

# Financial Inclusion as a Catalyst for Act East Policy: Evidence from Assam

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**Abstract:** The transformation of India's external economic engagement through the Act East Policy has positioned the North Eastern Region, particularly Assam, as a strategic gateway to Southeast Asia. While infrastructure development, trade corridors, and connectivity have received significant policy attention, the role of rural financial systems in enabling inclusive participation in this transformation remains underexplored. This paper examines the critical linkage between financial inclusion and the effective realization of the Act East Policy in Assam. Using a conceptual and descriptive analytical framework based on secondary data, the study argues that inadequate access to institutional credit constrains rural households, small producers, and micro-enterprises from leveraging emerging economic opportunities. The paper highlights the role of Self-Help Groups (SHGs), microfinance institutions, and formal banking systems in bridging this gap. Empirical evidence from Assam shows persistent gaps in banking infrastructure, low credit flow, and weak credit-deposit ratios, particularly in rural areas. The study concludes that financial inclusion is a necessary precondition for translating regional integration policies into inclusive rural development and recommends a credit-integrated policy approach.

**Keywords:** Assam, Act East Policy, Financial Inclusion, Rural Credit, Banking Infrastructure, Self-Help Groups (SHGs), Microfinance, Regional Integration, Rural Development.

## 1. INTRODUCTION

India's strategic shift toward Southeast Asia under the Look East Policy, later upgraded to the Act East Policy, represents a significant transformation in its economic and geopolitical orientation. The policy aims to enhance connectivity, trade, and economic cooperation with ASEAN countries. Within this framework, Assam occupies a central position due to its geographical proximity and historical linkages with neighbouring countries such as Bangladesh and Myanmar. Despite substantial investments in infrastructure and connectivity, the benefits of regional integration have not been evenly distributed across socio-economic groups. Rural households, which constitute a significant proportion of Assam's population, often remain excluded from emerging opportunities, primarily due to limited access to institutional credit. Access to credit is widely recognized as a key driver of economic development, particularly in rural economies, as it enables households to invest in productive activities, adopt new technologies, and diversify income sources. In the context of Assam, where agriculture, small-scale industries, and informal enterprises dominate, credit plays a crucial role in facilitating economic participation. This paper seeks to bridge the gap between macro-level regional integration policies and micro-level financial realities by examining how financial inclusion influences the outcomes of the Act East Policy in Assam. It argues that without strengthening rural financial systems, the policy risks remaining infrastructure-centric, with limited impact on grassroots economic development.

## 2. OBJECTIVES OF THE STUDY

The present study aims to examine the role of financial inclusion in supporting regional integration under the Act East Policy. The specific objectives of this study are to examine the role of financial inclusion in supporting regional

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integration under the Act East Policy, to explore the linkage between rural credit access and market expansion under the Act East Policy, and to suggest appropriate policy measures for strengthening credit delivery mechanisms for inclusive regional development.

### 3. LITERATURE REVIEW

#### 3.1 Rural Credit and Financial Inclusion in the Context of Emerging Growth Opportunities and Cross-Border Trade Expansion under India's Act East Policy:

The importance of rural credit becomes more pronounced in the context of emerging growth opportunities and cross-border trade expansion under India's Act East Policy, particularly in Assam. As connectivity, trade corridors, and market access improve, the ability of rural households to participate in these opportunities depends largely on access to institutional finance.

Early development theories highlight this linkage. Ragnar Nurkse (1952), in his theory of capital formation, argued that lack of capital leads to a vicious cycle of low productivity and income, implying that without credit, rural producers cannot expand production to meet rising market demand. Similarly, Arthur Lewis (1955) emphasized the need for capital investment in agriculture, supported by formal financial institutions, for structural transformation.

