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# **Structural Change and Strategy of Development**

**RESOURCE-INDUSTRY LINKAGES  
IN NORTH EAST INDIA**

**GURUDAS DAS**

This book is made up of a collection of papers painstakingly written over a year. All the contributors worked around a central question: In spite of being rich in natural resources, why do the states in north eastern region of India remain economically backward?

What is the nature of structural change that the economies of these states are experiencing? What are the policy implications of this change for local governments? Is there any need for intervention in order to bring conformity between structural change and socially desirable goals?

How rich is the resource base of the economies of north eastern states? How strong is the resource-industry linkage in them? Where lays the strength of the local economy? What are the options available with them for faster and sustainable development?

Each state specific contribution in this volume has attempted to throw light on these issues.

The book will act as a guide to the researchers, policy makers, businesses, development agencies, administrators and above all, to those who are concerned with the future of the region.

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# Contents

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<i>Introduction</i>	vii
<i>Contributors</i>	xi
1. Changing Economic Structure and the Prospects of Resource Based Industrialization in Arunachal Pradesh — <i>Pravat Kumar Kuri</i> Supplementary Observation : <i>M. A. Salam</i>	1
2. A Study of Sectoral Development of Assam : Retrospect and Prospect — <i>Kishor Singh Rajput</i> Supplementary Observation : <i>Archana Sharma</i>	47
3. Development Experience of Manipur : A Framework for Industrialization — <i>Amar Yumnam</i>	83
4. Structural Change and Strategy of Development : Resource-Industry Linkages in Meghalaya — <i>Rajesh Dutta</i> Supplementary Observation : <i>Nirankar Srivastav</i>	95
5. Economic Sustainability and Structural Transformation in Mizoram — <i>Santanu Ray</i> Supplementary Observation : <i>Gorky Chakraborty</i>	135
6. Structural Change in Nagaland Economy : Resource-Industry Linkages and Strategies for Development — <i>B. Kilangla Jamir</i> Comment : <i>E. Bijoykumar Singh</i>	159

7. Resource-Industry Linkages in Sikkim : Strategy of Development in the Context of Structural Change —Anil Bhumali & Kanak Kanti Bagchi	187
8. Structural Change and Strategy of Development: Resource-Industry Linkages in Tripura —K. S. Chakraborty	207
9. Structural Change and Resource-Industry Linkages in North-East India —Utpal Kumar De	241
10. Public Resource and Its Utilization : Implications for Development of North-Eastern Region —B. Mishra	265
11. Resource Anxieties and Development Arbitrariness: Paradoxes of Modernity in the North-Eastern Region —B. S. Butola	299
12. What Ails Development in North-East India? —Rabindra N. Bhattacharya	319
13. Structural Change and Resource-Industry Linkages in India's North-East : Some Policy Imperatives —Gurudas Das	327
<i>Index</i>	337

## Introduction

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Neither structural change in the economies of developing countries strictly follow Clarkian framework, developed in the 1940s, nor do they meticulously follow Kuznets transformation, conceived during the 1960s and 70s. It appears that there is no single stylized path towards economic development. There are instances where countries are striving towards development without Kuznets transformation in relation to their sectoral performances. Of course, there is no dearth of instances as well where economic development has been the outcome of sectoral transformation along Kuznets line. In fact, Kuznets' observations are based on the development experiences of the developed countries. However, the opening up of the national economies and their ever increasing interdependence have created a condition in the global economy where sectors across the national boundaries may get interlinked and a country may experience economic development without showing structural change of Kuznets variety. There is no denying the fact that economic development accompanies structural change, but the fact is that this change may or may not conform to the Kuznets transformation.

One may view economic development both in short term as well as in long term perspectives. Conformity between economic development and change in the structure of an economy may not be realizable, although desirable, in the short term. But it is desirable in the long term as the question of sustainability is involved. After all, the resiliency of an economic structure depends largely on the inter-sectoral linkages. As the different sectors of an economy draw upon each other in a variety of ways, the stronger the inter-sectoral linkages the higher is the resiliency of the structure and vice versa. Thus, Kuznets transformation may be regarded as an indicator of resilient long term development of an economy.

It is in this context that the authours in this volume have looked into the sectoral performances of the economies of the states of north east India and the changes in sectoral share of labour force in them. Although similar studies are available at country level, this volume attempts to fill the gap at the regional/local level. The need for such a venture has been felt for long as the economic policy making in these states has been suffering from lack of systematic analysis of structural transformation in them and the implications of this change for policy interventions. Apart from structural change, the contributors have

also looked into the resource base and its linkage with the industrial structure in the states of north east India. These exercises enable us to locate the strengths and weaknesses in each of the economies and find out alternative options for policy formulation for promoting development in them.

It has been observed that the share of primary sector in Net State Domestic Product (NSDP) is on the decline in all the states of north east India. But the decline in the corresponding share of labour force engaged in this sector lags far behind. This allows one to infer about the overcrowding and consequent declining labour productivity in agriculture and increasing pauperization of the rural life. This brings into the fore the urgency of expanding non-farm sector in all the states in the region.

Within a three tier sectoral classification, Kuznets transformation talks about increasing shift of income and labour from primary to secondary and then to tertiary sector. It has been, however, observed that the secondary sector in these states either remained stagnant or has experienced deceleration over time in terms of both income generation and employment of labour. A further segregation of the secondary sector show that much of the income generated in this sector is coming from construction activities rather than manufacturing. In fact, the contribution of the manufacturing activities to the share of secondary sector is on decline in majority of the states in the north east. This is, no doubt, a major cause for concern as far as the long term resiliency of these economies are concerned. This has led to the weak resource-industry linkages in all the states.

