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Thailand's Investment in India's Northeast: Strategies, Potentials and Risks

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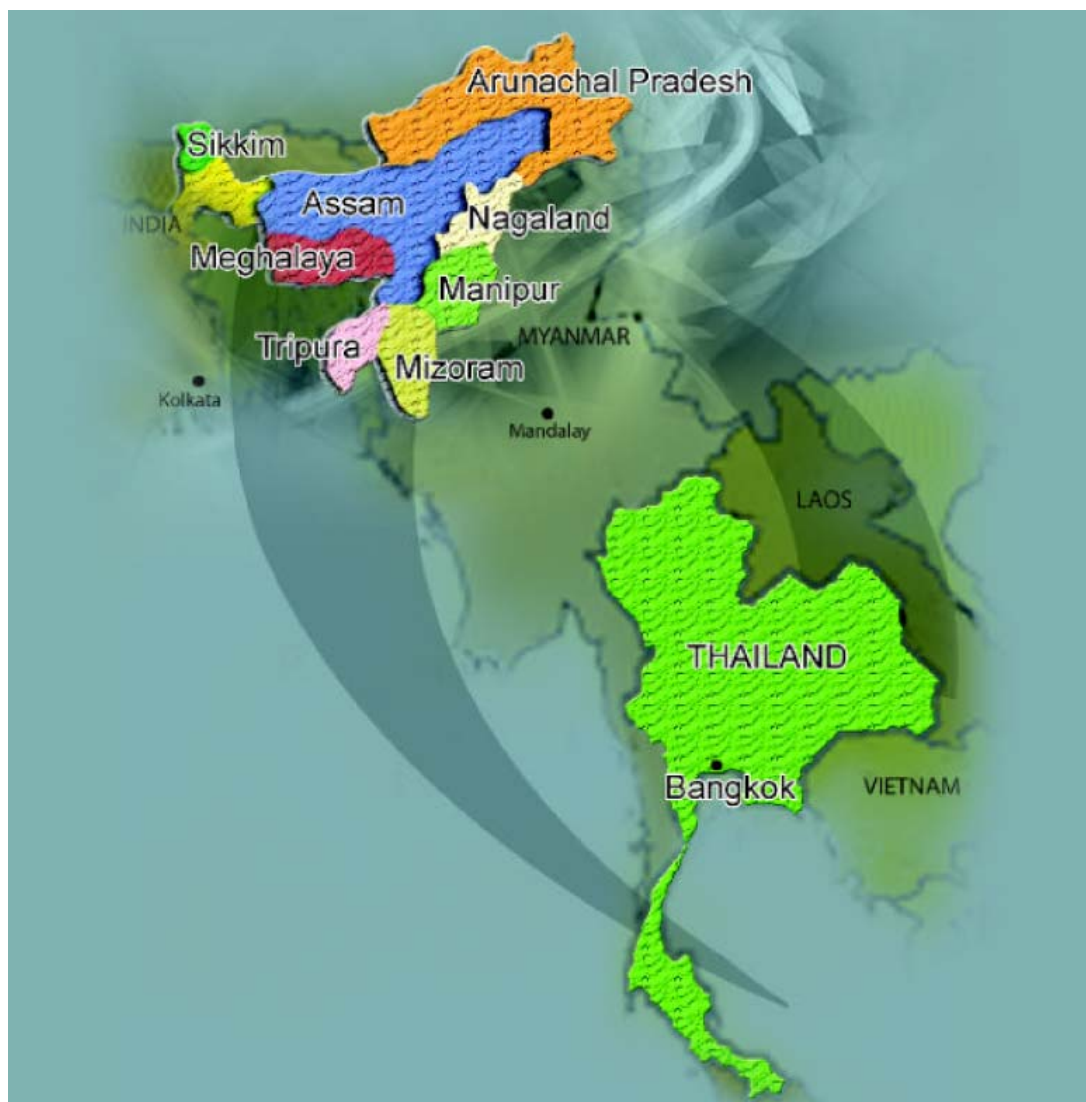
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Source: <http://www.thaiindian.com/images/Bangkok.pdf>

Executive Summary

The year of 2004 marks an important watershed in the history of India's Northeast for three reasons. First, the Indian Prime Minister, Manmohan Singh, first time referred to Assam as the 'gate to the east' in November 2004. This, in turn, brought the Northeast into the ambit of the LEP as a launching pad for India's political and economic engagement with the ASEAN region. Second, India-ASEAN Car Rally, which was flagged off from Guwahati in Assam in 2004, brought home both the viability and urgency of developing physical connectivity between the Northeast and Southeast Asia for India's economic integration with ASEAN. Finally, the first visit of any Thai delegation to the region took place in 2004 and since then various such visits have already taken place either as official delegations or exploratory business visits.

During the last three years, India's Northeast has been identified by Thailand as an important destination for investment, a potential sub-regional market centre and a land-bridge connecting Thailand with the vast mainstream Indian market. The economic logic of investment has been further facilitated by cultural similarities, historical ties and geographical contiguity.

The imperatives for Thailand's investment in the Northeast have come from two important considerations, reflecting long-term strategic objectives of the Look West Policy of Thailand. First, India's northeast offers a substantial alternate market and transit for sub-regional economies in the Bay of Bengal for the export-driven economy of Thailand. Second, the investment in the northeast would enable the Thai companies to further diversify the sources of raw materials especially natural

resources such as rubber and bamboo, which constitute Thailand's important international exports.

The investment strategies of the Thai companies have been influenced by two important considerations – their previous experiences and their assessment of local risks. The previous experiences refer to the economic crisis, which gripped Southeast Asian economies in general and Thai economy in particular. Thai MNEs and SMEs, while proposing to invest in the Northeast have opted for joint venture instead of single ownership. Northeastern states are trouble-prone areas and therefore substantial business activities should be in the relatively safer areas and, therefore, main target states are relatively safer states of Meghalaya, Mizoram, Assam and Tripura.

Four important strategies can be identified. First, the entry of Thai investors in the region is in the form of joint ventures or through partnership with the companies from the Northeast. The pursuit of joint venture path by the Thai companies is reflective of standard operating procedures for the utilisation of local resources and minimisation of risks emanating from local market uncertainty.

Another important strategy of the Thai companies, while investing in the region is the 'competitive advantage' approach, which primarily implies that the companies 'prefer to operate into their areas of expertise.' These companies have relied substantially on their core competencies and their competitive advantages, while venturing into the northeastern market.

Third, an important aspect of Thailand's investment strategy in India's northeast is

the use of shared ethno-cultural linkages in fostering business relations. Such a step would enable Thai companies to engage in business activities comfortably by connecting themselves ethnically with them.

Finally, Thai companies are venturing into only those areas in which the region is endowed with natural resources. While some of the Thai companies are investing in the services-based industries – hotel and tourism and infrastructure – hydel-power generation and construction, large number of them are entering into the ‘primary sector of agro-business and food-processing industries, such as bamboo, plantation, rubber, poultry, seed business and so on.

Important sectors identified for Thai investment are – agro-business and food processing industries, energy, communications, and tourism. India’s Northeast is very rich in these resources and, therefore, offers huge potential for local industrial development and economic growth.

Agro-based and food processing sectors have been identified as one of the most important areas of Thai investment as the region offers immense opportunities in terms of raw-material for these industries and also in terms of an extremely large market to the Thai Small and Medium Enterprises (SMEs), which are engaged in these industries. While only 12 per cent of food is processed in the region, more than 30 per cent of the food produced is wasted due to lack of technology and post-harvest management.

Energy, especially natural gas and hydro-electricity, forms one of the most important components of Thai investment strategy given huge potential offered by the northeastern region in these areas. Thai companies’ willingness to invest in the energy sector is supported by two key considerations. First, the energy would be essential for operationalising Thailand’s production facilities in the region. Second,

the energy sector in the northeast offers huge incentive for investment due to its growing demand in India.

The development of local transport networks in the region is another important area in which Thai companies are willing to invest. Over the years, Thai companies have gained expertise and manpower in developing roads and waterways in the similar mountainous terrain as that of northeast India.