Modern theories further stress that financial constraints limit economic participation. Galor & Zeira (1993) showed that without access to credit, individuals cannot invest in productive opportunities, while Banerjee & Newman (1993) highlighted that occupational choices are restricted by initial wealth. Aghion & Bolton (1997) also argued that credit market imperfections lead to persistent inequalities. Empirical evidence supports these arguments. Beck *et al.*, (2007) found that financial development reduces poverty and inequality, while Diagne *et al.*, (2000) showed that credit enhances both investment capacity and risk management. Kunt *et al.*, (2008) further emphasized that limited financial access restricts human capital and entrepreneurial development. In the context of Assam, these insights suggest that without adequate access to formal credit, rural households and small enterprises may be unable to respond to expanding trade opportunities under the Act East Policy. As noted by Kendall *et al.*, (2010) and World Bank (2021), persistent barriers to formal credit continue to limit inclusive participation.

#### 3.2 Regional Integration and Economic Development

Theories of regional integration suggest that improved connectivity and trade liberalization can lead to economic growth by expanding markets and facilitating resource allocation. However, the distribution of benefits depends on the ability of local actors to participate in these processes.

In the context of the Act East Policy, existing studies have primarily focused on infrastructure development, trade potential and geopolitical implications. Limited attention has been given to the role of financial systems in enabling participation at the grassroots level. Panda (2000) argues that the volume of trade and investment of the North Eastern Region including Assam with ASEAN is extremely low due to the absence of an efficient production environment, high transaction costs, and lack of entrepreneurial culture. Cai (2008) emphasizes that China's shift from self-reliance to outward-oriented development significantly altered the regional political economy by expanding market size and cooperation opportunities. Chia (2010) highlights the limitations of export-led growth and stresses the need for regional demand and integration, while also noting challenges in achieving unified regional frameworks. Chatterjee *et al.*, (2020) underline the importance of export credit agencies and regional cooperation in facilitating trade finance. Mong (2023) finds that financial integration positively influences economic growth, while trade integration alone may not have a significant intervening effect.

While both rural credit and regional integration have been extensively studied, there is a lack of research linking these two domains.

### 4. DATA SOURCES AND METHODOLOGY

The study is based entirely on secondary data collected from sources such as Reserve Bank of India (2023, 2024), NABARD, All India Debt and Investment Survey, Economic Surveys, Government of India reports including Ministry of External Affairs (2023), Ministry of Development of North Eastern Region (2023), Land Ports Authority of India (2022), Agricultural and Processed Food Products Export Development Authority (2022), NITI Aayog (2021); DES Assam (2025). The analytical approach is descriptive and interpretative.

### 5. CONCEPTUAL FRAMEWORK

#### 5.1 Cross Border Trade Potential under the Act East Policy

India's Act East Policy has positioned Northeast India, particularly Assam, as a strategic gateway for cross border trade with Southeast Asia. The region shares more than 5,400 kilometres of international borders and has significant potential to connect India with ASEAN markets valued at over 3 trillion US dollars. In recent years, India-ASEAN trade

has reached around 130 billion US dollars (Government of India, Ministry of External Affairs, 2023; ASEAN Statistics, 2024). Assam plays a crucial role as a logistical hub, facilitating trade with neighbouring countries such as Bangladesh and Bhutan through land ports and inland waterways (Land Ports Authority of India, 2022). Border trade with Bangladesh through the Northeast region has shown steady growth, supported by improvements in connectivity and trade infrastructure (Reserve Bank of India, 2023). However, despite these favourable developments, the Northeast region contributes only about 0.13 percent to India's total exports, indicating the presence of persistent structural constraints (NITI Aayog, 2021). Thus, while the Act East Policy has expanded cross border trade prospects and strengthened Assam's position as a regional trade hub, its full potential depends on addressing infrastructural and institutional bottlenecks.

