

## Chapter 13

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# IMPLICATIONS OF ECONOMIC LIBERALIZATION FOR NORTH-EASTERN REGION

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—*P.M. Passah*

### Introduction

The economic reforms on globalization, liberalization and privatization have no impact on the north-eastern region of India. It needs to be recognized that the great constraints coming in the way of industrial development in the region are : (1) its geographical isolation, (2) lack of infrastructure, (3) shortage of power, (4) lack of proper transport and communication facilities. Both the Central and the seven State Governments in the region have been offering various incentives to encourage private participation. These include (1) introduction of state capital investment subsidy, (2) power subsidy, (3) interest subsidy, and (4) tax exemption. The Central Government has provided a 5-year tax holiday to industries in the 1993-94 budget proposals. It has extended transport subsidy for another five years upto 2000 AD to encourage industry in the region. Now the North-Eastern Financial Development Corporation has been set up exclusively to attract private investment in the region. Assam, the gateway to all other states in the region, has further been offering exemption to the tea companies in the state from agricultural income tax to the extent of their investment in

the state's power and industry sectors. But in spite of all these incentives, the economic reforms have no impact and will not have any until the aforesaid constraints are overcome.

### **Capability Building**

Almost half a century after Independence, the region continues to this day in a sort of isolation from the rest of the country. The 1962—Chinese aggression should have prompted the then Central Government to acquire the entire chicken neck of 50x12 square kms in North Bengal connecting the Region with the main-land and to convert the same into a Union Territory while assigning a 10-km wide area each on the north and on the south for a Mountain Division of the Indian Army and a Station for the Indian Air Force respectively. The remaining portion of 30-km wide could then have been utilized for laying a multi-track broad-gauge railway system and a multi-lane National Highway both opening up and directing towards the region. Provision for a canal could have also been made in this portion for the future diversion of river water from the Brahmaputra to the Ganges, thence towards southern India for the purpose of inland water transport. That could have removed long ago both the geographical and the emotional isolation of the Region and insurgency problem would not have raised its ugly heads as it has done today in the region. It is an irony of fate that the region having the potential of 30,000 MW of hydro-electric power, has been reeling under power crisis and even as it is the least industrialized area in the country. So far only 2.2 percent of the potential has been developed.

### **Capability Components**

The States in the region are increasingly left behind in the field of capabilities, both at the individual and societal level. The nutritional inputs produced, even in the Assam Valley, are far below the all-India level. The yield of rice in the valley stands at 1330 kgs per hectare as against the all-India average of 1880 kgs in 1993-94. The Assam Valley could produce only 259.7 eggs per capita as against the National average of 289.6 eggs in 1993-94. The production of milk in the valley was

only 36.78 kgs per capita as against all India average of 75.28 kgs. The per capita production of vegetables stands at 78.69 kgs as against all India figure of 84.2 kgs for 1992-93. The position of other hill states of the region is lower than that of Assam.

Other components determining the capability of individuals are education and health. To take again the case of Assam, being the gateway to all other hill states in the region, it may be mentioned that the educational expenditure of the state during 1974-75 to 1991-92 declined from 6.3 percent to only 2.79 per cent and the expenditure on health from 7.62 percent to 1.45 per cent. The real per capita social expenditure of Assam grew at the rate of 8.14 per cent during 1974-75 to 1984-85 but declined to a negligible rate of 1.0 percent during 1985-86—1991-92. All these might have further declined. Hence it may be inferred that in totality, the capability building of the region is far below the national average.

### **Implications of Liberalization**

There has been a widespread yearning for development among the people of all states in the region. For instance, the chief Minister of Arunachal Pradesh and the ministerial team together with opposition leaders of Meghalaya had visited the countries of Europe to invite foreign investment in their respective states. Other states too had made contacts with foreign countries for the same purpose. Representatives of western countries, Australia and Japan also visited the States in the Region. The World Bank team had also visited the region in recent weeks.

The policy measures adopted under the new economic liberalization do consist of measures to take care of the needs of the socio-economically weaker sections of the population during the short-run stabilization and adjustment period. This would take care of the human capability building. But the measures did not envisage taking care of the interests and protecting the development prospects of less developed regions of the country like the states in the North-East. This should have been envisaged in the liberalization scheme considering in particular the insurgency problem of the region.

The implications of the liberalization policy in the context of insurgency have not been studied. Thus the ability of the economic reform measures to create the needed peace is not known. In this context, it is doubtful whether the leadership in the region itself has been capable of appreciating the implications of the liberalization policy.

To some experts, the strategy of human capability building should be distinguished from building up the economic infrastructure of the region. The development strategy to be followed in the region is to intensify the building up of economic infrastructure so that interactions within the region should first take place. This would enable the socio-economic changes to emerge from within the region. The endogenous changes alone are sustainable. On the other hand, other experts would wish that capability building should get the priority where education, health and nutrition are focussed so that the people would have the ability to participate in the development process. But in the ultimate analysis both the strategies are simultaneously required. The development of the region might have a bigger bottleneck than social capacity building but both contribute equally to the building up of the much needed infrastructure for the industrial development of the region.