Tourism has figured as one of the major thrust areas in the proposed Thai investment in the northeast. The basic objectives of investment from Thai companies in the development of tourism sector in the Northeast are two-fold – facilitate diversion of tourists arriving in Thailand toward the Northeast, and laying down facilities to attract more tourists.

The central Indian government and provincial governments in the Northeast has taken several policy initiatives with the two-fold objectives of promoting industrial development and investment in the Northeast and projecting the region as a potential driver of the LEP. With the growing realisation of the urgency of the development of the Northeast and its strategic importance to further advance the objectives of the Look East policy, India has adopted a three-pronged approach of – offering incentives, developing infrastructure, and marketing the assets.

Many of the investment proposals are in their preliminary stages and they need to be convinced of – ‘potential benefits’ and an ‘investor-friendly atmosphere’ – which can sustain the interests of the Thai companies in the region. The ‘potential benefits’ refer to the cheap availability of capital and potential demand. The ‘investor-friendly atmosphere’ includes sustainable infrastructure, safety of investment, installations and employees, local availability of skilled work-force, absence of non-economic interventions, facilitating policy

frameworks, and less politico-administrative hassles.

India's infamy in poor infrastructure and entangling the foreign investors into bureaucratic obligations and procedural complexities can cost the region dearly and further hamper the objectives of its Look East policy. The ground-level scenario brings our attention to the day-to-day challenges or small-scale, but, rampant problems, such as kidnap, ransom, small thefts, robberies, illegal tax collection, which, both the Indian and provincial governments have not been able to address effectively.

The process of economic integration can lead to the emergence of an uneven pattern of development wherein developed enclaves enter into constant conflict with the prevailing poverty outside those enclaves. Such a scenario carries the potential of socio-economic alienation of large number of poor people, a trend which can further intensify the problem of insurgency.

RECOMMENDATIONS

Short Term Measures

- The road, rail and air connectivity programmes should be completed within stipulated time, linking different states not only within the Northeast but also with Southeast Asia. Road networks and waterways along the river of Kaladan till the port of Sittwe should be developed on a priority basis.
- Guwahati and Imphal airports should be upgraded to international airports and hubs for regional airways with night-landing and cold-storage facilities. The demand of the Manipur government of launching Imphal-Chiang Mai air services should be taken into serious consideration. Similarly, Guwahati-Bangkok and Guwahati-Dhaka flights should be resumed.
- Infrastructure facilities at the Land Custom Stations at Moreh (Manipur-Myanmar border), and Petrapole (West Bengal-Bangladesh border) need to be upgraded immediately to provide smooth trading operations.
- Both the central and provincial governments should ensure the safety and security of the investment being made by the Thai companies.
- The governments have to ensure adequate energy supplies required to support industrial activities in the region.
- There is a need for change in the prevailing mindset in the region and initiatives for opening up of the region to the outside and foreign investment should not be held ransom to the prevailing mindset about external vulnerability. The Chief Minister of Assam rightly hits the point when he says that the Look East Policy is the single most hope for Assam to break out of isolation.
- Trade and investment activities should not be held hostage to bureaucratic rules and regulations or inter-ministerial confrontation, such as between the Ministry of Home Affairs (MHA) and the Ministry of External Affairs (MEA). Similarly the DoNER ministry, the MEA, and the Planning Commission need to work in close coordination to ensure effective policy formulation, fund generation and speedy implementation of the policies.
- Institutions, such as Indian Entrepreneurship Centres and technical colleges need to be strengthened so that they can develop local skilled work-force and empower small-scale entrepreneurs, who can participate in a beneficial

manner in the exploitation of agri-business and food-processing activities.

- While fiscal incentives and tax-holidays are initiatives in the positive direction, the governments should make sure that they are implemented and promote local entrepreneurial practices.

Long Term Measures

- The Indian government can take into serious consideration the idea of developing a North East Common Market under the supervision of North Eastern Council, as suggested by the Chief Minister of Mizoram.
- The governments have to play a moderating role to make sure that the economic interactions and Thai investment do not create 'enclave economies' in the region, which can lead to local ethnic unrest, thereby, defeating

the very basic objectives of the LEP in the Northeast.

- All the stakeholders – the central Indian government, the provincial governments, Civil Society institutions, and other local bodies – have to ensure that the tribal population in states like Manipur, Mizoram, Nagaland, Tripura, practicing subsistence agriculture do not get economically displaced and feel alienated in the face of influx of foreign and mainland Indian companies, many of which are MNCs.
- The Indian government can engage Myanmar and China in integrating three different railway networks – North Eastern Frontier Railway (India), North Railways of Myanmar and West Railways of Yunnan. The Chief Minister of Assam reiterated this proposal during the ministerial-level meeting organised by the DoNER Ministry.

Introduction

India's northeast – insurgency-infested, unstable, economically backward and resource-rich region – did not figure prominently in India's Look East Policy (LEP) until recently despite being the meeting point of three important engines of growth – mainland India, China and ASEAN and the only region to share land-boundary with Southeast Asia. The region remained an impregnable fortress guarded by heavily armed troops and any discourse of opening up of the borders was understood as being detrimental to the national security of the country. Moreover, initiatives from the ASEAN countries for enhanced trade and economic exchanges concentrated primarily on the economically and technologically advanced provincial capitals of South India, such as Bangalore, Hyderabad and Chennai. Cities in the Northeast - Guwahati, Imphal and Shillong - remained outside the ASEAN countries' economic map of India. Even Thailand, despite being just an-hour flight away from Imphal, sharing important historical-cultural relations with the Thai-Ahoms in the Northeast, and an important ASEAN trading partner of India, did not pay much attention to the resource and market potential of the region. Though the Look West Policy (LWP)¹ of Thailand, which was launched in 1997, identified India as the most important target country in terms of market and investment destination, it did not make any mention of the Northeast – one of the most resource-rich regions of

¹ Thailand's Look West Policy was launched as a response to India's Look East Policy and it essentially seeks to develop strong bilateral ties, and identify potential markets and investment destination. The geographical target of the LWP covered South Asia, the Middle East and Africa. See "Look West Policy," Ministry of Foreign Affairs, Royal Kingdom of Thailand, November 2001, <http://www.mfa.go.th/web/65.php> (accessed on 15 February 2008).

India and the nearest landmass of India to Thailand.

Three important developments in the year of 2004 mark a departure from both of these trends, bringing the Northeast into the focus of both the LEP as well as the LWP of Thailand. First, the Indian Prime Minister, Manmohan Singh, first time referred to Assam as the gate to the east in November 2004, while inaugurating the secretariat in Dispur.² This, in turn, brought the Northeast into the ambit of the LEP as a launching pad for India's political and economic engagement with the ASEAN region. Second, India-ASEAN Car Rally was flagged off from Guwahati in Assam in 2004, which terminated at the Indonesian island of Batam. The rally brought home both the viability and urgency of developing physical connectivity between the Northeast and Southeast Asia for India's economic integration with ASEAN. Finally, the first visit of any Thai delegation to the region took place in 2004 and since then various such visits have already taken place either through official delegations or exploratory business visits.³

Since then, the Northeast has been identified as an important destination for investment, a potential sub-regional market centre and a land-bridge connecting Thailand with the vast mainstream Indian market. The economic logic of investment has been further facilitated by cultural similarities, historical ties and geographical contiguity.⁴ This process has gained

² PM's address at the inauguration of New Capital Complex of Assam, 21 November 2004, Dispur, Assam, <http://pmindia.nic.in/lspeech.asp?id=48> (accessed on 12 March 2008)

³ Interview with a senior Official in the Embassy of Royal Kingdom of Thailand in December 2007.