## **5.2 Market Expansion and Emerging Economic Opportunities in Assam**

The Act East Policy has significantly contributed to market expansion in Northeast India, particularly in Assam, by improving connectivity, trade integration, and investment flows. Public investment in the region has increased substantially, reaching around ₹94,680 crore in recent years, which has enhanced infrastructure and improved market access (Government of India, Ministry of Development of North Eastern Region, 2023). Assam, as the economic centre of the region, has emerged as a gateway to Southeast Asia, supported by improved multimodal connectivity and access to regional markets (Ministry of External Affairs, 2023). Agricultural exports from the Northeast have also recorded notable growth, rising from about 2.52 million US dollars in 2016–17 to 17.2 million US dollars in 2021–22, with Assam contributing a major share (Agricultural and Processed Food Products Export Development Authority, 2022). In addition, Assam's Gross State Domestic Product has increased from approximately ₹2.4 lakh crore in 2000 to ₹3.5 lakh crore in 2025, reflecting expanding economic opportunities (Reserve Bank of India, 2024). Despite these improvements, the region's contribution to India's exports remains low at around 0.13 percent, highlighting the persistence of structural limitations (NITI Aayog, 2021).

## **5.3 Structural Constraints in Production and MSME Growth**

Despite the expansion of economic opportunities under the Act East Policy and rising investments, Assam continues to face a significant gap between emerging market potential and actual supply capabilities. This gap is largely due to low productivity and entrepreneurial constraints. The state has experienced rapid growth in the MSME sector, with more than 13 lakh registered units and substantial credit flow. However, productivity remains relatively low, as Assam contributes only about 1.5 percent to India's total industrial value added despite its resource base (Government of India, MSME RAMP Report, 2024). A large proportion of enterprises are micro units, accounting for nearly 92 percent of MSME output, and are often characterised by low levels of technology adoption and limited scalability (NCAER MSME Survey, 2025).

At the same time, the presence of over 21 lakh educated unemployed youth and the existence of a clear skill mismatch indicate weak entrepreneurial absorption and labour market inefficiencies (Periodic Labour Force Survey, Assam data, 2025). Although MSMEs generate employment and contribute around one third of the state's gross value added, their role in industrial transformation remains limited due to structural inefficiencies (DES Assam and NCAER, 2025). This situation reflects a clear demand and supply gap in Assam, where growing market opportunities are not adequately matched by productive capacity and entrepreneurial dynamism.

## **5.4 Financial Requirements for Market Participation and Trade Integration**

The expansion of economic opportunities under the Act East Policy has significantly increased the demand for financial resources among rural households, farmers, and small enterprises in Assam. Short term credit is essential for managing production cycles, purchasing inputs, and meeting day to day operational requirements. Although the demand for such credit has increased, access remains uneven across regions.

Long term finance is equally important for investment in technology, infrastructure, and capacity expansion. However, limited access to institutional credit continues to restrict productive investment. Integration into regional markets also requires financial support for storage, transportation, and marketing activities. Many MSMEs face constraints in accessing such market linkage credit, which limits their participation in expanding trade networks. Furthermore, inadequate access to insurance and financial safety mechanisms increases the vulnerability of rural households and compels them to depend on informal sources of credit.

## **5.4 Financial Constraints and Credit Gaps in Rural Assam**

The expansion of cross border trade and infrastructure has led to a rise in market demand in Assam. However, the supply response remains constrained due to gaps in financial inclusion. Although the flow of credit has increased in recent years, access to credit remains uneven across regions. The credit deposit ratio reflects disparities in financial access, and a large number of micro, small, and medium enterprises continue to face difficulties in obtaining adequate and timely finance. These credit constraints limit their ability to expand production and respond effectively to increasing market demand. The limited availability of credit resources in Assam is presented in the following section.

## 6. Rural Credit Market and Banking Infrastructure in Assam

The rural credit market in Assam is characterized by the coexistence of formal and informal sources of finance. The formal sector includes commercial banks, regional rural banks, cooperative institutions, and development finance agencies, while informal sources continue to play a significant role due to limited access to institutional credit. Evidence suggests that only 18.8 percent of households in Assam accessed institutional credit in 2018, with commercial banks accounting for 78.2 percent of such borrowings and nearly 94 percent of the total outstanding loan amount. Although the banking network in Assam has expanded over time, it remains inadequate relative to the population. The state's share in total bank branches in India has consistently remained below its population share, leading to a persistent infrastructure gap (Table 1).

