

# **ECONOMY**

## **OF THE**

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# **NORTH-EAST**

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**Policy, Present Conditions  
and Future Possibilities**

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**GULSHAN SACHDEVA**

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and Future Possibilities

GULSHAN SACHDEVA



*Under the auspices of*  
CENTRE FOR POLICY RESEARCH, NEW DELHI

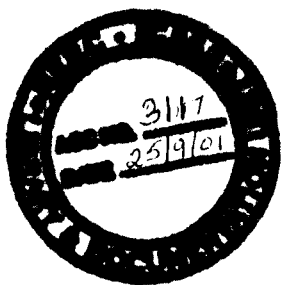


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# Policy Framework for the North-East

## **1.1. Introduction**

The North-Eastern Region (NER), also known as the land of seven sisters, comprises the States of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland and Tripura, with about 8 per cent of the country's geographical area and about 4 per cent of its population. The region is known for its ethnic, linguistic, cultural, religious and physiographical diversity.<sup>1</sup>

Historically, successive legal and administrative decisions taken between 1874 and 1935 gave the areas of the North-East a distinct identity. The British administration initially treated the hill areas as "Non-Regulated Areas", then declared them as "Backward Tract" and, lastly, "Excluded Areas" and "Partially Excluded Areas".

Statistics are available in plenty about the number of races, tribes and their sub-groups, ethnic groups, cultures, religions, languages and dialects spoken in this region but broadly speaking there are three distinct groups of people—the hill tribes, the plains tribes and the non-tribal population of the plains. The majority of those living in the plains are Hindus and Muslims while a substantial proportion of hill tribes in Meghalaya, Mizoram and Nagaland are Christians. Geographically, apart from Brahmaputra, Barak (Assam) and Imphal (Manipur) valleys and some flat lands in between the hills of Meghalaya and Tripura, the remaining two-third area of the region consists of hilly terrain. Most of this hilly portion is either owned, or controlled or managed, by tribes,

clans or village communities. The most populous part is the Brahmaputra valley which constitutes about 22 per cent of the region.

The pace of development in the hill areas and plains differs considerably. The valleys are economically active areas, the Brahmaputra valley being the most active. Tribal populations constitute only about one-fourth of the population of North-East even though in four States—Mizoram, Meghalaya, Nagaland and Arunachal Pradesh—tribals are in majority. In Mizoram, which has one of the highest literacy levels (82 per cent) in the country, second only to Kerala (90 per cent), they constitute as high as 95 per cent of the population.

On the one hand, the region is diverse and heterogeneous. On the other hand, it is quite homogeneous; the social stratification found in other parts of the country is not present in the North-East. The tribal societies in the hill areas are egalitarian. As a result, the type of poverty found in many other parts of India does not exist in most of the hilly States of the region.

On 26 January 1950, North-East India consisted of the State of Assam and the Union Territories of Manipur and Tripura. However, to fulfil the political aspirations of the local people several new States, beginning with Nagaland in 1963 and ending with Mizoram in 1987, have been created. Further, there has been an increase in the number of districts in the tribal States of the North-East. Nagaland with a population of only 12 lakhs (1991) has seven districts. Administratively today the North-East has seven States, 60 districts, more than 300 Community Development Blocks and about 6,000 panchayats (Table 1.1). However, despite the creation of several new States, the basic problem of integration and balanced economic development remains.

Table I.1: Administrative Division of the North-East

	Arunachal	Assam	Manipur	Meghalaya	Mizoram	Nagaland	Tripura	NER	All India
Capital	Itanagar	Dispur	Imphal	Shillong	Aizawl	Kohima	Agartala	--	Delhi
Date of Formation	20.2.87	21.1.72	21.1.72	21.1.72	20.2.87	1.12.63	21.1.72	--	15.8.47
Area ('000 sq. km)	83.7	78.4	22.3	22.4	21.0	16.6	10.5	255	3287
Districts (Jan. 92)	11	23	8	5	3	7	3	60	478
C D Blocks (1991)	48	137	31	30	20	28	17	311	5886
Towns (1991)	10	93	31	12	22	9	18	195	4689
Inhabited Villages (1991)	3649	24685	2182	5484	698	1216	855	38769	587226
Panchayats (Sep. 1991)	860	2162	166	—	622*	980*	911	5701	221754
	Arunachal	Assam	Manipur	Meghalaya	Mizoram	Nagaland	Tripura	NER	All India

\* Traditional Council of Village elders.