⁴ Thai-Ahoms are described as descendants of Tais living in the upper Burma. Seven Tai groups

momentum during the last three years consequent to India's impressive economic growth, the prospective India-Thailand FTA and the emergence of India as a consumption-driven economy. A large number of Thai multinationals and SMEs (Small and Medium Enterprises) are willing to invest in agri-business, food-processing, energy, and transport sectors. States identified so far by the Thai companies are Assam, Meghalaya, Tripura, Mizoram and Sikkim. During his four-day visit to India's north-eastern states (21-25 June) 2007, Thailand's Commerce Minister, Krirk Krai Jirapaet expressed his country's keen interest in investing in the region and suggested a 'working group' to identify the nature and scale of investment required in the Northeast.⁵ While Jirapaet became the first ever minister of another country to visit the region, Thailand has become the first ASEAN country to agree to invest in the northeast

identified so far are the Ahom, Aiton, Kabaw, Khamyang, Phake and Turung. The Thai-Ahoms are said to have migrated to the present day districts of Dibrugarh and Sibsagar in Assam from the upper Burma during 13th century. At the same time, a group of Tais migrated to the Chao Phraya valleys in the mainland Thailand and settled there. The two communities are believed to have maintained their linguistic, cultural and economic connections. See, Papori Phukan, "Cultural Tourism in the Look East Policy," *IPCS Web Articles*, no. 2515, 14 March 2008. See also Yasmin Saikia, "The Tai-Ahom Connection," *Seminar*, no. 550, 2005, <http://www.india-seminar.com/2005/550/550%20yasmin%20saikiya.htm> (accessed on 7 April 2008)

⁵ Earlier, Jirapaet was invited as the chief guest for the valedictory session of the 3rd Northeast Business Summit, held in April 2007 in New Delhi. In his speech, Jirapaet had expressed interest in mutual tie-ups and investment in different sectors, such as tourism, energy, food processing, infrastructure, agriculture and textiles in India's Northeast. See "Partner in Progress," *Access North East*, North East News Agency, vol. 3, no. 30, 1-15 July 2007, <http://www.nenaneews.com/ANE%20July%201-15,%202007/Cover%20Story.htm> (accessed on 2 September 2007); see also P Jayaram, "India Gets Thai Help to Develop North-east: Connectivity with ASEAN nations seen as key to progress for the remote area," *The Straits Times*, 17 April 2007.

Thai Investment in the Northeast: Political and Economic Rationale

The impressive growth in the bilateral trade resulting from the experimental Early Harvest Scheme (EHS)⁶ has convinced both India and Thailand not only of the urgency of signing the bilateral FTA but also of immense potential of economic and political benefits from their greater economic integration.⁷ The bilateral trade between India and Thailand has increased from US\$1 billion in 2002-03 to US\$3.4 billion in 2006-07.⁸ After the signing of the EHS in 2004, the bilateral trade grew from US\$1.4 billion in 2003-04 to US\$3.18 billion in 2006-07, registering the growth of almost 200 per cent.⁹ Moreover, Thailand's exports to India have outpaced its imports from India, thereby, projecting India as a more attractive market and giving greater credence to the economic logic of proposed Thai investment in India's northeast.

The imperatives for Thailand's investment in the Northeast have come from two important considerations, reflecting long-

term strategic objectives of the Look West Policy of Thailand. First, India's northeast offers a substantial alternate market and the transit for sub-regional economies in the Bay of Bengal¹⁰ for the export-driven economy of Thailand. Besides, the resource rich region with large-scale skilled labour can be used by the Thai companies in creating overseas production facilities which could cater not only to the local demand, but also demand in the neighbouring countries of Bangladesh, Bhutan, Myanmar and Nepal.¹¹ During the last three years, Thailand has been incurring huge trade deficit with China, one of its largest trading partners, which does not augur well for the export sector of the country.¹² The geographical contiguity of market and resulting low-labour cost considerations are weighing heavily in favour of Thailand's proposed investment in India's northeastern states. In his speech at the North-East India Trade and Investment Opportunities Week in Bangkok in October 2007, Thailand's Deputy Industry Minister, Piyabutr Cholvijarn stressed that investment in the Northeast in sectors like cement, powerlines and power products will further help in developing an integrated market in South and Southeast Asia.¹³ Cholvijarn also

⁶ The Early Harvest Scheme (EHS) was signed between India and Thailand in October 2003 (entered into force in January 2004) as a prelude to India-Thailand Free Trade Agreement. Under the EHS, the two countries agreed to facilitate free trade on 84 goods with the phase-wise reduction of duties and an interim rules of origin. As per the EHS, tariffs on the 84 items were reduced by 50 per cent between March 2004 and March 2005 and by 100 per cent by March 2006.

⁷ While India's overall exports to Thailand grew by 15 per cent, India's exports to Thailand on 84 items under the EHS grew by 82 per cent. As per a report by the FICCI, the share of items under the EHS grew from 10.34 per cent of total bilateral trade in 2003-04 to 15.68 per cent in 2005-06. see "Target 2010: Indo-Thai FTA," http://www.diplomatist.com/dipo3rd07/story_05.htm (accessed on 7 April 2008)

⁸ Exim Data Bank, Department of Trade and Commerce, Government of India, <http://commerce.nic.in/eidb/iecnt.asp>

⁹ Ibid

¹⁰ The Bay of Bengal sub-regional economies refer to India's Northeast, Bangladesh, Bhutan, Myanmar, Nepal and Thailand.

¹¹ Agro-products constitute an important component of Thailand's overall exports. Thailand exported roughly US\$15 billion in products in 2006. Jasmine rice, produced in Thailand is in great demand in the markets of Bhutan, Bangladesh and Yunnan.

¹² Ian Storey, "China's Relations with Southeast Asia," in Deepak Nair and Lee Poh Onn (eds.), *Regional Outlook: Southeast Asia 2008-2009*, Singapore: ISEAS, 2008, p. 13

¹³ "Speech of the Deputy Industry Minister H.E. Piyabutr Cholvijarn in Bangkok on 2 October 2007," Thailand Board of Investment,

highlighted that the investment in the infrastructure sector in the Northeast can also facilitate the entry of those companies with a strategic interest in the Northeast as a gateway into the SAARC countries.¹⁴ With greater transportation connectivity between the northeast and the rest of India as evident from the Indian government's decision of investing approximately US\$12 billion in the region, Thai businesses will have easy and quicker access to the eastern Indian cities and further west. The proposed investment in the Northeast can also be seen as an important opportunity for Thai Small and Medium Enterprises (SMEs) and auto-motor parts industries to make a foray in the geographically contiguous markets where there would be assured demand of various processed products. Such a possibility gains greater prominence in the light of the 'finalised but yet-to-be signed' India-Thailand FTA.

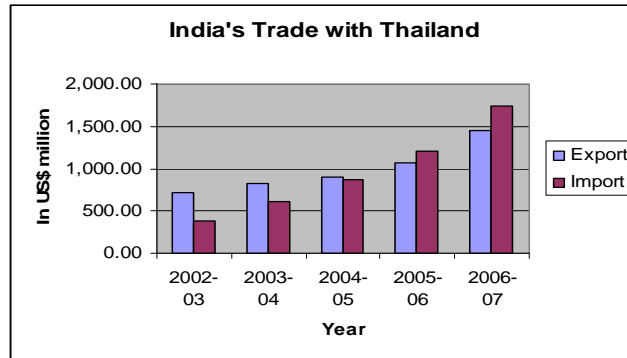
Second, extending the logic of a 'network approach',¹⁵ the investment in the northeast would enable the Thai companies to further diversify the sources of raw materials especially natural resources such as rubber and bamboo, which constitute Thailand's

important international exports. While Thai rubber exports are slated to grow by 12.6

per cent, the global demand for rubber products has expanded due to increased demand from China, Japan and the US, indicating serious supply shortage of rubber and making long-distance market

less profitable.¹⁶ On the other hand, India, despite being the third largest producer of rubber in the world, consumes all its production, which signifies greater demand for rubber products in India. In this situation, the availability of local market can generate greater profit by reducing the transportation cost. In other words, the geographically contiguous market of mainstream India with the northeast acting as the production base would not only increase the returns on the investment but also expand the market base for Thai rubber exports. However, rubber has proved to be one of the important stumbling blocks in India's FTA negotiations with the ASEAN countries given India's insistence on maintaining tariff regime on rubber imports. It is yet to see whether these irritants are retained or sorted out in the proposed India-Thailand FTA.

