

# Indian Divide on Economic Growth: North East India in the Perspective of Globalisation

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**“When India attains her destiny, she will forget the chapter of communal suspicion and conflict and face the problems of modern life from a modern point of view. Differences will no doubt persist, but they will be economic, not communal. Opposition among political parties will continue, but it will be based, not on religion but on economic and political issues. Class and not community will be the basis of future alignments, and policies will be shaped accordingly.”**

**-Maulana Abul Kalam Azad  
[India Wins Freedom]**

# Section I: Conceptual Understanding

## India Shining

- Globalisation , Liberalisation
- Stunning economic performance
- Growth rate > 8%
- \$ 145 billion forex reserve
  - from \$ 1 billion in 1991
- Production of Foodgrains for 1 billion people
- Abundant human resource, S&T, Skill, IT
- Along with economic growth, international recognition, respect and reassessment

# India Empowered

## Miracle of Transformation

- From a Pre-industrial to a Knowledge economy
- From Licence Raj and Deficit Financing to Sensex >11000
- Realisation of population as human resource
  - Not simply 1 extra mouth to feed but also 2 extra hands to work
  - Population-- driving force behind growth, production and income generation.

# India Empowered

**“A new situation is emerging in India. Very rarely in history have we come across such a constellation: an ascending economic trajectory, rising foreign exchange reserves, reducing inflation rates, global recognition of technological competence, energy of 540 million youth, umbilical connectivities of 20 million people of Indian origin abroad, and the interest shown by developed countries to invest in our engineers and scientists, including in new R&D centres.”**

**-President A P J Kalam**

# India Denied

- 'Bangalore may be the abiding metaphor of the best selling Indian narrative in globalisation but at the same time the cruel reality of Bihar also can not be wished away'. - Aroon Purie
- The Other Face of India
  - Home of 40% of the world's poor
  - 300 million people earning < \$1 a day
  - 150 million households without electricity
  - 30% Indian villages without roads
  - 35% of people are still illiterate
  - 127th rank among 177 countries in human development index of UNDP, 2005

# **Two Indias**

**“India occupies two worlds simultaneously. In the first, economic reform and social changes have begun to take hold and growth has had an impact on people's lives. On the other, citizens appear almost completely left behind by public services, employment opportunities and brighter prospects. Bridging the gap between these two Indias is perhaps the greatest challenge facing the country today.”**

**-Michael Carter  
Country Director for India  
World Bank**

# Conflict between the two Indias

- Growth and uneven distribution
- Economic disparity: unequal distribution of national wealth amongst different section of the population and across different parts of the country
- “India seems to be diverging into almost two different countries: prosperous socially stable, rapidly modernizing southern and western regions and poor and politically volatile northern and eastern regions” (Financial Times survey on India, 1999).

# Economic Disparity

Myrdal's Concept of economic disparity (1957)

- Backwash Effect and Trickle-down Effect, which lead to polarization and core-periphery concepts
- Economically retarded regions with low productivity, low levels of living, low income, which reinforce each other to constitute what Myrdal called a process of 'circular and cumulative causation'
- Thus economic stratification sets in the system and this is predominant in developing nations

# Economic Disparity: A Third World Syndrome

- Most of the third world countries inherited regional disparities and inequalities as a legacy from their colonial past arising from exploitation of their resources by the colonial rulers
- Today disparity is induced and accentuated due to several factors
  - historical realities and legacy systems
  - inadequate capital assets in the economy
  - absence or underdevelopment of infrastructure
  - inequitable distribution of wealth
  - absence of appropriate linkages in the economy which are necessary to make the process of economic development self propagating and self sustaining

# Disparity Theory

- **Disparity theory**
  - Classical
  - Neo-classical
  - Modern
- Modern concept of economic disparity is coined with convergence hypothesis developed by Barro and Sala-i-Martin (1995).
- According to this hypothesis, when the growth rate of an economy accelerates, initially the regions with better resources will grow faster, but after a point of time with law of diminishing returns, the fast growth rates will converge due to differential marginal productivity of capital and this in turn will bridge the gap across the regions.
- Authors have tested this hypothesis with the  $\beta$  convergence and the  $\sigma$  convergence
- Through these tests, they have shown that both the convergence have taken place in advance countries like USA and Japan and at least in one developing nation i.e. Colombia.

# Disparity Theory in Developing Nations

- The empirical evidence on developing nations for  $\beta$  &  $\sigma$  convergence is highly controversial.
- It is always seen that when an economy is liberated and controls on investments are removed, regions with better infrastructure attract more investment, especially foreign capital, through market mechanism, and this in turn leads to huge regional inequity, during the early phases of reforms.
- In the third world nations where regional disparity is a common syndrome, the convergence theorem needs to be tested over and over again in several phases of economic restructuring and also in a longer post-reforms time span.

