be tackled by opening the borders of the region with the neighbouring countries. The entire exercise boiled down to investment in projects like power, roads and rail linking the north-east to mainland India. There was no mention of the need for infrastructure and bilateral agreements to link the region to neighbouring countries that have roughly 4600 km. of border compared to only 26 km with mainland India (Table 4).

Table 4: Land Border between North Eastern States and Neighbouring Countries.

	Km.
With Myanmar	1450
With China	1000
With Bangladesh	1500
With Bhutan	650
TOTAL	**4600**

Source DRI, Shillong

The Committee identified the gaps in infrastructural needs to meet the basic minimum services and proposed an outlay of Rs. 93,000 crores over the next decade or so.

Thus India's response to the region's backwardness is based on greater central-funded investment in infrastructure like electricity generation, and roads and rail connections to the Indian mainland. A separate Ministry for Development of North East (DONER) was created and all the departments were asked to allocate at least 10 percent of their budget to region.

As Baruah points out (Baruah, 2005), the new investment was largely channelled to the central agencies like the Border Roads Organisation monitored by DONER, without the consent of the local state governments. The discovery that the Chinese had built extensive road network in the Tibetian region bordering Arunachal Pradesh has led to a flurry of road building activity in the state. The objective of many of these projects is either to exploit the hydro-electric resources of the region for export to the mainland or for strategic reasons to consolidate the hold of the Indian state on the border regions of the North east. The need for infrastructure that will link the region to neighbouring countries and allow it to trade and attract investment for catering the large market that will become possible with open borders, was totally absent. On the other hand, the Indian government launched a major project of fencing the border to check infiltration and movement of insurgents.

In recent years, the increasing ties between China and ASEAN countries especially Myanmar and Thailand persuaded India to launch its own "Look East" policy. The main features of this initiative is to increase economic and commercial ties with the ASEAN by seeking an observer status in the group and offering varying free trade arrangements (FTA) with countries like Thailand.

The Indian government also changed its policy towards the military regime in Myanmar. The government jettisoned its demand for restoration of democracy and encouraged its military to engage with the generals in Yangon. The Indian government also joined the group of few countries that provide aid to the Myanmar regime. India is currently building a highway and a rail network north of the new capital Mandalaya.

In all this effort, the North East has been only peripheral in the Look East policy. The strengthening of ties with the military regimes in Bangladesh and Myanmar has hardly focussed on trade and economic links between the landlocked region of north= east and its neighbouring states. True, that India has opened up border trade with Myanmar and Tibet (China) and has promised unilateral tariff concessions to Bangladesh. However, the border trade is insignificant economically and is limited to a few million rupees a year. No efforts to develop industry or projects for exporting to these countries have been explored. Nor is there any effort to develop roads and trade infrastructure to accelerate economic ties between the North East and its bordering countries.

India’s dialogue with ASEAN and separately with Thailand for an FTA is looking at the sea borne trade from India’s peninsula ports. The objective is to enhance the sea borne trade and seek tariff concessions for India’s exports from the mainland.

That there were economic opportunities waiting to be tapped, if the land route to Myanmar, Bangladesh, China and Thailand were opened, has been totally ignored. The Indian state is suspicious of opening the borders as it fears greater movement of arms and insurgents. Though the land routes to Bangladesh and Myanmar have been opened up, the goods that can be traded are confined to local produce known as “border trade”.

India is one of the few countries in the world with such low trade with its neighbours and a counter example to the gravity model of international trade. India’s trade with Bangladesh, Nepal and Myanmar has been stagnant with declining share in its overall trade (Table 5). Numerous non tariff barriers and poor infrastructure has ensured that the border trade is confined to few locally produced items.

Table 5: India Trade with North East Region Neighbours

(US$ mill)

Country		Bangladesh	Bhutan	Maldives	Nepal	Thailand	China, PR
2000-01	**Exports**	935	1.1	24.6	140.8	530.1	831.3
	Imports	80.4	21.1	0.2	255.1	337.9	1502.2
2001-02	**Exports**	1002.2	7.6	26.9	214.5	633.1	952
	Imports	59.1	23.9	0.4	355.9	423.1	2036.4
2002-03	**Exports**	1176	39	31.6	350.4	711.2	1975.5
	Imports	62.1	32.2	0.3	281.8	379	2792
2003-04	**Exports**	1740.7	89.5	42.3	669.4	831.7	2955.1
	Imports	77.6	52.4	0.4	286	609.1	4053.2
2004-05	**Exports**	1631.1	84.6	47.6	743.1	901.4	5615.9
	Imports	59.4	71	0.6	345.8	865.9	7098
2005-06	**Exports**	1664.4	99.2	67.6	860	1075.3	6759.1
	Imports	127	88.8	2	379.9	1211.6	10868
2006-07 P	**Exports**	1628.6	58.7	68.6	931.4	1443.5	8290.7
	Imports	228.3	141.4	3.1	306	1741.7	17399