Strategies of Investment



Source: Ministry of Trade and Commerce, Government of India.

http://www.boi.go.th/english/how/speeches_detail.asp?id=341

¹⁴ Ibid

¹⁵ The key objective of network approach to outward FDI is to have access to the resources in the host country, where resources include market opportunities, natural resources, labour and other assets which are essential for the investors' long term survival. See, Homin Chen and Tain-Jy Chen, "Network Linkages and Location Choice in Foreign Direct Investment," *Journal of International Business Studies*, vol. 29, no. 3 (3rd Qtr., 1998), p. 448.

¹⁶ China replaced Japan as the second largest consumer of rubber in the late 1990s and replaced USA as the biggest market in 2002. "Global Rubber Consumption to hit Record Levels," *Commodity Online*, 12 February 2008, <http://www.commodityonline.com/news/topstory/newsdetails.php?id=5437>; see also L N Revathy, "Rubber Exports may top 40,000-tonne target - Volatility in Global Market Dissuading Exporters," *The Hindu Business Line*, 20 September 2005, <http://www.thehindubusinessline.com/2005/09/20/stories/2005092001621200.htm>

While the above-mentioned considerations have played important role in persuading Thai companies to invest in India's northeastern states, their investment strategies have been influenced by two important factors – their previous experiences and their assessment of local risks. The previous experiences refer to the economic crisis, which gripped Southeast Asian economies in general and Thai economy in particular. Many Thai companies disappeared during the crisis, some changed their business focus and those who survived have been treading cautiously.¹⁷ Some of them incurred heavy losses during the crisis because of their single-partner and product-diversification strategies, leading to misreading of the local market, limited finances, and no burden sharing in the case of losses. As evident from the study of Pavida Pananond, a large number of Thai MNEs and SMEs have begun to opt for joint venture while entering into the new market.¹⁸ The element of caution is also germinating from the high level of security risks in the troubled region of the northeast, due to which, main target states of Thai investment are relatively safer provinces of Meghalaya, Mizoram, Assam and Tripura. All these considerations have given birth to a definitive strategy among Thai investors, reflected in the selection of their market, sectors of investment, and the nature of investment.

The most obvious strategy being adopted by Thai investors in the region is in the form of joint ventures or entering into a partnership with companies from the Northeast, as evident from the table drawn below. In general, Thai companies have avoided making stand-alone business foray into the Northeast market. The pursuit of joint venture path by Thai companies is reflective of standard operating procedures for the

utilisation of local resources and minimisation of risks emanating from local market uncertainty. Such an approach enables the Thai companies to venture into a new market without expanding their areas of operations. Besides minimising the market risks and providing guarantee on returns, the joint venture approach will also cushion the Thai companies from the local criticism about the predatory nature of their investment, i.e. Thai MNEs are coming to exploit their natural resources, thereby, rendering them poorer instead of developing the local economy. The CP group, one of the biggest Thai MNEs, has signed a MoU with the Assam Industrial Development Corporation for undertaking joint businesses in the agro-business sector.¹⁹ The Avana Hotel Co. of Thailand has signed a MoU with the Indian Sky King Aviation Co. to invest in the tourism and aviation sector in Meghalaya and Tripura.²⁰ Earlier, The Sky King Aviation had received the exclusive rights to operate flight services from all the capital cities in the northeastern states.²¹

In some cases, two or three Thai companies are entering into joint ventures with local business houses. Two Thai companies, Kiwin Co Ltd and Kondanna Group Co have signed an agreement with the India-based IKF Technologies Ltd for the production of bio diesel from jatropa plants both in Thailand and the Northeast.²² In one instance, CP Aquaculture in collaboration with the Siam Industries Company Ltd, another Thai business house, has signed a MoU with the Manipur

¹⁷ Pavida Pananond, "Thai Multinationals after the Crisis: Trends and Prospects," *ASEAN Economic Bulletin*, vol. 21, no. 1, (April 2004), pp. 106-26

¹⁸ Pavida Pananond, "Thai Multinationals after the Crisis: Trends and Prospects," *ASEAN Economic Bulletin*, vol. 21, no. 1, (April 2004), pp. 106-26

¹⁹ Some of the agro-business sectors are plant and seed business, piggery and poultry, and aquaculture.

²⁰ See Appendix 1.

²¹ "Sky King Aviation Gets NoC to Operate in NE," *Oneindia*, 13 September 2006, <http://news.oneindia.in/2006/09/13/sky-king-aviation-gets-noc-to-operate-in-ne-1158138331.html>

²² Kondanna Group Co is a subsidiary of US-based Kondanna Energy and Petroleum Co Ltd. See "IKF Tech Signs Pacts with Thai Cos for Jatropa plantations," *The Hindu*, 18 October 2006.

Essential Commodities Marketing & Services Ltd for setting up a bamboo processing plant and a cement factory. Interestingly, not a single Thai company is planning to do business alone in the region. The involvement of local businesses offers greater legitimacy to their business operations. This strategy will also lead to greater absorption of business operations and benefits locally.

Another important strategy of the Thai companies, while investing in the region is the 'competitive advantage' approach, which primarily implies that the companies 'prefer to operate into their areas of expertise.'²³ These companies have relied substantially on their core competencies and their competitive advantages, while venturing into the market in the Northeast. Two major areas of Thai specialisation are food-processing and infrastructure industries. The CP Foods, a subsidiary of CP group, is planning to invest in the agri-business sector, such as plant and seed business, and piggery and poultry, in which the company has proven record of success. Two Thai construction and heavy machinery companies, Siam Kenki Co. and JSSR Machinery Co. have joined hands to invest in the Northeast in their area of expertise only – construction and heavy equipment trading. Similarly, other Thai companies, such as Kiwin Co Ltd, Avana Hotel Co, Kondanna Group Co, and Siam Industries Company Ltd, have restricted their initial business foray to their areas of specialisation.

Such an approach marks a departure from their earlier strategy of engaging into product diversification, depending on market incentives. They are not willing to engage into product diversification strategy, which they had followed quite vigorously during the early 1990s. Buoyed by the impressive economic growth and foreign

investment in the country, Thai companies began venturing into new businesses in different regions. Both the CP group and Siam Cement group had begun engaging into, what Panond calls 'rapid internationalisation programme.' The Siam Cement Group had announced 27 new projects between 1993 and 1997 in the niche markets in the Asia-Pacific, such as Indonesia, China, and the Philippines. The company suffered severe losses and incurred heavy debt in the wake of the 1997 economic crisis. Realising its limited operational capacity and competitive advantage, the company, as part of its restructuring programme, reduced its operations to its three core competencies – cement, petrochemicals and pulp and paper.²⁴ Their proposed business activity in India's northeastern market further buttresses this trend.

An important aspect of Thailand's investment strategy in India's northeast is the use of shared ethno-cultural linkages in fostering business relations. Such a step would enable Thai companies to engage in business activities comfortably by connecting themselves ethnically with them. The four ethnic groups in Assam - the Khamyangs, the Turungs, the Aitons and the Khamitis – essentially belong to the Tai-Ahom community.²⁵ While speaking at the North East India Trade & Investment Opportunities Week, held in Bangkok in October 2007, the Director of the Board of Trade of Thailand, Dato Satish Sehgal, identified Ahom link as the 'selling point for the Northeast in Thailand.'²⁶ The centuries-old socio-cultural linkages with the local

²³ Alvin G. Wint, *Corporate Management in Developing Countries: The Challenge of International Competitiveness*, (London: Quorum Books, 1995), pp. 11-12

²⁴ Pavida Pananond, "Thai Multinationals after the Crisis: Trends and Prospects," *ASEAN Economic Bulletin*, vol. 21, no. 1, (April 2004), pp. 106-26

²⁵ "Sabha Platform of all Sahitya Sabhas: Deka," *The Assam Tribune*, 9 April 2008, <http://www.assamtribune.com/scripts/details.asp?id=apr0908/at06> (accessed on 9 April 2008); see also, Sayeeda Yasmin Saikiya, *Fragmented Memories: Struggling to be Tai-Ahom in India*, Durham, Duke University Press, 2004, pp. 1-37

²⁶ "Thai Businessmen showing Keen Interest in North East," *Hindustan Times*, 2 October 2007

ethnic groups will further cushion the business operations of Thai companies from the local resistance to the outside presence and from the negative fallout of the process of greater economic integration between the Northeast and Southeast Asia.