# Causes of Disparity in India-I

- Causes of regional disparity in India can be traced back into three broad phases. (Chakravorty, 2005)
  1. **The colonial period (roughly from 1800 to 1947) when the economic logic was only to serve the colonial interest**
    - To extract industrial raw material and agricultural goods in large quantities cheaply available from 'inferior' people.
    - The structure of incentives, institutions and the spread of infrastructure were evolved primarily to serve colonial interest
    - This exercise inevitably resulted in inter-regional disparities and inequalities which were inherited by the newly independent India

# Causes of Disparity in India-II

## 2. Nationalisation Period (roughly 1947-1980) - an offshoot of the colonial Raj

- The nation-state dichotomy was the basic principle of spatial division in the country.
- The idea of development had actually emerged with industrialization and modernization (reflected in our five years plans).
- This process led to the formation of cities, increasing urbanisation and metropolitanisation
- Unfavourable terms of trade between urban and rural areas as well as developed and underdeveloped regions were set in.
- The distribution pattern became uneven and the development policies and programmes utterly failed to see the 'human face'
- Thus a push factor has worked for the weaker regions to marginalize them further

# Causes of Disparity in India-III

3. **The Globalisation period (the period beyond 80s) – to correct the distortions arising from past colonialism**
  - Restructuring of economic system with deregulation decontrol and decentralization
  - Market determination of prices with minimal Governmental intervention to maximize profit – boost to private sector and competition
  - This inevitably has led to faster growth
  - This growth leads to ever-widening economic disparity and dispersion across the various states
  - Resulted to dissimilar growth path across the country

# North –East India Scenario-I

## India's North East

- Extreme Diversity across the hills and valleys – history, culture, ethnicity, language and dialects, conflicts, problems, issues
- Lack of uniformity, integration, assimilation
- Highly uneven incidence of economic growth since the colonial period
- For the British imperialists, north east India was only a store house of raw materials (like tea, coal, forests and natural oil) which were extracted to a large extent and exported to other parts of the country for processing.
- In the North East Region
  - Processing and manufacturing facilities were not set up
  - Transport and communication were not developed

# **North –East India Scenario-II**

- **The region thus became underdeveloped and economically non-viable and highly revenue deficit**
- **Partition of India**
  - **For a long time the trade with erstwhile east Pakistan, now Bangladesh came to a stop, causing enormous economic damage to this region and affected the region's economic sustainability to a very wide extent.**
  - **The region's accessibility to rest of India has always remained weak due to geographical reasons and undeveloped transport communication links with the rest of India**

# North –East India Scenario-III

## Post-Independence

- After independence, Government of India brought the entire NE region under 6th schedule and several developmental packages were initiated for the special category states of the region
- But these policies and programmes were not evaluated at appropriate times. Further, lack of understanding between centre and the state governments of NER have widened the gap between the region and the rest of India.
- All the socio-economic and political problems of these states were put under one unit i.e., “north-east-region” and a North Eastern Council was created to address these as a whole.

# North –East India Scenario-IV

## Post-Independence

- Social harmony and political stability which are pre-requisites for economic growth and sustainability are absent here
- These problems translated into insurgency and other social unrest.
- Economy of insurgency and terrorism has emerged
  - parallel economy run by insurgent groups who collect taxes from citizens to finance their insurgency
  - Extortion under coercion is like an industry in some states in the North East

# **Section II**

## **Empirical Understanding**

- **North-East India: How Widely Dispersed in India's Socio-Economic Map?**

(Data sources: Debroy and Bhandari 2005)

# Table 1: Small State Profile Ranking in India: 2005

States	Over all Rank	Law and Order	Primary Health	Primary Education	Infrastru cture	Consumer Market	Agri- culture	Invest- ment Scenario	Budget and prosperity
Goa	1	4	2	3	2	2	3	2	2
Delhi	2	5	4	9	1	1	2	4	1
Pondichery	3	1	6	4	3	3	1	6	3
Mizoram	4	2	1	2	4	5	8	3	5
Sikkim	5	3	3	1	5	6	9	1	4
Arunachal Pradesh	6	6	5	10	6	8	7	5	6
Manipur	7	9	7	6	7	10	6	8	7
Nagaland	8	8	8	5	8	4	10	7	8
Tripura	9	7	9	7	9	9	4	9	9
Meghalaya	10	10	10	8	10	7	5	10	10

