

Northeast Region and Its Dependent Economy

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Abstract

The North-Eastern Region (NER) of India reflects a structurally dependent regional economy characterized by weak industrialisation, limited manufacturing capacity, and heavy reliance on other Indian states for manufactured goods, food grains, pharmaceuticals, construction materials, and technical services. Using dependency theory, this paper examines how geographical isolation, inadequate infrastructure, low export participation, and fiscal dependence reinforce the region's peripheral economic position. The study highlights the resulting market vulnerabilities, including supply disruptions, price instability, and constrained regional growth. It concludes that strengthening industrial infrastructure, regional production, connectivity, and human capital development is essential for achieving sustainable and self-reliant economic development in Northeast India.

Keywords: North-East India, Dependency Theory, Industrialisation, Regional Dependency, Market Vulnerability, Regional Development.

Regional economic disparities constitute one of the most persistent structural features of the Indian economy. While several regions have achieved high levels of industrialisation and economic diversification, others continue to experience structural dependency and market vulnerability (Drèze & Sen, 2013). The North-Eastern Region (NER) of India is one such region where economic development has historically been constrained by structural, geographical, and institutional factors (Banerjee & Kumar, 2016).

Despite possessing abundant natural resources, rich biodiversity, and significant hydropower potential, the North-East contributes a relatively small share to India's national income (Government of India, 2023). The region accounts for nearly 8% of India's geographical area and around 3-4% of the population, yet its share in the national GDP remains approximately 5-6% (Reserve Bank of India, 2023). More importantly, the structure of the regional economy reflects a high level of dependence on external markets, particularly other Indian states (North Eastern Council, 2020).

Economic activities in the North-Eastern Region (NER) are predominantly centred on agriculture, small-scale industries, and resource-based sectors such as tea, petroleum, and forestry (Banerjee & Kumar, 2016). In contrast, large-scale manufacturing and advanced industrial activities are largely concentrated in more industrialized states like Maharashtra, Gujarat, Tamil Nadu, and Karnataka (Government of India, 2023). The manufacturing sector contributes less than 10% to the regional economy, compared with around 17% at the national level, and the six smaller northeastern states together account for only about 0.7% of India's total industrial Gross Value Added, reflecting the region's relatively weak industrial base. Although policy measures such as the North East Industrial and Investment Promotion Policy (NEIIPP), 2007 provide incentives including capital investment subsidies of up to 30% to encourage industrial development, the expansion of large-scale manufacturing in the region has

remained limited. Consequently, the North-East primarily operates as a consumption-driven regional market, relying heavily on manufactured goods supplied from other Indian states while exporting mainly primary commodities. This imbalance contributes to structural economic vulnerabilities, including supply chain disruptions, capital outflows, and restricted local industrial growth (ERIA, 2020).

The North-Eastern Region (NER) of India presents a notable case of regional economic imbalance within the national economy. The region comprises eight states and is geographically connected to the rest of the country primarily through the narrow Siliguri Corridor, which poses logistical and infrastructural challenges for economic development. These geographical constraints, along with limited transportation and industrial infrastructure, have historically hindered the growth of large-scale manufacturing and industrial activities in the region. As a result, the economic structure of the Northeast has remained relatively less diversified compared to more industrialised regions of India (NITI Aayog, 2021; Ministry of Development of North Eastern Region, 2023).

Recent economic statistics indicate that the economic contribution of the Northeast has gradually improved in the past decade. The share of the region in India's Gross Domestic Product (GDP) increased from about 2.6% in 2011–12 to nearly 6% by 2024–25, reflecting higher public investment, infrastructure development, and expanding service sector activities. Nevertheless, the region continues to depend significantly on other Indian states for manufactured products, industrial inputs, and technology. Commodities such as consumer electronics, automobiles, machinery, pharmaceuticals, processed food items, and construction materials are largely supplied from more industrialised states including Maharashtra, Gujarat, Tamil Nadu, and West Bengal. This pattern indicates that the Northeast functions as a dependent regional economy, where local markets rely heavily on external production centres, thereby creating structural market vulnerabilities and limiting self-sustained regional growth (NITI Aayog, 2021; RBI, 2023).