Finally, as a corollary to their second strategy, Thai companies are venturing into only those areas in which the region is endowed with natural resources. This approach is evident in all three important sectors of investment – agro-business and food-processing industries, infrastructure, and services sector. While some of the Thai companies are investing in the services-based industries, such as, hotel and tourism, and infrastructure sector of hydel-power generation, construction and waterways, large number of them are entering into the ‘primary sector of agro-business and food-processing industries, such as bamboo, plantation, rubber, poultry, seed business and so on. One of the key considerations of Thai companies seems to be the procurement of raw materials and process them in their industrial units located in Thailand for marketing into third country. This set of strategy brings out the question as to what are the industries or potential for investment in the northeast.

Potential Areas of Investment in the Northeast

Leading a 15-member delegation of Thai businessmen and entrepreneurs, Jirapaet visited Assam, Meghalaya, and Tripura and explored the possibility of large-scale investment in the region.²⁷ His delegation was followed by another delegation of government officials and businessmen from Thailand in January 2008, led by Piyabutr Cholvijarn, the Deputy Minister of Industry.²⁸ Important sectors identified for

Thai investment are – agro-business and food processing industries, energy, communications, and tourism.²⁹ Moreover, these are areas in which Thailand has exhibited greater expertise in terms of technology application and marketing and, therefore, provide an important opportunity to the Thai business and traders to tap local resources and develop sub-regional market with the Northeast acting as the production and packaging centres.

First, agro-based and food processing sectors have been identified as one of the most important areas of Thai investment as the region offers immense opportunities in terms of raw-material for these industries and also in terms of an extremely large market to the Thai Small and Medium Enterprises (SMEs), which are engaged in these industries. The C P Group has decided to negotiate directly with the provincial government of Tripura regarding investment in this sector. Among the agro-based industries, rubber and bamboo has drawn maximum attention from the Thai companies. Tripura is the second largest rubber producing state in India after Kerala and has been declared as the ‘second rubber capital of India’ by the Indian Rubber Board.³⁰ While the total area under plantation is approximately 35,760 hectares, the total potential of plantation in the state is roughly 100,000 hectares.³¹ Other rubber-producing states in the Northeast are Mizoram and Assam. The northeast, together, produces a substantial proportion of rubber within the country, which, when read with the fact of India’s third rank in the production and fourth rank in the consumption of rubber, creates a standard opportunity for joint productive efforts with

²⁷ The delegation led by Jirapaet comprised of 16 government officials, representing different departments of trade, tourism, and investment, 4 media-persons, and 14 businessmen, representing different segments of private businesses.

²⁸ The Cholvijarn-led delegation comprised of 9 government officials (mainly from the Board of

Investment) and 9 Private sector delegates, representing construction companies, engineering companies and Bangkok Bank Pvt Ltd Co.

²⁹ See Appendix

³⁰ “North Eastern Region Databank,” North Eastern Development Finance Corporation Ltd, http://databank.nedfi.com/mod.php?mod=userpage&menu=180802&page_id=503

³¹ Ibid

the guarantee of a secured market. Northeastern states, together, produce 65 per cent of bamboo in India and 20 per cent of global bamboo production.³² Mizoram alone contributes roughly 40 per cent of India's bamboo production, an area in which Thai industries have proven expertise. While India's bamboo market is slated to expand to US\$5.5 billion by 2015, the United Nation's Industrial Development Organisation estimates that the bamboo market in the northeast will grow up to US\$1.25 billion.³³ The bamboo products from Tripura are considered to be the best in the country in terms of artistic design, craftsmanship and wide range of products.³⁴ Moreover, the bamboo industry has been identified as one of the most employment-generating sectors with a tentative estimation of creating 8.6 million jobs by the National Mission on Bamboo.³⁵ The C P Aquaculture has agreed to set up a bamboo-processing plant in Manipur.

Food-processing industries play an important role in the economic life of the region and offer an important avenue for Thai investment in the northeastern states of Manipur, Mizoram, Tripura and Meghalaya. While only 12 per cent of food is processed in the region, more than 30 per cent of the food produced is wasted due to lack of technology and post-harvest management.³⁶ Given the application of high-end technology in the food-processing by the Thai companies, and large-scale production of food products in the region, there exists a greater degree of complementarity in Thai technology and food products from the northeastern states.

Manipur and Meghalaya have a huge potential for investment in the citrus fruit products, Tripura produces large varieties of spices, and Mizoram produces fruits, vegetables and spices. Meghalaya, Mizoram and Arunachal Pradesh together produce roughly 40-50 per cent of total ginger produced in India. Meghalaya is famous for its pineapples, oranges, strawberries and other fruits. Assam is very rich in fisheries and therefore offers wide scope for Thai investment in the region. Besides, the region is very rich in the handicraft industry as evident from diverse designs, dress materials, bordering patterns and style of silk clothing, a point underscored by the visiting Thai Commerce Minister.

Energy sector constitutes another important arena of investment given huge potential the northeast offers both in terms of hydro-electricity as well as petrochemicals. Energy, especially natural gas and hydro-electricity, forms one of the most important components of Thai investment strategy given huge potential offered by the northeastern region in these areas. Thai companies' willingness to invest in the energy sector is supported by two key considerations. First, the energy would be essential for operationalising Thailand's production facilities in the region. Second, the energy sector in the northeast offers huge incentive for investment due to its growing demand in India. Over the years, Thailand has shown remarkable expertise in developing both large-scale (500-1000 MW) as well as small-scale (25-200 KW) hydro-electric plants, which can be utilised effectively in India's northeastern states.

While the total potential of power generation in the Northeast is approximately 59000MW (40 per cent of India's total hydro-electric power potential), the total installed capacity is only 4000MW, a meagre 7 per cent utilisation of existing resources.³⁷ The rivers and valleys of Arunachal Pradesh

³² "Economic Potential of Bamboo in the North-East," *Manipur Online*, 11 January 2004, http://www.manipuronline.com/Features/January2004/bamboo11_4.htm

³³ Ibid

³⁴ "North Eastern Region Databank," Op.Cit,

³⁵ "Economic Potential of Bamboo in the North-East," Op.Cit.,

³⁶ K N Hazarika, "Emerging Sectors in North East India and Value of Networking," <http://www.slideshare.net/bgogoi/north-east-india-investment-conference-by-k-n-hazarika/>

³⁷ "Power Potential in the North Eastern Region," North Eastern Electric Power Corporation Ltd, <http://www.neepco.gov.in/neepco6.html>

offer immense potential for hydro-electric power generation. As per the statistics of North Eastern Development Financial Corporation Ltd (NEDFC), Arunachal Pradesh has the total capacity of generating roughly 30000MW. The degree of under-utilisation of the hydro-electric potential can be gauged from the fact that the total installed capacity of power generation in the province was only 32MW in 2005. As estimated by India's Minister for the Development of Northeastern Region (DoNER), Mani Shankar Aiyar, Arunachal Pradesh alone can generate hydroelectricity of approximately 60000 megawatt.³⁸

In addition, the region is also rich in terms of coal and natural gas. While the proven and probable coal reserves in the northeast is approximately 327.26 million tonnes, the total proven crude oil reserves is 1.14 billion tonnes along with total natural gas reserve is 156 billion cubic metres.³⁹ In his speech at the GOPIO (Global Organisation of People of Indian Origin) in Switzerland, the Governor of Meghalaya, M M Jacob noted that Meghalaya alone has the total coal deposit of approximately 550 million tonne.⁴⁰ The President of Indian Chamber of Commerce, S.K. Bangur has already offered that the companies using natural gas as a feedstock can set up plants in the region.⁴¹

The development of local transport networks in the region is another important area in which Thai companies are willing to invest. Following the visit of Jirapaet in June 2007, more than 15 private companies of Thailand, which specialise in the development of infrastructure, have shown interest in investing in the region.⁴² Over the

years, Thai companies have gained expertise and manpower in developing roads and waterways in the similar mountainous terrain as that of the Northeast. The total length of road networks in the northeast is approximately 82,000 kms out of which 56000 kms are unpaved roads.⁴³ Though the existing and most used inland waterways in the region covers only 891 kms, mainly on national waterways no. 2, the potential and unused waterways cover approximately 3000 kms, which can be used for regional navigation both for human as well as goods. The suitability of waterways is also evident from the fact that inland water transport is the most employment intensive mode of transportation service.