Sources: Census of India, North Eastern Council Publications.

Table 1.2: Demographic Profile of the North-East

	1	2	3	4	5	6	7	8	9	10
	Arunachal Assam Manipur Meghalaya Mizoram Nagaland Tripura NER All India									
Population, Mid-1998 (Mn)		1.13	25.65	2.39	2.31	0.90	1.59	3.58	37.55	970.93
% of Indian Population		0.12	2.64	0.25	0.24	0.09	0.16	0.37	3.87	100
No. of Households ('000, 1991)		175	3844	297	327	121	217	527	5508	152009
Decennial Growth Rate (per cent) 1981-91		36.83	24.24	29.29	32.86	39.70	56.08	34.30	—	23.85
Population Density (1991)		10	286	82	79	33	73	263	123	265
Number of Tribes		101	23	28	14	5	20	18	—	—
Languages Spoken		42	44	19	15	15	20	23	—	—
% Share of SCs (1991)		0.46	7.40	2.01	0.51	0.14	0.00	16.36	6.85	16.33
% Share of STs (1991)		63.6	12.8	34.4	85.5	94.8	87.7	30.9	25.8	8.01
Sex Ratio (1991)		861	925	961	947	924	890	946	927	929
Infant Mortality (1997)		47	76	30	54	19	—	51	—	71

1	2	3	4	5	6	7	8	9	10
Literacy (% 1991)	42	53	60	49	82	62	60	-	52
Urbanisation (1991)	12.8	11.1	27.5	18.6	46.1	17.2	15.3	-	25.7
Religious Distribution (% 1991)									
Hindus	37	67	58	15	5	10	86	-	82
Muslims	1	28	7	3	1	2	7	-	12
Christians	10	3	34	63	85	87	2	-	2
Buddhists	13	-	-	-	8	-	5	-	1
Others	39	2	1	19	1	1	-	-	3
Arunachal Assam Manipur Meghalaya Mizoram Nagaland Tripura NER All India									

Sources: NEC (1995); Singh, K. S. and S. Manoharan (1993); 1991 Census Handbook (1996), Census of India 1991, Paper 1 of 1995 (Religion). RBI Report on Currency and Finance, 1997-98.

Table 1.2 outlines the region's demographic profile. It highlights the region's high decennial growth rates of population, relatively high literacy rates, low urbanisation and low population density. Scholars have argued that migration is an important contributory factor for the high population growth rates in the region.<sup>2</sup> It should be noted that the average population density figure for the region, 123 person per sq. km, is misleading. Compared to only 10 persons per sq. km in Arunachal Pradesh, population density in Assam and Tripura in 1991 was 286 and 263 respectively.

### 1.2. Present Policy Framework

Due to special constitutional arrangements, historical background as well as geographical location,<sup>3</sup> the central government has been trying to integrate the North-East Region with the national economy through a certain policy framework. It has accepted the right of tribals to retain their way of life and identity and has sought to integrate them through democratic means into the federal frame of the Constitution of India. The policy framework for the region so far is guided by a combination of political economy and culture. The main focus of the political economy approach is on the relations between the State and the economy. Therefore, in this approach, the role of the bureaucratic state arrangements is strongly emphasised. The cultural approach, however, focuses on the socially constructed character of economic organisation where the economic system is a product of the social order.

As a result of this combined approach, the importance of the bureaucratic arrangements in the process of economic development has been unduly exaggerated. Besides, wherever possible, an attempt has been made by policy makers to work through the unique social and cultural institutions existing in the region instead of imposing new institutions.<sup>4</sup> This special approach has been adjusted with the central governments' policies of a regional planning development

model. The major assumption of regional planning is that it would permit the transfer of surplus generated in one region to another. This mechanism was expected to increase aggregate national efficiency through optimum resource allocation.