Within the framework of dependency theory, the economic structure of India's North-Eastern Region (NER) can be interpreted as reflecting several characteristics commonly associated with peripheral economies. Despite a gradual increase in the region's contribution to the national economy (from approximately 2.6% of India's GDP in 2011-12 to nearly 6% by 2024-25) the productive base of the region continues to be dominated by agriculture and other primary activities, while the level of industrial development remains comparatively limited (Gera, 2025). This structural dependence is further reinforced by geographical isolation. The Siliguri Corridor and the long transportation routes linking the region with major markets significantly increase logistics costs and consumer prices. For instance, the distance between Agartala and the nearest major port at Kolkata is approximately 1,600 kilometres, which contributes to price levels estimated to be around 30% higher in urban areas and up to 60% higher in rural areas compared with neighbouring West Bengal (World Bank, 2023). Fiscal dependence also constitutes a critical dimension of this structural imbalance. In several northeastern states, transfers from the central government account for more than 80% of total state expenditure, reflecting a relatively weak domestic revenue base and limited industrial tax capacity (East Mojo, 2026). Earlier studies similarly indicate that central transfers constitute around 80-90% of total state receipts in states such as Nagaland, Mizoram, and Manipur, whereas the all-India average is approximately 42% (NIPFP, 2014). Collectively, these structural features-including a narrow industrial base, high transportation costs, and significant fiscal dependence-reinforce the position of the Northeast as a peripheral regional economy within the national economic system and contribute to persistent regional market vulnerabilities, consistent with the propositions of dependency theory.

Export Imbalance and Peripheral Economic Status

The limited participation of the North-Eastern Region (NER) in India's export economy represents a key indicator of its structurally dependent economic position. Although the region shares extensive international borders with neighbouring countries such as Bangladesh, Bhutan, Myanmar, and China, its contribution to India's overall merchandise exports remains extremely small. Available estimates indicate that the combined export share of the eight northeastern states accounts for around 0.1-0.2% of India's total exports, demonstrating a significant imbalance in regional export participation (Ministry of Commerce and Industry, 2023). This marginal share stands in stark contrast to the export performance of India's major industrialized states. For example, Gujarat alone accounts for nearly 30% of India's merchandise exports, while Maharashtra contributes around 15–16%, Tamil Nadu about 10-11%, and Karnataka approximately 7–8%, together representing more than 60-70% of the country's total exports (Directorate General of Commercial Intelligence and Statistics [DGCIS], 2023).

Several structural factors contribute to the relatively weak export performance of the North-Eastern Region (NER). A major constraint is the region's inadequate transportation and logistics infrastructure, which increases both the cost and time required to move goods to domestic and international markets. The absence of major seaports within the region further intensifies this challenge, as exporters must rely on ports such as Kolkata and Haldia in West Bengal, located approximately 1,000-1,600 kilometres from many northeastern cities. This geographical distance raises logistical expenses and reduces the competitiveness of the region's products in global markets (World Bank, 2023). In addition, the region lacks well-developed industrial clusters that could support large-scale, export-oriented manufacturing. Data from the Ministry of Development of North Eastern Region (MDoNER) indicate that the manufacturing sector contributes only about 5–9% to the Gross State Domestic Product (GSDP) of most northeastern states, significantly lower than the national average of around 16–17% (MDoNER, 2023). Moreover, the region accounts for less than 1% of India's total industrial output, highlighting the limited scale of its manufacturing activities. These structural constraints restrict the growth of export-oriented industries and reinforce the region's dependence on primary commodity exports and the import of manufactured goods from other parts of the country.

Furthermore, the export composition of the Northeast is largely concentrated in primary commodities and resource-based products, including tea, crude oil, natural gas, bamboo products, and certain agricultural commodities. These products are frequently exported in raw or semi-processed forms, resulting in limited value addition within the region itself. Consequently, much of the economic benefit associated with processing and manufacturing is captured by more industrialized states. This pattern of low export participation and limited industrial diversification reinforces the Northeast's position as a peripheral regional economy, dependent on other parts of India for processing, manufacturing, and integration into national and global markets.