Tourism has figured as one of the major thrust areas in the proposed Thai investment in the northeast. The basic objective of investment from Thai companies in the development of tourism sector is to develop an integrated tourist circuit stretching from Thailand to India's Northeast by facilitating diversion of tourists arriving in Thailand toward the Northeast, which is scenically very beautiful and which share cultural and ethnic characteristics with Thailand, and laying down facilities to attract more tourists. An Arunachal Pradesh-based travel company, Abor Country Travels & Expeditions, is reported to have begun negotiation with two Thai companies – Himalayan Holidays and Nagaland Tours and Travels for the diversion of tourists from Thailand to the Northeast and the vice versa.⁴⁴ It is expected that they will be able to attract Thai tourists to the Northeast, especially Arunachal Pradesh and Sikkim from the next year onwards. More than 13 million tourists visited Thailand in 2006 and even a small diversion of those tourists can bring about substantial change in the isolated region of

³⁸ Umesh Pandey, "Thais Invited to India's Northeast," *Bangkok Post*, 07 April 2007

³⁹ Ibid.,

⁴⁰ M M Jacob, "An Introduction to India's Northeast," Speech at GOPIO Convention –2000, Zurich, Switzerland, 22 July, 2000, http://www.gopio.net/gov_speech.htm

⁴¹ Ibid.,

⁴² "15 Thai Companies Eye Investments in NE India: Chamber," *Asia Pulse*, 9 April 2007

⁴³ Sushil Kumar, "Option for Inland Water Transport in Northeast India," 27 June 2006, <http://www.mdoner.gov.in/writereaddata/sublink3images/45.pdf>

⁴⁴ See Appendix

the Northeast.⁴⁵ Such a trait has actually given birth to an epithet that actual Southeast Asia starts from India's northeast. There is a growing understanding that the existing facilities in the Northeast – hotels, air-connectivity, roads, and other hospitality features – are inadequate and need to be upgraded and expanded. As a result, some of the Thai companies are negotiating to enter into joint ventureship with the local companies from the Northeast to develop hotels, flight services, marketing and advertisement, and so on. The Avana Hotel is planning to form a strategic tie-up with (a) the Ind Tra Holiday, Tripura to develop luxury hotels in the province, and (b) the Four Seasons Garden Resorts Pvt Ltd., Guwahati, Assam to open up new resorts for the tourists in Assam. The Avana Hotel is also interested in having a tie up with the Sky King Airlines for the proposed North East Airlines. Similarly, two companies from Thailand – Tiga Co. Ltd. and Oriental Spa Co. Ltd are negotiating with the Holiday Air Travels of Assam to set up a 4-star hotel in Assam and for marketing tourism packages from the Northeast.

Thai investment in these areas will not only strengthen bilateral economic relations but also facilitate northeastern states' greater economic integration with the ASEAN economies and invite Indian investment in the region. Most of the areas identified for investment, such as food processing industries, agro-based rubber and bamboo production, handicrafts, and land-based transport or waterways, involve labour-intensive production activities, thereby, having the potential for large-scale employment generation within the region. As per a NCAER study, every km of operation of waterways can employ around 3000 people.⁴⁶ A developed market in the Northeast would also attract Indian companies in investing in the region and

generating entrepreneurial activities. Various private companies of India, especially Karnataka based companies have already agreed to invest in developing the IT and vocational training sectors in the region. According to the Chief Minister of Assam, 'at least four top-notch Indian corporate houses have agreed to invest Rs.300 billion in the development of rural infrastructure, promoting agriculture and setting up power plants, IT parks, and bio-diesel facilities.'⁴⁷ Indiabulls Power Services Ltd has entered into a joint venture agreement with the government of Arunachal Pradesh to set up four hydro-electricity projects to generate 300 megawatts.⁴⁸

⁴⁵ "North East India Trade & Investment Opportunities Week: Partnership in Development, 1-4 October 2007, Bangkok

⁴⁶ Sushil Kumar, "Option for Inland Water Transport in Northeast India," op.cit.

⁴⁷ Ibid.,

⁴⁸ "LN Mittal & Farallon Capital invests 1,580 cr in Indiabulls Power Services," *The Times of India*, 15 February 2008

India's Responses: Offering Incentives and Marketing Assets

The central Indian government has, of late, taken several policy initiatives with the two-fold objectives of promoting industrial development and investment in the Northeast and projecting the region as a potential driver of the LEP. These initiatives not only offer incentives for local industrial development but also provide an outlet for investment from the mainstream Indian and Thai companies. With the growing realisation of the urgency of the development of the Northeast and its strategic importance to further advance the objectives of the Look East policy, India has adopted a three-pronged approach of – offering incentives, developing infrastructure, and marketing the assets.

While offering incentives for promoting entrepreneurship and investment in the region, the central government launched the North East Industrial and Investment Promotion Policy (NEIIPP) for a ten-year period (2007-2017).⁴⁹ The NEIIPP has offered various financial, fiscal and investment incentives with the main focus on promoting local entrepreneurship and investment (domestic and foreign) in the region. The central government has agreed to levy no income tax for ten year on any local investment in the region, raise the capital investment subsidies and develop road and air transport in the region. The

⁴⁹ The NEIIPP, 2007 is a modified version of the North East Industrial Policy (NEIP), launched in 1997. While the NEIP, 1997 did not cover the province of Sikkim, the NEIIPP, 2007 also includes Sikkim. The NEIIPP, 2007 offers various fiscal incentives to the traders, entrepreneurs and outside investors for doing business or investing in the region. See “North East Industrial and Investment Promotion Policy (NEIIPP), 2007,” Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India, http://assamgovt.nic.in/pdf/NEIIPP_2007.pdf (accessed on 15 March 2008)

NEIIPP, 2007 has enhanced capital investment subsidy “from 15 per cent of the investment in plant and machinery to 30 per cent and it has also raised the limit for automatic approval of subsidy from Rs. 30 lakhs to Rs. 1.5 crore per unit. The NEIIPP, 2007 extends these provisions to “units in the private sector, joint sector, cooperative sector as well as the units set up by the State Governments of the Northeast.”⁵⁰ The central government has also laid out plans and concession to develop service sectors such as tourism, food processing, handicrafts and other related industries. Moreover, the central government has earmarked Rs. 50,000 crores for the development of infrastructure in the region and the share of the Northeast in the total outlay of the XI Five Year Plan is roughly 10 per cent.⁵¹

Second, the Indian government has laid out a detail programme to develop (a) energy and transport sectors within the region and (b) enhance the region's road connectivity both with the mainstream India as well as with the mainland Southeast Asia. Presently, the northeastern states produce approximately 2000 megawatt and consume 1000 megawatt.⁵² The Indian government is planning to further expand the power generation capacity to 5000 mw in the next three years. The Indian government has also initiated the programme of setting up an upstream Rs54 billion gas cracker project – Brahmaputra Cracker and Polymer Ltd. – in Assam, which, after completion in five

⁵⁰ *ibid*; See also Mohan Padmanabhan, “Ground prepared to facilitate easy flow of Thai investments into N-E,” *The Hindu Business Line*, 22 September 2007

⁵¹ Pamela Philipose, “Look Northeast Policy,” *Indian Express*, 22 October 2007

⁵² Umesh Pandey, “Thais Invited to India's Northeast,” *op.cit.*

years, can generate both direct and indirect employment upto 100,000 through various plastic processing industries and allied activities.⁵³ The provision for 100 per cent FDI in exploration and refining of crude oil and natural gas offers an important incentive to the Thai companies for investment in the energy sector.