## Table 2: Big State Profile Ranking in India: 2005

States	Over all Rank	Law & Order	Primary Health	Primary Education	Infrastructure	Consumer Market	Agriculture	Investment Scenario	Budget & prosperity
Punjab	1	12	7	7	1	1	1	3	1
Kerala	2	1	1	2	6	4	10	16	9
Himachal Pradesh	3	6	2	1	2	2	16	4	2
Gujrat	7	7	8	12	7	6	5	1	4
Rajasthan	12	3	12	16	12	11	9	13	12
West Bengal	13	14	11	14	14	13	8	17	13
Madhya Pradesh	14	5	14	15	13	14	13	15	14
Assam	16	18	15	6	15	16	19	19	16
Uttar Pradesh	17	20	18	19	16	15	7	15	15
Bihar	20	19	20	20	20	20	12	20	20

Source: Debroy and Bhandari, 2005

# North East India- Facts and Figures

- Occupies 8.74% of the total land area and 4% of the population of India
- All states are small and economically non-viable states.
  - Except Assam, the area of each state is less than 35,000 sq.km. and population less than 5 million each (Debroy & Bhandari, 2005).
- All states are substantially dependent on government support and suffers from economic stagnation.
- Out of total 260 million poor in India, north east accounts for 15 million i.e., 5.77%. (Ray & Dey 2005)
- Paradox: it is difficult to think of another area in the world which can surpass India's north east in terms of its forest, hydro and mineral resources.

# Econometric Background-I

## ➤ **Area of Empirical Investigation**

### ➤ Degree of disparity in SDP growth rates is seen in the following framework

- Comparison is being made between north eastern states along with
- Other small states i.e., Delhi, Pondichery and Goa
- Economically weaker states like Bihar, Uttar Pradesh, Madhya Pradesh and Rajasthan, clubbed under BIMARU
- and some larger and prosperous counterparts, representing 4 parts of the country, they are, Punjab, Himachal Pradesh, Gujrat, Kerala and West Bengal.

### ➤ This possibly to a reasonable extent can capture the degree of dispersion across the regions and states in the country.

## ➤ **Time Frame**

### ➤ Last 35 years with 1970-71 as the cut off year is being taken to capture very intensely the pre-reforms (1970 to 1990) and post reforms (1990-2004) period of India.

# Econometric Background-II

## Data Source

- Net State Domestic Product (NSDP) data has been collected from various published reports and the websites of Central Statistical Organisation (CSO), GOI.
- **Growth Model**
- Decadal growth rate for each state is estimated at a constant price on loglinear regression model
- **$\ln y = \alpha + \beta t$ ,**
- where  $y$  is the NSDP over the years and  $t$  is the time period and  $\alpha$  and  $\beta$  are the parameters.
- The level of significance has been tested for each of these growth rates. NSDP which shows an overall performance of each state has grown with a fair degree of variation.

# Econometric Background-II

## Inequality Measures

Degree of inequality amongst different states with respect to Per Capita NSDP is estimated with the following fundamental measures

- Disparity Ratio:  $DR = (M_x - M_i) / \mu$ , where  $M_x$  is the average income of top most states and  $M_i$  is the average income of bottom most states and  $\mu$  is the average income of 19 total states
- Coefficient of variation:  $CV = \sigma / \mu$ , where  $\sigma$  is the standard deviation and  $\mu$  is the mean income of all 19 states
- Gini-Coefficient:  $G = \frac{1}{n} \sum_{i=1}^n |1 - (P_i - P_{i-1}) * (Q_i + Q_{i+1})|$ , where  $0 < G < 1$  and  $P_i$  is the cumulative proportion of population in ascending order and  $Q_i$  is the cumulative proportion of income in ascending order for all 19 states