Food Grain Deficit and Dependence on External Supply

The North-Eastern Region (NER) of India exhibits several features of a structurally dependent regional economy, particularly in the food and agricultural sector. Although the region accounts for nearly 8 percent of India's geographical area and around 3.8 percent of the national population, its contribution to the country's total food production remains relatively limited. As a result, the region continues to rely significantly on other Indian states for the supply of essential food grains and agricultural commodities (Government of India, 2023).

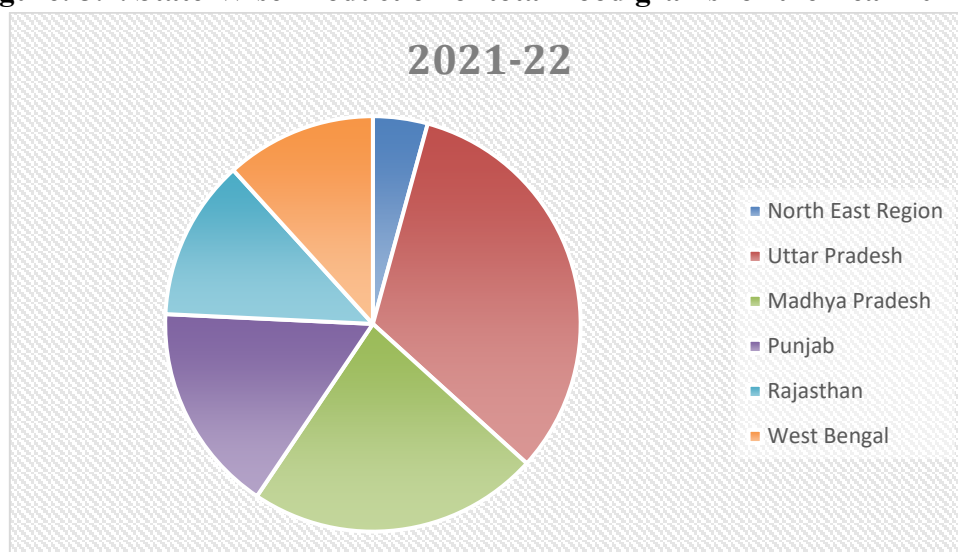
A key indicator of this structural dependency is the persistent food grain deficit observed across the region. Empirical assessments indicate that the Northeast is capable of meeting only about 70-75 percent of its total food grain requirement through domestic production, while the remaining demand is largely fulfilled through imports from agriculturally surplus states such as Punjab, Haryana, Uttar Pradesh, and West Bengal (Bose, 2019). Data from the Directorate of Economics and Statistics (DES) show that the total food grain production of the Northeast has remained around 7–8 million tonnes in recent years, which is inadequate relative to the consumption needs of the region’s expanding population. In comparison, major agricultural states such as Punjab and Uttar Pradesh individually produce more than 30–60 million tonnes of food grains annually, illustrating the substantial regional disparity within India’s agricultural production structure (Government of India, 2023).

This dependency is also reflected in the operation of the Public Distribution System (PDS) across the region. A considerable share of the food grains distributed under the National Food Security framework in the Northeast is sourced from the central procurement system managed by the Food Corporation of India (FCI), which primarily collects grains from surplus-producing states. In several northeastern states, including Manipur and Mizoram, it is estimated that over 70–80 percent of households depend on subsidized food grains provided through the Public Distribution System (PDS), highlighting the limited capacity of the region’s agricultural sector to independently ensure food security (Bose, 2019).

Such structural dependence generates significant market vulnerabilities for the Northeast. Given that a large proportion of food supplies must be transported from distant production centres through the Siliguri Corridor, the region remains highly susceptible to transport disruptions, supply chain constraints, and fluctuations in national food prices. Consequently, changes in production levels, procurement policies, or market conditions in surplus states can directly influence food availability and price stability in the Northeast. This situation reinforces the region’s position as a consumption-oriented market within the national agricultural system, thereby contributing to its continued economic vulnerability and dependence (Government of India, 2023; Bose, 2019).

Here, below is the state-wise comparison of total food grains produced by North-East region as a whole and some other major states of India.