Developing road networks in the northeast has come into the focus of various national, sub-regional and international initiatives launched over the years. Out of the total 6880 kms of National Highways in the Northeast, the central government claims to have already begun the upgradation work on 5,170kms.⁵⁴ Similarly, the proposed four-laning of the East West Corridor, which connects Silchar in Assam with Porbandar in Gujarat, once completed, will enable greater and quicker connectivity between the northeast and the mainstream Indian market. The proposed Accelerated North-East Road Development Project will inter-connect various capital cities and district headquarters in the northeast through integrated four-lane national highways. The four-laning work is underway on NH-37 which bifurcates at Numaligarh. Besides merging with the NH-39 in Numaligarh, one branch of the NH-37 goes further and links the upper Assam region with the lower Assam and also connects Assam with Moreh in Manipur, the entry point to Myanmar. The Central government has also initiated Special Accelerated Road Development Programme (SARDP-NE) in the Northeastern region, under which 7,616 km of roads of various categories will be built and expanded.⁵⁵ There are other such proposals, which would further upgrade those state highways and other stretches which are extremely important for the industrial development of the region.

⁵³ "PM Promises Rapid Industrialisation of India's Northeast," *Indo-Asian News Service*, 9 April 2007

⁵⁴ "Road development work starts in North-East," *The Hindu*, 30 September 2006, <http://www.hindu.com/2006/09/30/stories/2006093013340300.htm>

⁵⁵ Ibid

India and Myanmar has agreed to develop the Kaladan multi-modal project, which will provide northeastern states access to the Bay of Bengal via the Sittwe port in Myanmar. Besides developing trans-border waterways from Mizoram to Myanmar, the Kaladan project also provides for hydro-electricity generation programme. The Moreh-Tamu-Kalewa-Kalemyo road network has already been completed in 2001. As a part of India-Myanmar-Thailand Trilateral Infrastructure development programme, a road network will connect India's Northeast with Mae Sot in Thailand via Bagan in Myanmar. The Assam government has already developed the Assam stretch of Stilwell road, which will connect the province with China's southern province of Yunnan via Myanmar.⁵⁶ Chief Minister Approximately 800 kms of roads will be developed in the northeast under the UN-mandated Asian Highway and East-West Corridor projects. India's various sub-regional initiatives, such as BIMSTEC and MGC have also taken up various programmes to link India's northeast with the mainland Southeast Asia. The MGC has launched the Delhi-Hanoi rail link which will be able to connect India's northeastern region with Vietnam via Myanmar and Thailand.

The Indian government has taken various steps to showcase its strategic assets available in the region. The Indian government has initiated a northeast business summit programme which involves the central government, various provincial governments and the representations from the neighbouring countries. Inaugurating the third northeast Business Summit, Mani Shankar Aiyar highlighted the vast untapped investment potential and laid emphasis on making the region as an important variable in India's Look East policy. The summit was attended by the representatives from Nepal, Bangladesh,

⁵⁶ Interview with the Chief Minister of Assam on 22 February 2008 at his residence in Guwahati.

Myanmar and Thailand. The main idea of the business summit is (a) to bring together national industries and local entrepreneurs and (b) facilitate dialogue and interaction between the experts and investors. During his visit to the northeast, Jirapaet also offered to host a 'northeast trade fair' in Bangkok.⁵⁷ Responding to his calls, the Ministry for Development of North Eastern Region (DoNER) organised a North-East Investment Week in Bangkok in the first week of October 2007. A similar show-casing was organised in New York in 2007.

Potential Risks

However, the above-mentioned rosy picture of investment, market integration and local economic development can not come into a shape unless and until the central and provincial governments take various steps to manage some of the potential risks which, otherwise, can derail the process of Thai investment in the Northeast. These risks are mainly in the form of challenges in developing an 'investor-friendly atmosphere,' which can sustain the interests of the Thai investors in the region. The 'investor-friendly atmosphere' includes sustainable infrastructure, safety of investment, installations and employees, local availability of skilled work-force, absence of non-economic interventions, facilitating policy frameworks, and less politico-administrative hassles. India's infamy in poor infrastructure and entangling the foreign investors into bureaucratic obligations and procedural complexities can cost the region dearly and further hamper the objectives of its Look East policy.

Economic processes have their own economic variables and infrastructure always plays a key role in attracting the investment, sustaining industrial production and connecting the supply-hubs with the demand centres. The same logic goes for the existing and potential investment scenario in the northeast. The prospect of

accomplishing two important objectives of Thai investment in the region – developing an integrated local and sub-regional market, and using the Northeast as a transit to reach out to the bigger mainstream Indian market – depend considerably on the level of connectivity within the region, between the region and the mainstream India, and between the region and Thailand. The existing level of infrastructure is highly inadequate, leading to high costs in the movement of goods and people, greater time-consumption, and extremely limited inter-provincial trade relations. An integrated regional market is unlikely to develop in the face of limited connectivity. Though various national, bilateral, sub-regional and multilateral programmes are focusing on the development of infrastructure, especially the transportation sector, as one of the focus areas, there exist lurking fear of inefficiency and buck passing, which are sadly, important elements of India's development programmes. Moreover, many of similar programmes have suffered serious limitations at the level of maintenance and implementation, and the potential advantages of some of the accomplished projects, when at all completed, are off-set by a huge time-lag. While the work is underway on various National Highways, such as NH-37, NH-52, there is a fear that these projects may incur huge losses due to time overruns. The Jagiroad-Nagaon stretch of NH-37, which connects Guwahati with Numaligarh in Assam and NH-39, which connects Numaligarh with Moreh on Myanmar border, covering the states of Manipur, Nagaland and Assam, and acts as a life line for the region, are in a pathetic condition.⁵⁸ Interestingly, the same roads were used for India-ASEAN Car Rally, which was held in 2004. One of the senior officials in the Thai Embassy in New Delhi complained about the lack of good roads.⁵⁹ Similarly, the air-

⁵⁷ "Mega Northeast Bazaar in Thailand to Woo Investors," *Indo-Asian News Service*, 21 August 2007.

⁵⁸ Author's field visit to Assam from 19-24 February 2008.

⁵⁹ Interview with the Official at the Embassy of Royal Kingdom of Thailand, New Delhi on 13 December 2007.

connectivity assumes greater significance. Till date, there is no direct flight between the Northeast and Bangkok. The Guwahati-Bangkok air-services have been discontinued and the economic non-viability was put forth as the main reason.⁶⁰

Two important components of investor-friendly atmosphere are safety and security of businesses and no non-economic interventions such as the demands for ransom, illegal tax-collection by the local insurgent outfits. While discussing the safety and security challenges posed by the insurgent outfits in the region, the focus is not on large-scale threats, such as complete disruption of power supply, extensive or partial terrorist damage to the energy or power installations, since they have, so far and somehow, been managed. The ground-level scenario brings our attention to the day-to-day challenges or small-scale, but, rampant problems, such as kidnap, ransom, small thefts, robberies, illegal tax collection, which, both the Indian and provincial governments have not been able to address effectively. Often private businessmen, tea-garden owners, transporters and the owners of small-scale industries are subject to ransom by the militant outfits.⁶¹ Protesting the abduction of an LPG truck driver and the killing of another driver, truckers went on strike and refused to ply on the NH 39.⁶²

The idea of no non-economic interventions also bring our attention to the domineering role of the centre and the bureaucratic entanglement, which can act as a dampener to the desire of Thai and Indian companies for making large-scale investment in the region. The prevailing security mindset among the policy makers reduced the entire region to mere a rugged battle zone and

where the Indian soldiers are keeping a vigil on the borders and also fighting against the insurgents. Such a mindset did not allow the development of infrastructure within the region and opening up of the borders. The standard explanation given was that the opening up of borders would bring the enemies to the doorstep and promote the insurgency operations in the region. The initial proposal for the Kaladan multi-modal project in 2002 was rejected on the security ground. However, the same proposal today is being viewed as a catalyst in developing trade and investment in the region. The policy issues such as inner line permits and the non-operability of mainstream Indian cell phones in the Northeast reduce the scope of constant communication and free movement of goods and people.

