CHAPTER 3

CURRENT STATE OF AFFAIRS OF INDIAN AND ASSAM ECONOMY

3.1. STATUS OF INDIAN ECONOMY

3.1.1. Pre-Globalization Era

Although globalization had dominated the world economy since the early 90's of the last century, but India opened up its economy only in the 1990's following a major foreign exchange reserve crunch that dragged the economy to a downturn.

When India gained independence, the strategic policy-makers were looking at re-structuring the economy through building a self-reliant economy. Since Indian economy was experiencing a major financial set-back with scarce capital, therefore, policies were designed which emphasized on regulating the flow of capital and utilization of available capital by following industrial licensing policy, state monopoly and control over key industries. But these conservative and over-bureaucratic reforms did not really work out for India.

The growth performance of the five-year plans of India till 1990's is summarized below in table 3.1:

Year	Targeted Growth Rate	Actual Growth Rate
First Plan (1951-56)	2.1	3.6
Second plan (1956-61)	4.5	4.21
Third Plan (1961-66)	5.6	2.72
Fourth Plan (1969-74)	5.7	2.05
Fifth Plan (1974-79)	4.4	4.83
Sixth Plan (1980-85)	5.2	5.54
Seventh Plan (1985-90)	5.0	6.02

Table 3.1: Growth Performance of Indian Economy during the Five Year Plan. **Source:** Central Statistical Organization

The sustainability of the growth process during these periods came under serious questions due to large and continual macro-economic imbalances that were apparently witnessed in the form of mounting fiscal deficits, shaky balance of payments situation and soaring inflationary pressures.

Various economic reforms like liberalizing the imports to a certain extent, promoting export-oriented industries, reducing controls and regulations in industries, allowing flexible exchange rates and attracting FDI in a few selected sectors were some of the initiatives that were carried out in 1980s. However, these liberalization policies failed to show any sign of progression due to its weak implementation and restrictive policies with regard to foreign equity, capacity expansion and private participation. Due to these inefficiencies in the policies, Indian economy was exposed to large imbalances in internal and external account in the early 1990s in the form of precarious balance of payments situation and foreign exchange reserves dwindled to US $1 billion. In short, India was on the threshold of becoming an external default.

The then Indian policy-makers decided to bring major policy changes in 1990s by introducing new economic reforms in the form of Liberalization, Privatization and Globalization (LPG). This transition model aimed at making India globally vibrant, competitive and one of the fastest growing economies.

3.1.2. Post-Globalization Era

Some of the major policy changes as a result of implementation of LPG strategy during this period of economic reforms were:

- Disinvestment
- Devaluation
- Dismantling of the Industrial Licensing Regime and Trade Licensing
- Allowing Foreign Direct Investment, portfolio investment, foreign technology
- Throwing Open Industries Reserved For The Public Sector to Private Participation
- Abolition of the Monopolies Restrictive Trade Practice (MRTP) Act
- Removal of quantitative restrictions on imports
- Reduction of the customs tariff
- Export promotion measures

These policy changes had a favourable impact on the overall growth of the Indian Economy.

3.1.2.1. India's Growth Rate and Sectoral Composition

India's economic performance post-reforms period could be summarized below in table 3.2:

Year	Average Annual GDP at Factor Cost (per cent) At 2004-05 prices
1991-96	5.24
1996-01	6.18

2001-06	6.82
2006-11	8.7

Table 3.2: Average Annual GDP at Factor Cost (per cent). **Source:** Economic Survey, 2012-13

The average annual growth rate of India from the period 1996-2006 was over 6 per cent, which had put India among one of the fastest growing countries of the world. Consequently, India's position in the world economy also significantly rose to 4th position by the year 2001.

There was also a significant change in the sectoral composition of the Indian Economy since then, and the direction of growth of the key sectors also radically altered.