Figure: 3.1. State-Wise Production of total Food grains for the Year 2021-22



Source: Handbook of Statistics on Indian States

Pharmaceuticals and Healthcare Products

This Region exhibits a pronounced dependence on other Indian states in the pharmaceutical and healthcare products sector, largely due to the absence of a substantial local manufacturing base. A significant share of medicines and healthcare supplies consumed in the region is sourced from major pharmaceutical manufacturing hubs such as Gujarat, Maharashtra, Telangana, Himachal Pradesh, and Uttarakhand. Gujarat and Maharashtra together account for over 45% of India's total pharmaceutical output, while states such as Telangana and Himachal Pradesh also serve as important manufacturing centres (Department of Pharmaceuticals, 2022). In contrast, the Northeast hosts only a limited number of pharmaceutical manufacturing units, resulting in a heavy reliance on interstate supply networks for essential medicines and healthcare products.

This structural dependence is also evident in the implementation of public healthcare programmes such as the National Health Mission (NHM), under which a large proportion of medicines supplied to government hospitals and healthcare facilities in the Northeast are procured from manufacturers located outside the region (Ministry of Health and Family Welfare, 2023). The reliance on extended supply chains contributes to higher transportation costs, potential price fluctuations, and increased vulnerability to supply disruptions, reinforcing the Northeast's position as a consumption-oriented pharmaceutical market within the national economy.

Construction Material

The construction sector in Northeast India exhibits a considerable reliance on other Indian states for critical building materials such as cement, steel, and various manufactured construction inputs. This reliance largely stems from the region's relatively weak industrial structure and limited manufacturing capabilities. Its share in national industrial output remains minimal (Government of India, 2023). Consequently, a significant proportion of construction materials used in the region must be transported from industrialized states including Odisha, Jharkhand, Chhattisgarh, West Bengal, and Maharashtra.

The structure of India's steel industry reflects a pronounced regional concentration in industrial production. In 2023–24, India produced approximately 161 million tonnes of finished steel, making it the second-largest steel producer globally. However, most large integrated steel plants are located in eastern and central states such as Odisha, Jharkhand, and Chhattisgarh, largely due to their proximity to major iron ore and coal deposits. For instance, Odisha alone contributes more than 25% of India's crude steel output, whereas the North-Eastern Region (NER) lacks major integrated steel facilities (Ministry of Steel, 2024). Consequently, the region relies significantly on interstate supply chains for key construction inputs, including structural steel and reinforcement bars. A similar pattern of spatial concentration is evident in the cement industry. Although India's total cement production capacity exceeds 550 million tonnes per annum, a substantial portion of this capacity is concentrated in states such as Rajasthan, Andhra Pradesh, and Tamil Nadu (India Brand Equity Foundation, 2023). By contrast, the Northeast accounts for less than 3% of the country's cement production capacity, despite possessing limestone reserves in states like Meghalaya and Assam. As a result, the region depends heavily on cement transported from other parts of India, which increases transportation costs and further reinforces its reliance on external industrial supply networks.

However, construction activity in the Northeast has expanded rapidly due to increasing infrastructure development and public investment. Data indicate that industrial construction projects valued at about ₹45,792 crore were recorded in the North and Northeast zones during FY 2023-24, reflecting a growing

demand for construction materials (Biltrax Media, 2024).

Skilled Human Resources and Technical Services

Dependence on skilled human resources and technical services represents an important structural characteristic of the economy of Northeast India and contributes significantly to its regional market vulnerabilities. Although the services sector has emerged as a major engine of economic growth in India, its expansion and composition remain highly uneven across regions. According to NITI Aayog, the services sector employed nearly 188 million workers in 2023-24, accounting for approximately 29.7% of the total national workforce, highlighting its growing importance in employment generation and structural transformation. However, advanced knowledge-intensive service activities-including information technology, financial services, and professional technical services-are largely concentrated in economically advanced central and southern regions of India, where strong technology clusters and innovation ecosystems have developed. In contrast, most states in Northeast India exhibit a relatively weak presence of high-skill service industries.

Labour market evidence further illustrates this structural limitation. In Assam-the largest economy of Northeast-only about 30.1% of the workforce (approximately 5.1 million workers) is engaged in the services sector. Moreover, a substantial proportion of this employment is concentrated in relatively low-skill segments such as wholesale and retail trade (41.7%), transportation and storage (18.8%), and education (13%), rather than in advanced professional, scientific, or technical services (NITI Aayog, 2025). At the national level, employment patterns also indicate that rural service economies are largely dominated by low-productivity activities including trade, transport, and education, while high-value segments such as information technology, financial services, and professional scientific services remain concentrated in major urban economic centres.