One of the most important challenges facing the economic development in the Northeast and Thai investment is the unavailability of large-scale skilled work-force, which could support and sustain the industrial and entrepreneurial activities in the region. There exists a considerable shortfall in terms of the number of technical educational institutions available in the region. Even Assam, the biggest state in the region, figures much low in terms of technical education when compared with the national average.⁶³ Though, the agri-business and food-processing sectors are being touted as main attractions for Thai investors, much of these practices have seen only rudimentary application of technical know-how and sophisticated technology. The institutions like Indian Entrepreneurship Centre, which is an initiative of the Department of Small Scale Industries (SSIs), have not been very effective in generating entrepreneurship skills within the region. The provincial average of trained teachers of 45 per cent is much lower compared to the national

⁶⁰ "Looking East from the Northeast," Presentation of the Commerce Minister of Assam, Pradyuth Bordoloi at the Institute of Peace and Conflict Studies, New Delhi, 28 March 2008.

⁶¹ Iboyaima Laithangbam, "Truckers refuse to take NH 39," *The Hindu*, 12 August 2005.

⁶² "Manipur Trucker to Keep Off NH 39 on Sunday," *Indian Express*, 21 June 2007.

⁶³ See the official website of the Government of Assam, <http://assamgovt.nic.in/business/resources.asp> (accessed on 13 April 2008)

average of 87 per cent.⁶⁴ The investment by the Thai companies in the region can be sustained and beneficial to the region only if there is a greater availability of skilled workforce within the region and the production processes are participatory in nature.⁶⁵

Finally, an important risk facing the investment scenario is the negative impact of uneven economic development and disruption of local cultures. The process of economic integration can lead to the emergence of an uneven pattern of development wherein developed enclaves enter into constant conflict with the prevailing poverty outside those enclaves. Such a scenario carries the potential of socio-economic alienation of large number of poor people, a trend which can further intensify the problem of insurgency. The uneven pattern of economic development can also result into the disruption of local culture in provinces like Manipur, Nagaland, Meghalaya and Tripura where a substantial percentage of population has been practicing subsistence agriculture and greater degree of tribalism. Such a scenario will destabilise the local social framework and invite greater resistance to the integration with outside economies and create suitable condition for greater mobilisation of people along ethnic lines. This situation may force the Thai companies to shift their business operations outside the region.

⁶⁴ Gulshan Sachdeva, "India's Northeast: Rejuvenating a Conflict-riven Economy, *Faultline*, vol. 6, 2001, South Asia Terrorism Portal, Institute of Conflict Management, <http://www.satp.org/satporgtp/publication/faultline/s/volume6/Fault6-GSach-F.htm> (accessed on 10 February 2008)

⁶⁵ M Govinda Rao et.al. "Peace, Progress and Prosperity in the Northeastern Region: Vision 2020," Volume I, Draft Report, National Institute of Public Finance and Policy, New Delhi, (11 September, 2007), pp. 23-30, <http://necouncil.nic.in/document/Volume18506392625.pdf>

Conclusions

Thailand's proposed investment in the Northeast reflects a mutually beneficial scenario wherein the former will gain access to resources, and untapped local and huge Indian market, the latter will have foreign investment, up-to-date technology, large-scale local employment generation, economic integration with the mainstream India and with Southeast Asia, and prospect for peace and prosperity in the region. Thai investment comes as an important external stimulus to the process of industrial development, growth of agricultural sector, and development of infrastructure, which are important pre-requisites for sustained economic development and prosperity in the region. An economically robust northeast with ample resources, an assured local market of approximately 40 million people, and geographically connected with Southeast and East Asia can strengthen and deepen the economic linkages between the ASEAN economies, China and mainland India, a process set in motion by the rapidly growing structure of globalisation and India's Look East policy. The convergence of these massive economies will not only fulfill India's selfish interest of the development of the northeastern states but also give a fillip to the process of economic and people-to-people integration within the Bay of Bengal community.

However, the governments in the provinces and the centre need to undertake various

sets of preparatory works if they want to convert this beginning into a sustained process of economic exchange and development. They have to develop short- and long-term policy plannings, generate huge amount of resources to develop a standard business climate in the region and bring about a change in their mindset to ensure that security mindset do not jeopardise developmental activities in the region. As the Northeast gets more and more connected with the global economic processes, the governments face an uphill task of balancing market integration, economic growth and equitable distribution of benefits. The failure in ensuring equitable development may further entrench the alienation of local people and strengthen separatist movements within the region. The local economies need to be strong enough to withstand the pressure of globalisation and benefit from the process of economic integration. An integrated network of connectivity within the region and between the region and Southeast Asia needs to be developed in a timely manner and local capacities need to be built to absorb the advantages of foreign investment. Greater responsibilities lie with all the important stakeholders in the region – the central government and its agencies, the provincial governments, civil-society institutions and the common people

Appendix:

Some Business Collaborations between Companies from Thailand and the Northeast

Thai Companies	Indian Companies	Business Areas	Status
Chareon Pokphand (CP) Foods Public Company	Assam Industrial Development Corporation	<ul style="list-style-type: none"> plant and seed business, piggery and poultry, aquaculture 	MoU signed
Avana Hotel, Thailand	Sky King Aviation, Meghalaya	Tourism and aviation sector in Meghalaya and Tripura, Proposed North East Airlines	Negotiation ongoing
Loxley Company+Siam Uicom Import-Export Co.+ Agri Processing Industry Co. Ltd.+Yearrakarn Co. Ltd.	Parafruit Products Pvt. Limited, Imphal, Manipur	Export of dry ginger to Thailand Pineapple and Passion fruit	Negotiation on trade of pineapple and passion fruit
SCT Co. Ltd+Sukkasamewattance Co. Ltd.	SDM Bricks and Tiles, Lakhimpur, Assam	Bricks and tiles	Ongoing business
KIWIN Co. Ltd. + Kondana Group	IKF Technologies Ltd., Shillong, Meghalaya	Setting up BPO in Shillong	MOU Signed
CP Aquaculture (India) Pvt Ltd. + Siam Industries Ltd. + ICC International Public Co. Ltd.	Manipur Essential Commodities Marketing & Services Ltd	Bamboo processing plant and a cement factory	Feasibility Study
Siam Kenki JSSR Machinery Co. Ltd.	Anupam Infracon Pvt Ltd.	JV on Infrastructure development	Negotiations ongoing
K M Board of Investment	J K Botelho Guwahati Carbon Ltd	Cement manufacturing, hydel generation	
Indorama (Thailand) + Nowarat Co.	H N Company, Dimapur, Nagaland	Setting up food-processing unit at Dimapur, Nagaland	Feasibility study
Board of Investment, Thailand	A K Traders, Tripura	Conversion of Old Plywood factory into a bamboo processing factory	Negotiation ongoing
Avana Hotel, Thailand	Ind Tra Holiday, Tripura	For a strategic tie up	Negotiation Ongoing
Seoin Industries Ltd.	SDM Bricks and Tiles, Lakhimpur, Assam	Supply of Concrete Structure	MOU to be signed after March 2008
ATC Consulting + Board of Investment + River Kwai Cabin + ESTGLL International Co. Ltd.	Bee Management Consultancy Pvt Ltd., Mumbai	<ul style="list-style-type: none"> Joint facilitation of projects involving both Indian and Thai companies Setting up a golf course in Meghalaya 	
VM Group Company	Suu Exporters, Nagaland	Export of handloom products from Nagaland	Negotiation Ongoing
Palley & K Coatings	J G Group of Companies, Guwahati, Assam	<ul style="list-style-type: none"> Setting up of Ethanol manufacturing plant near Guwahati Investment in Construction Projects 	MOU signed
Board of Investment, Thailand	Guwahati Carbon Ltd., Kolkata	<ul style="list-style-type: none"> Investment and Technology Partnership in Cement manufacturing in Meghalaya 	DoNER and Indian Camber of Commerce (ICC)as facilitator in negotiations

		<ul style="list-style-type: none"> • - Hydel generation in Arunachal Pradesh 	
G R Dairy, Guwahati, Assam	Board of Investment, Thailand	<ul style="list-style-type: none"> • Export of food-products, • Technological know-how from Thailand, • Financial and marketing help in tourism sector 	Negotiations ongoing with ICC as the facilitator

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