**Table 1: Availability of Bank Branches Relative to Population in Assam**

Year	Branches	Growth Rate (%)	% Share in India	% Population Share	Gap	People per Branch (Assam)	People per Branch (India)
1991	1206	137.87	1.99	2.65	0.66	18600	14000
2001	1268	5.14	1.88	2.59	0.71	21000	15000
2011	1546	21.92	1.68	2.57	0.89	20200	13500
2021	2925	89.46	1.86	2.56	0.70	12800	9188

**Source:** Statistical tables relating to banks in India, RBI, various issues.

In 2023, each bank branch in Assam served a larger number of people compared to the national average, indicating lower banking penetration. The problem is more pronounced in rural areas, where the majority of the population resides. The share of rural bank branches in Assam has declined significantly over time, reflecting an increasing urban bias in banking expansion. At the same time, each rural bank branch serves a significantly higher population compared to the national average, indicating severe constraints in physical access to banking services (Table 2)

**Table 2: Availability of Bank Branches in Rural Areas of Assam**

Year	Rural Population Share (%)	Rural Branch Share (%)	Gap	Rural Branch % of Total
1991	3.17	2.39	0.78	73.25
2001	3.13	2.73	0.40	64.51
2011	3.22	2.08	1.14	53.55
2021	3.26	2.74	0.52	46.30

**Source:** Statistical tables relating to banks in India, RBI, various issues.

The flow of credit from commercial banks in Assam has also remained limited. The state's share in total credit disbursed at the national level declined after the banking sector reforms of 1991 and has only partially recovered in recent years. Although the number of credit accounts has increased significantly, indicating progress in financial inclusion, the depth of credit remains inadequate (Table 3).

**Table 3: Availability of Credit Disbursed by SCBs in Assam**

Year	Share in Total Credit (%)	Accounts per 1000 Population
1981	0.71	7
1991	0.88	37
2001	0.57	24
2011	0.54	48
2021	0.74	176

**Source:** Statistical tables relating to banks in India, RBI, various issues.

An important indicator of banking performance, the credit–deposit ratio, further highlights structural weaknesses. The CD ratio in Assam has consistently remained below the national average, indicating that a substantial portion of deposits mobilized in the state is not reinvested locally. This reflects limited credit absorption capacity as well as possible diversion of financial resources to more developed regions (Table 4).

**Table 4: Credit-Deposit Ratio (%)**

Year	Share in Total Credit (%)	Accounts per 1000 Population
1981	0.71	7
1991	0.88	37
2001	0.57	24
2011	0.54	48
2021	0.74	176

**Source:** Statistical tables relating to banks in India, RBI, various issues.

Although, credit per rural bank branch has increased steadily in both Assam and India from 1981 to 2021; Assam has consistently lagged behind the national average. The gap widened over time—from Rs. 6 lakh in 1981 to Rs. 468 lakh in 2021—indicating that the growth in credit availability has been relatively slower in Assam compared to India. This persistent and increasing disparity highlights a weaker pace of financial deepening in Assam’s rural banking sector (Table 5).

**Table 5: Credit per Rural Bank Branch (Rs. lakh)**

Year	Assam	India	Gap
1981	9	15	6
1991	35	47	12
2001	91	149	58
2011	599	887	288
2021	1521	1989	468

**Source:** Statistical tables relating to banks in India, RBI, various issues.

Thus, it has been observed that despite growth in banking infrastructure, Assam still lags behind the national average, limiting rural credit access. This inadequacy hinders the state’s ability to fully integrate with regional markets under the Act East Policy, constraining trade, investment, and economic linkages with Southeast Asia.