Year	Primary Sector (Agriculture and Allied)	Secondary Sector (Manufacturing)	Tertiary Sector (Services)
1991-96	2.58	6.14	6.7
1996-01	3.32	5.5	8.3
2001-06	2.9	7.68	7.8
2006-11	3.9	9.34	9.9

Table 3.3: Average Annual Structural Composition of the Economy. **Source:** Economic Survey, 2012-13

It could be clear from table 3.3 that the average annual structural contribution of the agricultural sector has reduced over the years, whereas the services sector remained to be the major growth driver of the economy. With changes in the liberalization policies on foreign investment, the contribution of the tertiary sector to the overall growth of the economy considerably increased.

3.1.2.2. India's Annual Gross Fixed Capital Formation (Domestic Investment)

With the opening up of industries to the private sector through the privatisation policy and selling off most of the public sector undertaking to the private sector as a disinvestment strategy, also contributed greatly to the gross fixed capital formation of the country. This is quite evident from the data given in table 3.4 over a period of 20 years post reform.

Year	**Gross Fixed Capital Formation (As a per cent of GDP)**		
	Public Sector	**Private Sector**	**Total**
1991-96	9.4	13.2	22.6
1996-01	7.12	16.36	23.48
2001-06	6.86	19.62	26.5
2006-11	8.12	23.88	31.98

Table 3.4: Average Annual Gross Fixed capital Formation (as a per cent of GDP). **Source:** Economic Survey, 2012-13

3.1.2.3. Foreign Direct Investment in India

India has adopted liberalization policy on shedding its FDI restrictions and allowing FDI through automatic route. Major changes since 1993 have included automatic permission for foreign equity participation of up to 50 per cent in some mining activities. This was also applicable to oil exploration which also offered incentives such as tax holidays. FDI policy had been further liberalized *(Bhat, 2011)*. Investment is now allowed in greater number of sectors and FDI in India is freely allowed in all sectors, including the services sector, excepting a few where the notified sectoral policy does not permit FDI beyond a ceiling. Since the reform period, the FDI restrictions were further simplified as mentioned in the table 3.5 below:

Period	**Liberalization Policies of FDI Inflows**
Pre-1991	Allowed selectively up to 40per cent
1991	Up to 51per cent under ‘Automatic Route’ for 35 Priority Sectors

1997	Up to 74/51/50per cent in 111 Sectors under 'Automatic Route' & 100per cent in some sectors
2000	Up to 100per cent under 'Automatic Route' in all sectors except a small negative list
Post-2000	More sectors opened; Equity caps raised; Conditions relaxed; Foreign Exchange Management

Table 3.5: Liberalization Policies on FDI inflows. **Source:** Reserve Bank of India reports

The openness of the Indian Economy in the capital account resulted in capital movements into the country. And over the years, India has emerged to be as one of the most preferred destinations for FDI after China. The result is evident from the annual FDI inflows in the country which is depicted in the table 3.6 below.

	(USD $Million)			
	1990-91	**2002-03**	**2003-04**	**2004-05**
A. DIRECT INVESTMENT	97	5,035	4,679	5,536
I. Equity		2,764	2,387	3,363
a) Government (SIA/FIPB)		919	928	1,062
b) RBI		739	534	1,259
c) NRI		–	–	–
d) Acquisition of Shares		916	735	930
e) Equity cap. Of unincorporated bodies		190	190	112
II. Reinvested earnings		1,833	1,798	1,816
III. Other Capital #		438	488	357
B. PORTFOLIO INVESTMENT	6	979	11,377	8,909
a) GDRs/ADRs		600	459	613
b) FIIs		377	10,918	8,280
c) Off-shore funds & others	6	2	-	16

C. TOTAL (A+B)	103	6,014	16,050	14,445

Table 3.6: FDI inflows in India post-reform period (in US $Million). **Source:** Reserve Bank of India reports