**Table 3: Growth Rate of Net Domestic Product at constant Prices**

Status	Pre-Reforms Period		Post-Reforms Period		Entire Period
	1970-80	1980-90	1990-00	2000-04	
<b>States/Regions</b>	1970-80	1980-90	1990-00	2000-04	1970-04
<b>North Eastern Region</b>	3.55	3.95	3.57	3.65	4.20
Arunachal Pradesh	7.08	7.78	4.67	2.80	7.02
Assam	3.03	4.13	2.40	4.26	2.94
Manipur	6.62	4.50	4.82	10.15	4.71
Meghalaya	-	4.06	5.39	5.88	5.52
Nagaland	-	7.24	5.50	6.72	7.21
Sikkim	-	10.96	3.84	8.58	7.01
Tripura	4.89	4.94	7.50	4.37	5.88
<b>Other Small States</b>	6.02	6.98	8.25	4.46	8.18
Delhi	5.97	7.36	8.22	6.48	8.27
Goa	5.95	5.10	7.81	4.65	7.69
Pondichery	6.71	4.13	9.80	10.10	6.24
<b>All Small States</b>	6.03	6.70	7.74	4.14	8.23
<b>BIMARU States</b>	3.08	4.57	4.05	2.44	4.22
Bihar	2.94	4.99	2.24	1.68	3.34
Madhya Pradesh	2.29	3.51	5.46	5.35	4.14
Rajasthan	1.15	7.52	5.94	6.22	5.15
Uttar Pradesh	3.58	4.64	3.49	2.59	4.29
Himachal Pradesh	3.50	5.22	6.03	5.13	4.73
Punjab	4.92	5.29	4.39	2.55	4.69
Gujrat	4.58	5.06	7.64	11.52	5.51
Kerala	2.18	2.55	6.02	6.03	3.90
West Bengal	3.39	4.49	6.63	6.98	4.73
<b>19 Total</b>	3.46	4.72	5.21	6.01	5.11
<b>All India GDP</b>	3.23	5.04	5.46	5.83	4.56

**Table 4: Growth Rate of Per Capita Net Domestic Product at constant Prices**

<b>Status</b>	<b>Pre-Reforms Period</b>		<b>Post-Reforms Period</b>		<b>Entire Period</b>
	1970-80	1980-90	1990-00	2000-04	
<b>States</b>	1970-80	1980-90	1990-00	2000-04	1970-04
<b>North Eastern Region</b>	2.26	3.63	1.58	3.66	3.13
Arunachal Pradesh	4.03	4.69	2.50	1.33	4.25
Assam	-0.47	1.09	0.50	3.03	0.65
Manipur	3.71	2.12	5.87	8.15	2.17
Meghalaya	-	1.43	<b>2.71</b>	4.26	2.91
Nagaland	-	3.41	1.02	1.74	2.64
Sikkim	-	8.07	-2.32	4.82	2.65
Tripura	2.01	2.01	5.47	3.02	3.44
<b>Other Small States</b>	2.91	2.79	<b>5.90</b>	4.46	3.91
Delhi	1.76	2.79	<b>4.51</b>	3.40	3.46
Goa	3.99	3.54	6.11	2.14	4.56
Pondichery	4.31	1.25	8.07	8.21	3.71
<b>All Small States</b>	2.93	3.36	<b>4.13</b>	4.13	3.30
<b>BIMARU States</b>	0.03	<b>2.30</b>	2.54	2.45	1.96
Bihar	0.80	2.5	-0.25	-0.35	1.18
Madhya Pradesh	-1.00	1.16	3.38	3.30	1.88
Rajasthan	0.22	3.17	3.28	4.07	2.59
Uttar Pradesh	0.37	<b>2.37</b>	1.22	0.48	1.74
Himachal Pradesh	1.02	3.34	4.26	3.41	2.82
Punjab	3.18	3.43	2.50	1.51	2.74
Gujrat	2.05	4.38	5.82	<b>7.85</b>	3.44
Kerala	-0.11	1.14	4.65	<b>14.21</b>	2.73
West Bengal	0.86	2.31	3.77	5.64	2.82
<b>19 Total</b>	1.80	2.93	3.10	4.70	3.01
<b>All India</b>	1.39	3.01	4.16	4.29	2.90