### **Development Priorities**

While expenditure on health and education should not decline, the region should thoroughly be opened up to the main-land with proper transport and communication network. The extension of the broadgauge railway line up to Tinsukia in Assam is a must. The broadgauge system should be branched out to the Barak Valley and to Kohima and Imphal the state capitals of Nagaland and Manipur within the shortest possible time. Except Assam, all other states are mountainous with hilly terrains. Since the region experiences heavy rainfalls during the long monsoon period from May to September every year, stable and all-weather roads have to be built. Each hill state should have an interstate road running along its central zone and linking with one or more states to serve as a lifeline both for its internal and external transportation and trade.

Lateral roads on both sides of the lifeline could then be constructed and made to converge on the lifeline. For instance, in Meghalaya such an inter-state road can be identified with no other than the Tura-Shillong-Jowai-Haflong Road passing through Williamnagar and Nongstoin—all these six centres being district headquarters in Meghalaya and Assam. This all-important inter-state road happens to pass west to east along the ridge of the Meghalaya Plateau which is part of what usually termed the Central Assam range. The major part of the road, *i.e.*, Tura-Shillong Road via Williamnagar and Nongstoin, is being maintained as a State Trunk Road. It should be widened to the NH standard and the distance could be reduced through further realignment. The Shillong-Jowai road is part of the National Highway—44 while the Jowai-Haflong road falling under two states has not been properly maintained by these states in spite of its economic importance. This road too needs widening to the National Highway standards and its distance shortened by further realignment. Meghalaya had long ago moved the Central Government to take over this particular road and to declare it as a National Highway as done to its middle portion *i.e.*, the Shillong-Jowai Road (NH-44). But the proposal had found no favour with the Central authorities. If the road had been taken over as a National Highway, the Central Plateau of the region falling within Meghalaya and Assam would have been immensely and economically benefitted.

The proposal for the expansion of the Guwahati airport could be beneficial to the region only if other state capitals are linked to it. Of course its conversion into an international airport would open up the region to the South Asian countries. Inland waterways along the Brahmaputra and the Barak rivers have not yet been developed to the desired level. The development of proper transport and communication system would intensify the interactions within the region thereby release the forces for development. The strategy should be to connect one state capital with another in such a way that one can commute between two capitals within ten hours either by air or surface communication.

The rich power potential of the region has to be developed before the industrialization process can start and

be sustained. Although the North-Eastern Development and Financial Corporation has been set up with Rs. 5000 crores as capital for funding industrial and development projects within the region, yet skepticism is already being aired. Different voluntary organizations involved in industrial development in the region are of the opinion that the low credit-deposit ratio would change only marginally unless the terms and conditions of banks and financial institutions in the region are made flexible to the advantage of the young entrepreneurs of the region. Their experience is that most of the banks are not even prepared to provide information on the different schemes offered by the Government.

### **Conclusion**

The foregoing discussion has clearly indicated that the region is still in the midst of the initial structural shocks while states in the rest of the country have taken full advantage of the reform measures. The states in the region are equally enthusiastic about the liberalization policy of our country. We have seen how they have been keen enough to encourage foreign direct investment. But when it comes to signing a memorandum of understanding (MoU), their efforts become fruitless. For instance, the state of Meghalaya had come into an agreement with the National Grid of the United Kingdom for the development of the power sector in the state. But the draft MoU to be signed between the State Government and the National Grid which was sent to the Power Ministry some time in the month of March 1995 did not get so far the clearance of the Ministry. This happens even as the Central Government had already cleared such MoU that was signed between the Arunachal Pradesh Government and the Snowy Mountain Engineering Corporation of Australia in New Delhi on 6 March 1993. According to the Central Government Liberalization policy, foreign investment in the core infrastructure sectors is welcome. The Government of India had accordingly notified as far back as October 1991 that foreign investment to the extent of 100 per cent will be permitted in the power sector by privately owned enterprises. But despite such radical policy initiatives of the Central Government, its Power Ministry has failed to clear the

Meghalaya's draft MoU with the National Grid of the United Kingdom which had already backed out due to immense delay. The Ministry obviously appears not inclined to agree to amendment of the Electricity laws in the case of Meghalaya.

It is hoped that the leadership in the North-East would arise to the implications of the liberalization policy measures and the fundamental weaknesses in the crucial sectors of the economy. The leadership should see that not only the investment in the core sectors should be augmented but the capability building of the people of the region is also taken care of by the central government. The Central Government will have to think beyond liberalization and strengthen the social sectors of the North-Eastern states of the country.