Source: RBI (2007), Handbook of Statistics Relating to Indian Economy, Bombay

India’s trade with its neighbours has hovered in the region of few billion dollars. After the partition of the country in 1947, there was a disruption of economic infrastructure (highways, railways and inland waterways). Today, it is far more difficult to move goods to Bangladesh from north-east than was in 1947. All this adds substantial cost to the trade between north east and its neighbours. The thrust of India’s investment in infrastructure is to strengthen the economic and strategic interests of the mainland with this remote border region, not with its neighbours.

It is because of these barriers, there exists a large “informal” trade between the neighbouring countries and the border states of the Indian Union. Some estimates put this at a level larger than the legal trade (Taneja, N., 2001).

In contrast to the lukewarm effort for economic integration, the Look East policy and the concessions and aid are meant to persuade the neighbouring countries to expel insurgent groups seeking shelter in these countries. Frequent visits by the Indian generals and counter insurgency experts are meant to pressure these countries to cooperate with the Indian state to crush these movements. In some cases, joint operations with the Myanmar army have been launched to flush such groups. India has also provided arms and ammunition to aid such effort by neighbouring states.

Thus in contrast to China’s strategy of developing its backward regions through greater economic ties with ASEAN, India’s policy of strengthening its ties with eastern neighbours has been limited to counter insurgency efforts.

India is watching with trepidation the increasing Chinese investments in trade-related infrastructure like new highways linking Kummin (Yunnan) with northern Myanmar and Thailand. India too has offered to link its rail network with Bangladesh and build highways to Thailand through Bangladesh and Myanmar. It is still contemplating opening up land route for large-scale trade with the Yunnan province through the Sitwel Road. But all these efforts are dwarfed by its obsession with counter insurgency and need to consolidate its military hold on an unstable region.

Conclusion:

Both India and China are characterised by backward border regions and their links to the international economy have largely been through sea-borne trade. Independent nation states in the two countries began to consolidate their hold over the far flung areas in a process described as “nationalising space”. The process of consolidation of their rule in such remote border regions and the friction it caused with the neighbours, led to disruption of the traditional economic and cultural ties with the neighbours. Several trade routes and economic infrastructure were either shut down or replaced by border guards, check posts or even fencing.

This process of nation building and the rupture it caused to the social, ethnic, cultural and economic ties in what Scott (Scott,J, 2006, unpublished manuscript cited by Baruah, S, 2007) has called the “Southeast Asian Appalachia” that sprawls across seven nation states. Isolated and landlocked regions replaced what was a region of thriving intercourse.

Unlike India, China during the Maoist period tried to end the gap with the coastal regions by investing in the central and western regions. India too did this with the backward states of the mainland. The border regions were seen to be vulnerable and hence all large industrial investments to be kept away in the interior areas.

In case of China, it perceived little threat from the weak South East Asian neighbours and did shift large outlays to backward areas. Here too the central zone was favoured over the south western areas. But despite the guided investment, the coastal regions advantage still made it the most efficient and productive region in the country.

The post Mao era strategy reversed the policy. Now the coastal regions were favoured with special tax incentives and special zones better infrastructure with the argument that the backward regions will follow. However growing disparities between regions has led to a shift in the Chinese policy of opening the region for trade and investment to the neighbouring countries.

China has responded by opening up to the ASEAN region on its south western flank, to establish economic ties between its backward provinces of Yunnan and Guangxi and ASEAN members to the south.

In case of India, the new economic policy and liberalization has led to an end to special policies to industrialize and develop backward regions. Despite the tax concessions the firms in North East enjoy, the high transaction costs of a working in a region isolated and cut from markets along 4600 km. of its border has not attracted much investment. The gap between the mainland region and North East has increased with Assam today enjoying per capita income that is 40 per cent below the national average.

In response to Chinese initiatives, India too has opened up to its eastern neighbours in what it calls the “Look East” policy. Despite talks of free trade and preferential trading arrangements, little progress has been achived. India’s trade with its eastern neighbours is miniscule and stagnant.

However, Indian policy makers have used this “opening-up” to strengthen ties with the military regimes in Bangladesh and Myanmar and launch counter insurgency movements against the groups from North Eastern India. More than the development of backward north eastern states and ending their isolation through re-establishing their historical cultural and economic ties, the military and security establishment has high-jacked the policy to fight insurgents from the region.

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