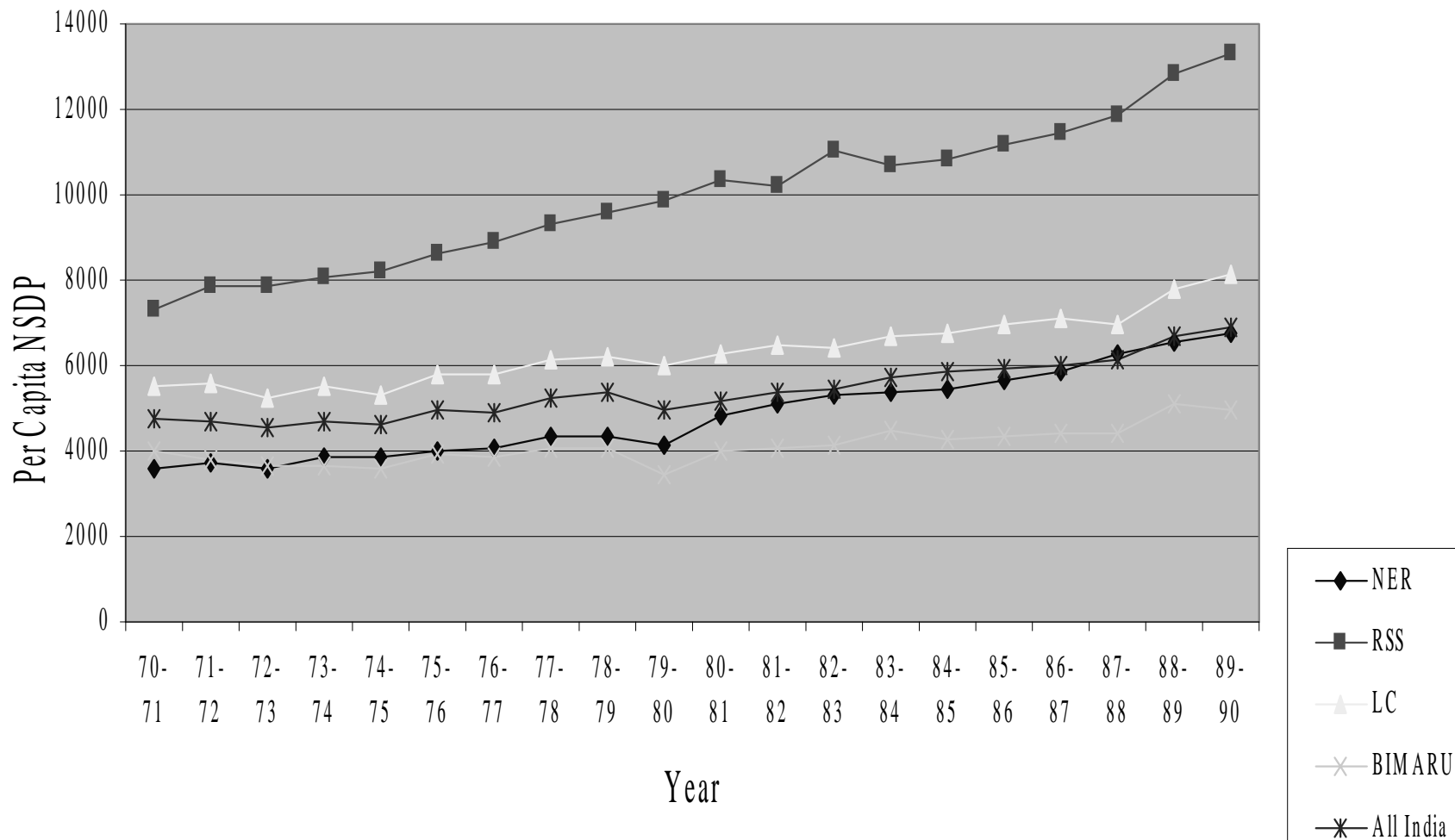
**Table 5: Ranking of the Top and Bottom Indian States by Per Capita Income (Rs at Constant Prices)**

Pre Reform Period				Post Reforms Period					
State	1970	State	1980	State	1990	State	2000	State	2003
<b>A. 6 Top-most States</b>									
Delhi	9729	Delhi	11736	Delhi	15862	Goa	26730	Delhi	29231
Punjab	6716	Pondichery	9880	Goa	14757	Delhi	26497	Goa	28548
Goa	6452	Goa	9504	Punjab	11776	Pondichery	22252	Pondichery	28107
Pondichery	5823	Punjab	8442	Sikkim	11722	Punjab	15048	Kerala	16779
Gujrat	5801	Gujrat	6455	Pondichery	11256	Gujrat	12489	Punjab	15800
Kerala	5325	Himachal Pradesh	5793	Gujrat	8788	Nagaland	11473	Gujrat	15721
<b>B. 6 Bottom-most States</b>									
West Bengal	4547	Manipur	4406	West Bengal	5991	Rajasthan	8175	Arunachal Pradesh	9678
Uttar Pradesh	3744	Rajasthan	4254	Assam	5574	Madhya Pradesh	7195	Manipur	8751
Manipur	3372	Arunachal Pradesh	4073	Manipur	5400	Manipur	6845	Madhya Pradesh	8284
Tripura	3159	Tripura	4001	Uttar Pradesh	5147	Assam	5943	Assam	6520
Arunachal Pradesh	2850	Uttar Pradesh	3982	Tripura	5026	Uttar Pradesh	5575	Uttar Pradesh	5702
Bihar	2550	Bihar	2733	Bihar	3568	Bihar	3798	Bihar	3557