Consequently, a considerable share of infrastructure, digital, financial, and engineering services required within the Northeast is supplied by firms and professionals based in other Indian states. This dependence on external expertise raises the cost of development projects, facilitates the outflow of service-sector income from the region, and constrains the accumulation of local knowledge and technical capabilities. As a result, the Northeast continues to experience structural dependence on external labour and service markets, reinforcing its position as a peripheral regional economy where demand for skilled services exists locally, but the supply of advanced human capital and technical expertise remains largely concentrated outside the region.

The economy of India's North-Eastern Region (NER) demonstrates a pronounced structural dependence on other Indian states for skilled industrial production and manufactured goods, largely due to its weak industrial base and limited manufacturing capacity. Evidence indicates that the collective share of most northeastern states in India's registered manufacturing sector is extremely small. Within the region, Assam contributes the largest portion of industrial output, while the remaining states exhibit only minimal manufacturing activity. This imbalance reflects the absence of large-scale manufacturing clusters and the limited presence of capital-intensive industries across much of the region. (Annual Survey of Industries)

Consequently, the Northeast relies heavily on major industrial centres which account for a substantial share of national production in sectors including engineering goods, machinery, automobiles, electronics, chemicals, and consumer durables. As a result, a considerable proportion of manufactured goods consumed in the Northeast-such as industrial machinery, electrical equipment, fabricated metals,

and durable consumer products-are transported from states like Gujarat, Maharashtra, Tamil Nadu, and Karnataka. This pattern reflects a core-periphery economic structure, wherein industrially advanced states function as centres of production while the Northeast largely operates as a consumption-oriented market.

In addition, the region exhibits a dependence on external sources for skilled industrial labour, technical expertise, and specialised engineering services. Studies indicate that many industrial projects in the region rely on engineers, technicians, and managerial personnel recruited from other parts of the country due to shortages of advanced technical skills locally (NITI Aayog, 2025). Such structural dependence generates significant regional market vulnerabilities. Because most industrial inputs and manufactured goods originate outside the region, disruptions in national supply chains or transportation networks can directly influence local markets. Overall, the Northeast continues to function largely as a peripheral consumption market within India's industrial system, leaving it exposed to external supply shocks, price fluctuations, and constrained industrial development.

Conclusion:

The economic structure of India's North-Eastern Region (NER) displays several features typical of a structurally dependent regional economy. Although improvements in infrastructure and public investment have taken place in recent years, the region continues to depend considerably on other Indian states for essential commodities, industrial inputs, and specialized services. This dependence is largely the result of a limited industrial base, weak manufacturing capacity, and the region's geographical isolation from the major economic centres of the country. Industrial and manufacturing activities in the Northeast remain relatively limited when compared with more industrialized states such as Gujarat, Maharashtra, Tamil Nadu, and Karnataka. Consequently, a significant proportion of manufactured goods consumed in the region-including machinery, electronic products, pharmaceuticals, automobiles, and various consumer items are supplied from these major industrial hubs. A similar pattern is evident in the construction sector, where key materials such as steel and cement are largely transported from production centres located in other parts of India.

Structural dependence is also visible in basic consumption sectors. The region experiences a persistent deficit in food grains, making it necessary to import substantial quantities of rice and other cereals from agriculturally surplus states such as Punjab, Haryana, Uttar Pradesh, and West Bengal. In the healthcare sector as well, the limited presence of pharmaceutical manufacturing units within the region results in heavy reliance on interstate supply networks for medicines and medical products.

Another dimension of this dependency is the reliance on skilled labour and technical expertise from outside the region. Many infrastructure and industrial projects require engineers, technicians, and specialized professionals who are often recruited from other parts of India.

Together, these patterns create significant regional market vulnerabilities. Since most essential goods and industrial inputs originate outside the region and must be transported through the narrow Siliguri Corridor, disruptions in transportation networks, supply chains, or national market conditions can directly affect both the availability and prices of commodities in the Northeast. As a result, the region largely operates as a peripheral consumption market within the broader Indian economy, reinforcing its structural dependence on other states.

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