## 7. RESULTS AND DISCUSSION

The findings of the study reveal a clear structural disconnect between the expansion of economic opportunities generated under the Act East Policy and the capacity of Assam’s rural economy to respond effectively. While the policy has strengthened external linkages, improved connectivity, and expanded market potential, the transmission of these gains to rural households and enterprises remains limited. The analysis suggests that this gap is largely mediated by deficiencies in financial inclusion, particularly in terms of access to timely and adequate institutional credit.

The evidence indicates that the demand side of the economy has expanded significantly due to enhanced trade prospects, rising investment, and growing integration with regional markets. However, the supply response has not kept pace with this transformation. Rural producers, small entrepreneurs, and micro enterprises face constraints in scaling up production, adopting technology, and entering new markets. This weak response is not merely a function of low productivity or structural rigidities, but is closely linked to inadequate access to financial resources required for production, investment, and market participation.

The study further finds that the existing rural credit structure in Assam is not sufficiently aligned with the emerging requirements of a more integrated and market-oriented economy. Although there has been progress in terms of banking expansion and credit outreach, significant gaps persist in the depth, distribution, and effectiveness of credit delivery. Financial access remains uneven across regions and sectors, with rural areas continuing to face limitations in both physical access to banking services and availability of appropriate financial products. As a result, a large section of rural households and enterprises is unable to mobilize the capital necessary to take advantage of new economic opportunities. An important outcome of this imbalance is the emergence of a demand–supply mismatch at the regional level. On the one hand, policy-driven improvements in infrastructure and connectivity have generated new demand for goods, services, and trade participation. On the other hand, the productive base of the economy, particularly in rural areas, remains constrained by limited credit access and weak financial support systems. This mismatch restricts the ability of local actors to integrate into expanding value chains and reduces the overall effectiveness of regional integration efforts.

The analysis also highlights that financial constraints have a differential impact across sectors. Micro and small enterprises, which are expected to play a key role in linking local production with external markets, are particularly affected by credit shortages. Similarly, farmers and rural producers face difficulties in accessing both working capital and long-term investment finance, which limits their ability to diversify production and respond to market signals. In the absence of adequate institutional credit, many continue to depend on informal sources, which increases costs and reduce competitiveness. Overall, the results suggest that financial inclusion is not merely a complementary factor but a fundamental prerequisite for translating the gains of regional integration into inclusive economic development. The effectiveness of the Act East Policy in Assam is significantly conditioned by the strength of the rural financial system. Without addressing the structural gaps in credit availability and financial access, the policy risks remaining largely infrastructure-driven, with limited impact on grassroots economic transformation.

## 8. POLICY RECOMMENDATIONS

The findings suggest the need for a comprehensive policy approach that integrates financial inclusion with regional development strategies. Strengthening rural banking infrastructure is essential to improve physical access to

financial services. This must be complemented by efforts to enhance credit delivery mechanisms, particularly through priority sector lending and targeted support for MSMEs.

Greater emphasis should be placed on strengthening SHG–bank linkage programmes and microfinance institutions to ensure last-mile financial inclusion. At the same time, improving the credit–deposit ratio by encouraging local reinvestment of deposits is necessary to enhance credit availability within the state.

There is also a need to develop specialized financial products that support market linkages, including credit for storage, transportation, and export-oriented activities. Finally, expanding risk mitigation mechanisms such as insurance and credit guarantees is crucial to protect vulnerable borrowers and promote sustainable financial inclusion.

## 9. CONCLUSION

The Act East Policy has opened new avenues for economic growth and regional integration in Assam by enhancing connectivity and expanding market opportunities. However, the benefits of these developments remain unevenly distributed due to persistent gaps in financial inclusion.

The study demonstrates that limited access to institutional credit, inadequate banking infrastructure, and weak credit delivery mechanisms constrain the ability of rural households and enterprises to participate in emerging opportunities. Without addressing these challenges, the transformative potential of regional integration policies will remain limited. Therefore, financial inclusion must be recognized as a central component of regional development strategy. A credit-integrated approach that strengthens rural financial systems is essential for ensuring that the benefits of the Act East Policy are inclusive, equitable, and sustainable.

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