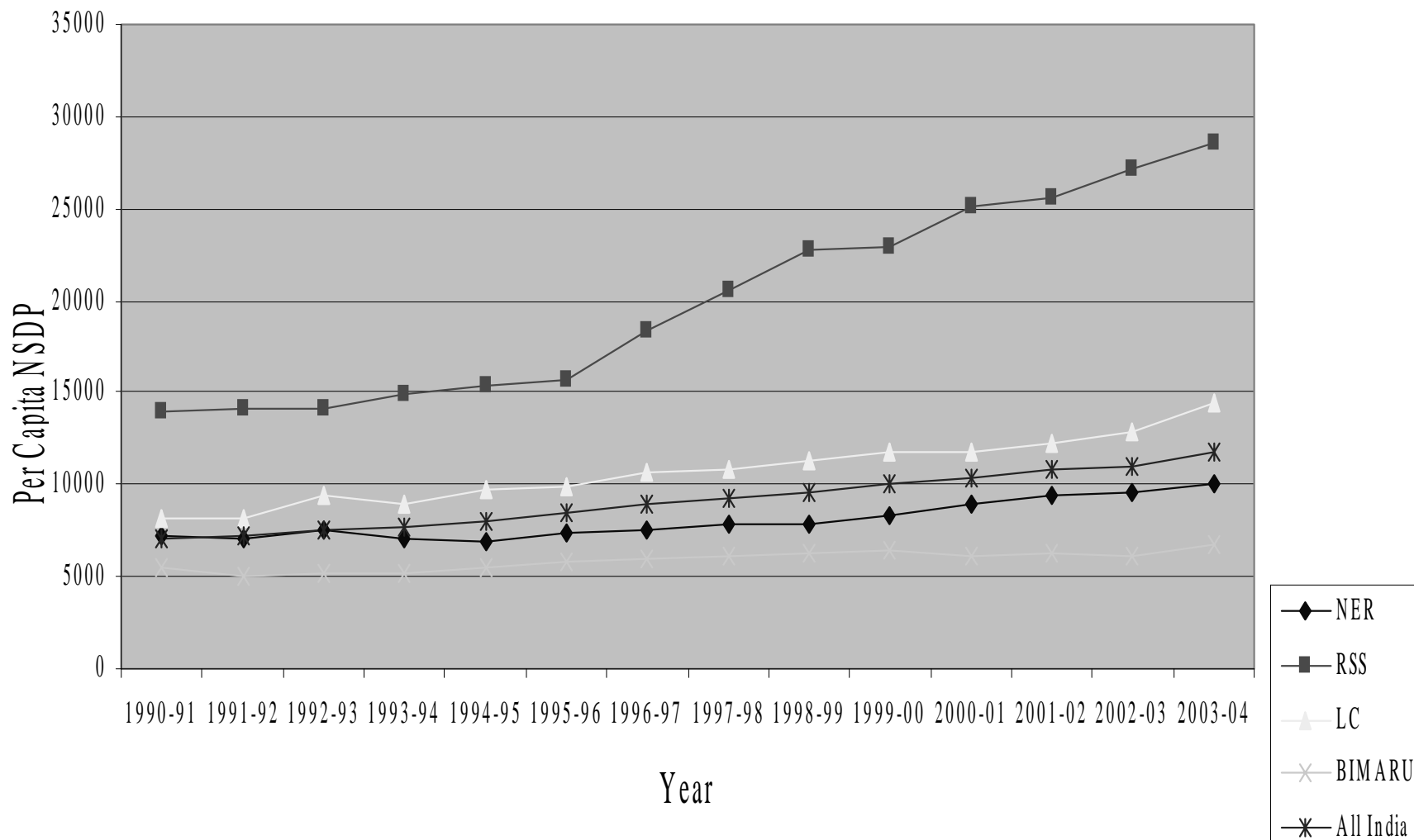
**Table 6: Inter-State PC NSDP Disparities in India**

<b>Pre Reform Period</b>				<b>Post Reforms Period</b>					
State	1970	State	1980	State	1990	State	2000	State	2003
Average (19 States)	4989	Average (19 States)	5918	Average (19 States)	8155	Average (19 States)	11702	Average (19 States)	13464
Disparity Ratio	0.502	Disparity Ratio	0.540	Disparity Ratio	0.587	Disparity Ratio	0.717	Disparity Ratio	0.751
Coefficient Variation	35.63	Coefficient Variation	39.58	Coefficient Variation	41.59	Coefficient Variation	56.26	Coefficient Variation	55.95
Gini-Coefficient	0.140	Gini-Coefficient	0.159	Gini-Coefficient	0.169	Gini-Coefficient	0.250	Gini-Coefficient	0.290