Under the influence of this policy, various schemes for the development of infrastructure and economy of the North-East region have been formulated. The schemes include the formation of the North-Eastern Council, Hill Area Development Projects and sub-plans, Tribal Area sub-plan, and Tribal Development Agency Projects to name only a few. In addition, these seven States have been declared as Special Category States; they get Central Assistance on the basis of 90 per cent grant and 10 per cent loan. Some public sector units have also been set up in the region. The policies of industrial licensing, concessional finance and investment subsidy, growth centres, as well as freight equalisation of some major industrial inputs have also been used towards economic development.

Further, to protect tribal interests, policies of less interference with the cultural traditions and customs of the tribal people are being followed and additional political and administrative framework has been provided for the region. Under the sixth schedule of the Constitution, the concept of Autonomous District Councils has been applied.<sup>5</sup> The councils are responsible for looking after the social, economic and minor criminal and civil matters of the tribal people. More specifically these councils are empowered to make laws with respect to: a) Land; b) Forest; c) Water course; d) Shifting cultivation; e) Establishment of village and town and its administration; f) Appointment of, or succession to chiefs or headmen; g) Inheritance of property; h) Marriage and divorce and matters relating to any other social customs.

Restrictions have been imposed on the rights of Indian nationals to acquire landed property in these areas. The regulation of Inner Line Permit prohibits entry of outsiders

into Arunachal Pradesh, Mizoram and Nagaland without a permit, and debars a non-native from acquiring any interest in land or the produce of land. Tribal belts and blocks have been constituted in the plains areas to prevent land alienation from tribals there.

However, it has to be honestly acknowledged that the development strategy implemented so far, mainly through the Planning Commission and North Eastern Council, has failed to produce the desired results. The State and sectoral plans of the Planning Commission have not been able to provide enough impetus for local development which would have led to self-sustained growth. Instead of creating an efficiency-oriented economic process, this policy framework resulted in the creation of a politically led distribution-oriented process. The result is that natural resources, profits, savings and the like are, in fact, moving away from the region to other high productivity regions. Besides, the almost total dependence on Central funds and planned direction has promoted a trait of passiveness towards development and encouraged patronage and corruption. It has also created a government monopoly in employment which has destroyed the work ethic necessary to build a modern economy. Expectations were raised high, and they could not be fulfilled with centrally sponsored schemes.

Moreover, contrary to popular perception, many scholars have now noticed that the lack of development in the past was not because of shortage of funds. In fact, sufficient resources were always provided to the region, but a substantial portion of the funds earmarked for various schemes has not really gone into those schemes.

Therefore, it can be argued that although some developmental changes have taken place in the region,<sup>6</sup> yet this policy framework has not been able to provide good transport and other infrastructural facilities. The region remains isolated from the rest of the country, it has not been able to encourage investors or to produce skilled

labour and entrepreneurial development and has failed to transform the primitive agricultural practices of the region into modern commercial agriculture. More importantly, this policy framework has also become one of the important factors that have contributed to the emergence of insurgency as well as its continuance in the region. In a nutshell, this complete policy framework has outlived its utility. The political economy approach has inordinately relied on the capacity of the state (read Central government) and its bureaucratic arrangements for economic development.

On the cultural side too, changes have taken place over time. In today's North-East, tribals are not "head hunters"; on the contrary, a large number of them are highly educated and have adopted western dress and modes of living. Therefore, in the new economic environment, to depend once again on the very same institutional mechanisms like the Planning Commission (whose own future is not certain) may not be the right approach.