However, the rise in the share of the tertiary sector in NSDP has compensated the fall in the share of primary sector. In all the states, the contribution of the tertiary sector to NSDP is increasing over time. It has been observed that within the tertiary sector, public administration is contributing the most. Thus, it is the government expenditure that generates income in this sector. This is another major cause for concern. This leads one to conjecture that market forces are not strong enough to mobilize local resources and generate income in these economies.

Thus, unlike Kuznets transformation, there has been a distinct movement of these economies from primary to tertiary sector bypassing the secondary sector. The weak linkage between the primary and secondary sectors has made the transition of the former from tradition to modernity difficult. Moreover, the poor growth of the secondary sector has weakened the base of the tertiary sector. The grafted growth of the tertiary sector not only suffers from lack of self-sustenance but also breeds socio-political tensions as the labour force trained in it could hardly be absorbed in non-agricultural sector.

Contributions in this volume may be categorized into two types. There is a set of state-specific studies which have looked into these issues in depth at the state level. P.K. Kuri has covered Arunachal Pradesh. He has observed that the poor growth of the secondary sector in Arunachal Pradesh may be due to the very low plan allocation for this sector. His analysis of structural change in Arunachal economy and distribution of plan allocation make a *prima facie* case in favour of this hypothesis which may be taken up further for rigorous exposition. Besides bringing this hypothesis into fore, he also analysed the causes of poor industrial growth in the state. M.A. Salam, in his supplementary observation, also has argued to establish strong intersectoral linkages for promoting industrial development in Arunachal Pradesh. While covering Assam, Kishor Singh Rajput

has observed that structural change in the economy of Assam has bypassed the secondary sector. This has crippled the economy of the state, which is showing the signs of deceleration for last five decades. Archana Sharma, in her supplementary observation, has noted the weak resource-industry linkages in Assam. Amar Yumnam has looked into the economy of Manipur. He has observed that the structural change that Manipur is being experiencing is absolutely different from the Kuznets transformation. He has pointed out that the increase in the share of the secondary sector in NSDP in Manipur is not because of the growth of manufacturing activities *per se* rather due to the better coverage of the unorganized activities which were not covered earlier. Rajesh Dutta has dealt with the economy of Meghalaya. His analysis shows that the structural transformation has bypassed the secondary sector and the resource-industry linkage is very weak in Meghalaya. Nirankar Srivastav has also observed very little change in the structure of the secondary sector in Meghalaya. Santanu Ray has made similar observation in relation to the economy of Mizoram. He has pointed out that construction activities contribute far more to the share of secondary sector than manufacturing activities. Gorky Chakraborty, in his supplementary, has pointed out the importance of people's participation while considering the options for strengthening resource-industry linkages in Mizoram. B. K. Jamir has studied the economy of Nagaland. She has also pointed out that contribution of construction activities to secondary sector is much higher than manufacturing. E. Bijoykumar Singh has commented on the need to study structural change in terms of more disaggregated sub-sectors. Anil Bhuimali and Kanak Kanti Bagchi have studied the economy of Sikkim and come out with similar observations. The Sikkimese economy also exhibits a movement from primary to tertiary activities. Manufacturing is almost non-existent. K. S. Chakraborty has looked into the economy of Tripura. Tripura is also experiencing a movement from primary to tertiary activities. The resource-industry linkages remain very weak in the economy of Tripura.

Another set of contribution focus on the region as a whole. These contributions have looked into the issues from a broader perspective. Utpal Kumar De has noted that although the percentage contribution of the primary sector across the states of the region is on decline, it still plays the predominant role in generating income and employment for the people. B. Mishra has studied the impact of public expenditure across the different sectors of the economies of Meghalaya and Nagaland. The hypothesis forwarded by P.K. Kuri and B.K. Jamir has been testified in Mishra's contribution. He observed that public expenditure is done more on social services compared to economic services. This has resulted in the disproportionate growth of the service sector in both Meghalaya and Nagaland. B.S. Butola has viewed the problems of development of the region from "other" perspective. He has made a critique of the "traditional" way of looking at the problems through resource-industry linkages. Instead, he forwarded a view to look into these problems through "culture-society-economy-environment interlinkages". Rabindra N. Bhattacharya has identified a number of problem areas relating to the long term development of the region. He has observed that given the socio-political uncertainty, the firms extracting the renewable as well as non-renewable resources in the region will unlikely to take into account the future expectations (opportunity cost) into its cost calculation and hence likely to overuse these resources. This may lead to catastrophic

consequences for the economies of the region in the long run. He has observed further that the take-off into higher growth rates and sustainable economic development will be directly related to the ability of these economies to manage their natural resources efficiently and sustainably over the medium to long term. At the end, I have tried to touch upon the political economy of underdevelopment and some policy options for promoting development in the region.

This exercise was initiated in 2002 under the patronage of ICSSR-NERC, Shillong. Contributors worked throughout the year. During March 20-21, 2003, a seminar was organized at the North Eastern Hill University (NEHU), Shillong, where all the contributions were presented and discussed. We thankfully acknowledge the generous financial contributions from the Ministry of Development of North Eastern Region, Government of India, New Delhi, and the Indian Council of Social Science Research (ICSSR), New Delhi, without which it would have been difficult for us to bring out this volume.

I am thankful to C.J. Thomas, Director, ICSSR-NERC, who has taken all the trouble to organize the studies that made up the volume, and yet given me the opportunity and pleasure of editing it.

Shillong  
October 15, 2004

—Gurudas Das

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