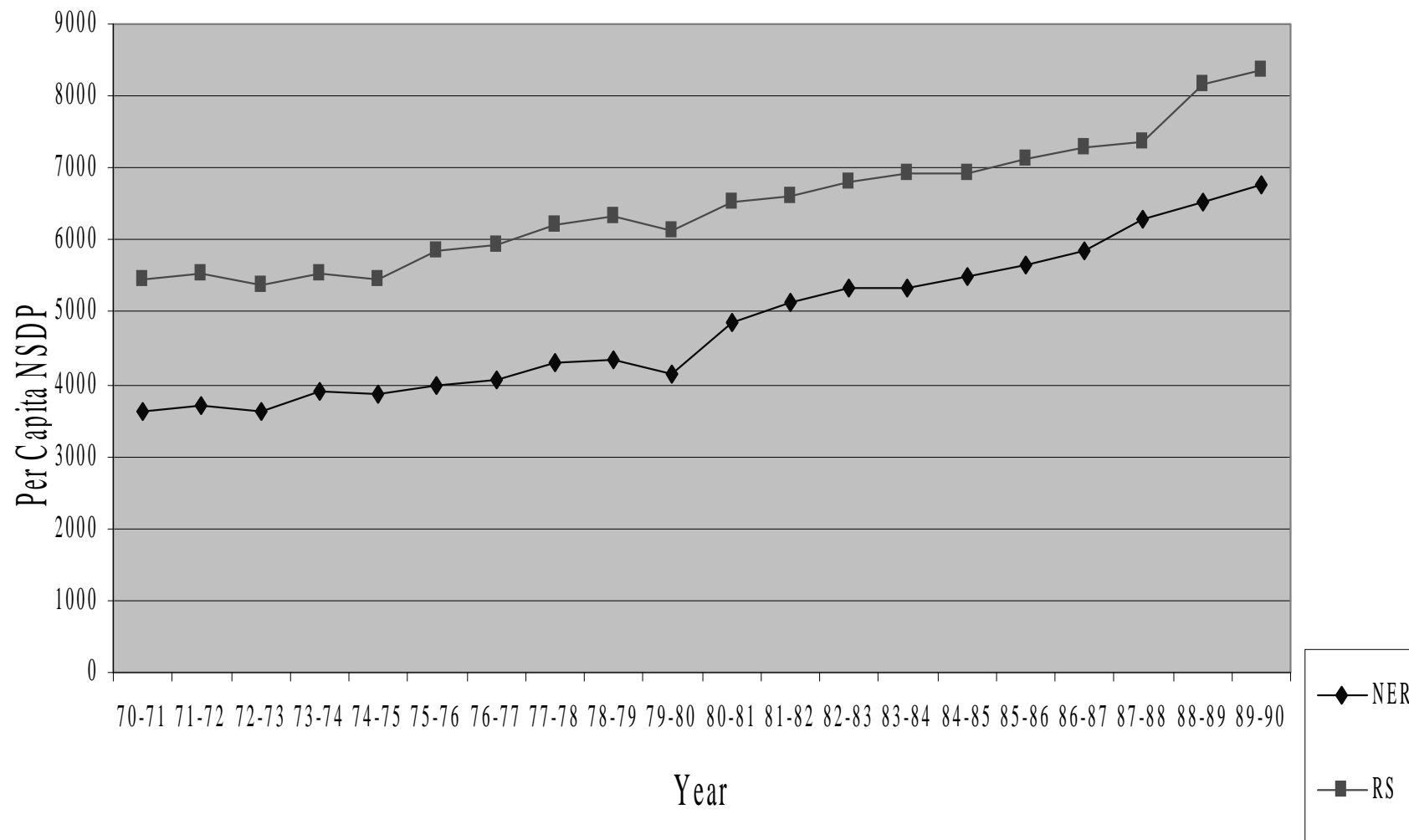
Trend of Per Capita NSDP (Rs at Constant Price) in Pre-Reforms Period in India