### **1.3. Need for New Thinking**

In a liberalised economy, any new policy has to be based on some kind of market oriented approach. The new policy framework should concentrate more on economic factors and less on political and cultural factors (although they cannot be ignored altogether). The economic factors include labour cost, comparative advantages, technology, efficiency and returns on investment. *Inefficient economic processes and barriers to market entry clearly make an economic difference.* The market approach generally assumes economic rationality, and the atomised individual, whether firm or individual, as the crucial economic actor. In this approach, the economic system is an aggregated outcome of the production, exchange, and consumption of goods and services. Through the self-interested rational actions of individuals social order emerges.

In the area of regional economic development, the neo-

classical theory asserts that regional disparities would be reduced on the basis of factor movements across regions. Assuming that all regions possess similar technology and similar preferences, and there are no institutional barriers to the flow of capital and labour across state borders, the Solow-Swan neoclassical growth model would predict that states would have similar levels of per capita incomes in the long run. This model also predicts that poor regions will grow faster than rich ones; in other words regions with lower starting values of capital-labour ratio will have higher per capita income growth rates.<sup>7</sup> Therefore, instead of regional planning, this approach suggests greater concentration on free flow of goods and productive factors among regions. Ideally a uniform legal and governmental framework would be important for the free movement of factors of production. Perhaps this would be sufficient to ensure static efficiency. The equalisation of returns to factors is believed to be accomplished through trade and mobility of factors other than natural resources. These trade and factor movements between regions are expected to achieve self-adjusted equalisation of their income and employment levels. However, regions differ in their ability to respond to external stimuli, due partly to differences in elasticities of supply.

In the North-East Region even the stimulus to expansion at the national level is likely to run up against supply bottlenecks due to insufficient infrastructure, entrepreneurship, business supporting institutions as well as the insurgency which prevails in many parts of the region. This is where the state would have to play a role, and more importantly the State governments. In a liberalised economy, development will not be a boon from the Centre. On the contrary, development of a particular State will depend on the actions of the government of that State. In the last two chapters of the study, some areas have been identified where policy action needs to be initiated by State governments. The Central government can also help the North-East but it must be clearly understood that in a

market-oriented economy the vast powers of the Centre, acquired under the auspices of the Planning Commission and the huge public sector will be curtailed.<sup>8</sup> Therefore, there is an urgent need to reappraise the role of the Central government in developing the region with the right degree and intensity in the context of a decentralised liberal economy. The Central government will play the role of a facilitator rather than a promoter of development.<sup>9</sup>

#### NOTES

1. For detailed description of the region's ethnic, cultural and religious diversity see mainly Gopalakrishnan(1991) and Verghese(1996).
2. See Goswami (1989).
3. These special historical and geographical aspects of the region as well as background of special constitutional arrangements are nicely summarized by Singh, L. P. (1990).
4. While writing the foreword to the second edition of *A Philosophy for NEFA* by Elwin, V (1959), Pt. Jawaharlal Nehru wrote that "avenues of development (for tribal areas) should be pursued within the broad framework of the following five fundamental principles:
  - (1) People should develop along the lines of their own genius and we should avoid imposing anything on them. We should try to encourage in every way their own traditional art and culture.
  - (2) Tribal rights in land and forests should be respected.
  - (3) We should try to train and build up a team of their own people to do the work of administration and development. Some technical personnel from outside will, no doubt, be needed, especially in the beginning. But we should avoid introducing too many outsiders into tribal territory.
  - (4) We should not over-administer these areas or overwhelm them with a multiplicity of schemes. We should rather work through, and not in rivalry to, their own social and cultural institutions.

- (5) We should judge results, not by statistics or the amount of money spent, but the quality of human character that is evolved.
5. See Sharma, Arvind K. (1998).
  6. For major changes which have taken place in the region see Singh, B.P. (1987).
  7. See Cashin, Paul and Ratna Sahay (1996).
  8. See Chapter 2 "Liberalisation and the Changing Roles of Centre and the States" in Chelliah (1996), pp.19-45.
  9. The recommendations of the conference of the Ministers of Industries of the Northeastern States held at Guwahati on 30 November 1996 the region, however, looks at the problem in a different way. They mainly argued for a 'promotional approach, with substantial grants from the central government'.