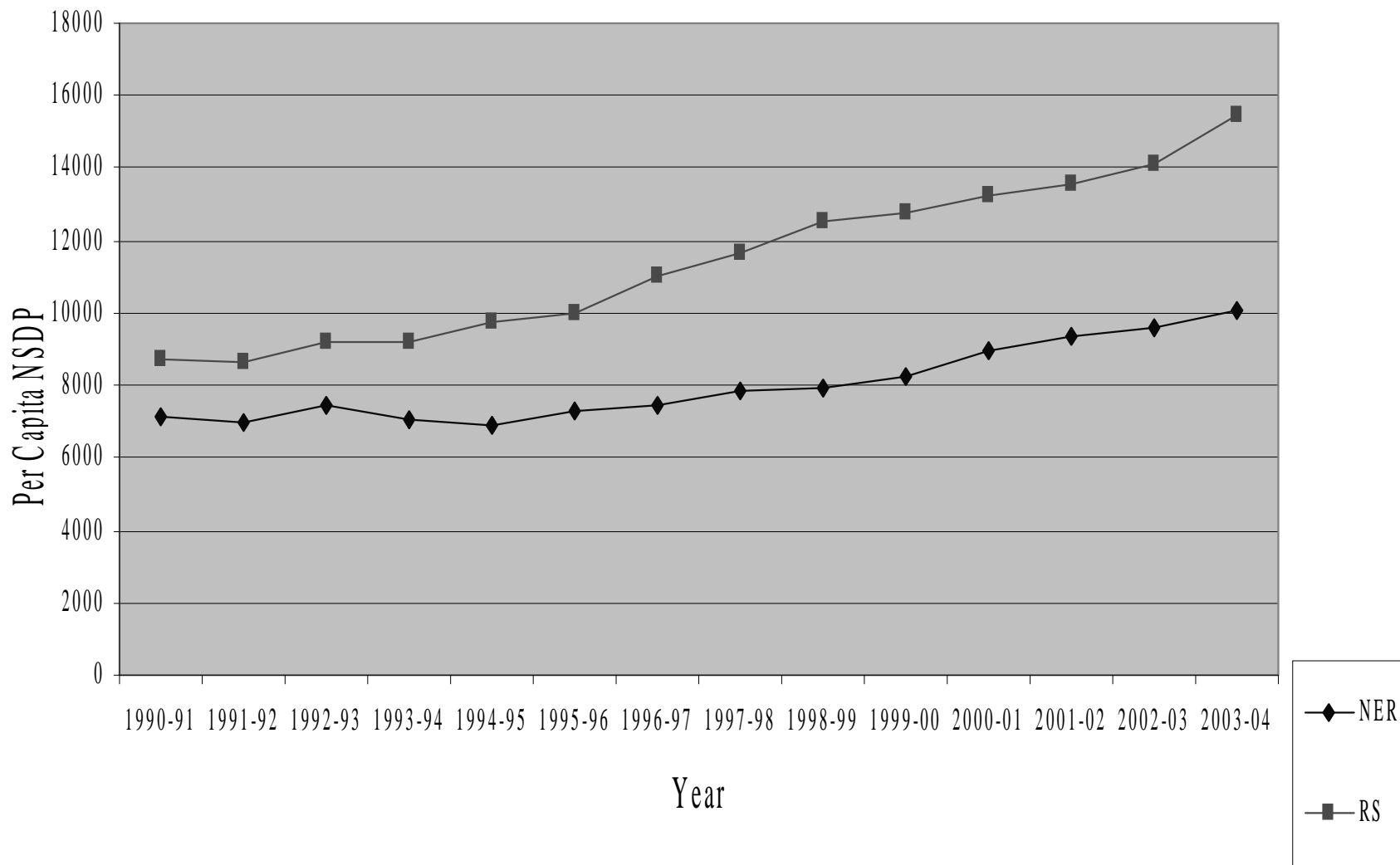
### Trend of Per Capita NSDP (Rs at Constant Price) in Post-Reforms Period in India



Trend of Per Capita NSDP (Rs at Constant Price) in Pre-Reforms Period: NER vr. Rest of India



Trend of Per Capita NSDP (Rs at Constant Price) in Post-Reforms Period: NER vr. Rest of India



# Conclusion-I

My empirical findings conclude that

- **North east India is a poor victim of regional economic disparity**
- **This disparity between the peripheral north eastern states and the core states of India has unfortunately widened over the post reforms period**
- **The advanced industrial states have tended to leapfrog in the reforms years, other states have lagged behind.**
- **The richer states with developed physical and social infrastructure attract more FDI and domestic investment.**
- **The weaker states of north eastern region with their perpetual physical infrastructure bottlenecks, their socio-political instabilities, bad governance perennially fail to attract investment and decreases their economic sustainability.**

# Conclusion-II

- **This scenario traps them irrevocably in the vicious grip of low-income → low investment → low growth → low income. Central assistance for revenue expenditure does not solve the problems of lack of physical infrastructure and low credit absorption capacity in the economy.**
- **Even the post reforms period did not bring any appreciable relief to the region, rather it's even more dispersed in India's economic growth map.**

- North-East is a challenge to the nature of our governance.
- It is a question mark on our developmental strategy.
- More than anything else, it should induce us to review our nation-building processes and policies followed after independence.

**“Determine that things can and shall be done, and then we shall find the way”**

**- Abraham Lincoln**

**Thank you**