3.1.2.4. Balance of Payments (BoP):

Between 1970s and 1980s, the trade regime was established on a complex routine of licensing. India's trade policy closely depended on quotas rather than on tariffs. Imports were regulated through a licensing system without any policy prescriptions and almost all imports were subject to discretionary import licensing. Considerable growth in exports was traced in mid-1980s but exports grew relatively slower than imports. As a result, the balance of payments crunch continued to be gloomy. The necessity for a new and a stronger economic reform emerged from this backdrop. The process of liberalization that began in mid-1980s was slow and fragmented. Many export incentives were introduced. However, the growth of imports over exports kept a continuous pressure on balance of payments and continued to further aggravate. The foreign reserves were hardly enough to meet one month's import bill. Therefore, a new liberalization reform was introduced in 1991 with emphasis on the external sector. The new trade policy reversed the direction of trade balance altogether. The tariff protection was relaxed and it further simplified the restrictive import licensing regime. Import licensing was totally abolished with respect to imports of most machinery, equipment and manufactured intermediate products. The policy focus was primarily on liberalization of capital goods and inputs for industry, to encourage domestic and export-oriented growth *(Bhat, 2011).* As a result, exports started picking up from the year 1993 onwards correcting the Balance of Payments Position of the country.

Balance of Payments (BoP) is a record of all monetary transactions of a country over a period of time with the rest of the world. Hence, it is one of the major indicators of a country's position in international trade. BoP accounting highlights a country's competitive strengths and weaknesses in terms of its total reserves and thereby acts as an important indicator for any country to gauge its economic growth. Therefore, every country strives to a have a favourable balance of payment position to maintain its long-term sustainability

(Mathew, 2013). As per the BoP manuals, it comprises of current account, capital account, errors and emissions and changes in foreign exchange reserves. Current account transactions are classified into merchandize (exports and imports) and invisibles. Invisibles are further categorized into services comprising of travel, transportation, insurance, and miscellaneous. Miscellaneous services include communication, construction, financial, software, business services etc. Invisibles are further categorized into transfers (remittances, grants, gifts etc.) and income. The main components of capital account inflows include FDIs, FIIs, and ADRs/GDRs representing non-debt liabilities. Debt liabilities further includes loans (external assistance), External Commercial Borrowings (ECBs), trade credit, NRI deposits *(Economic Survey, 2011-12).*

India's balance of payment position was quite unfavourable during the time of country's entry into a liberalized trade regime. India's balance of payments in 1990-91 also suffered from capital account problems due to a loss of investor confidence. The widening current account imbalances and reserve losses contributed to low investor confidence putting the external sector in deep dilemma. During 1990-91, the current account deficit steeply hiked to $ -9680 million while the capital account surplus was far below at $ 7188 million as reflected in table .7. This led to an all-time high BoP deficit for India. That is when India felt the need for introducing the economic reforms to find a way out of the growing crisis. The post reform period relieved India's struggle with regards to the external sector. This is evident from the RBI data portrayed in table 3.7. The current account remained almost negative throughout the post reform period. Two decades of economic reforms and free trade opened several opportunities that improved the balance of payments performance of the country. Until 2000-01, the current account deficit remained stagnant. However, for the first time since 1991, the current account recorded surplus in its account during three consecutive financial years from 2001-02 *(Mathew, 2013).*

Year	**Current Account Balance**	**Capital Account Balance**	**Overall Balance**
1990-91	-9680	7,188	-2,492
1991-92	-1,178	3,777	2,599

1992-93	-3526	2936	-590
1993-94	-1159	9694	8535
1994-95	-3369	9156	5787
1995-96	-5912	469	-1222
1996-97	-4619	11412	6793
1997-98	-5499	10010	4511
1998-99	-4038	8260	4222
1999-00	-4698	11100	6402
2000-01	-2666	8535	5868
2001-02	3400	8357	11757
2002-03	6345	10640	16985
2003-04	14083	17338	31421
2004-05	-2470	28629	26159
2005-06	-9902	24954	15052
2006-07	-9565	46171	36606
2007-08	-15737	107901	92164
2008-09	-27915	7835	-20079
2009-10	-38180	51622	13441
2010-11	-45945	58996	13050
2011-12	-78155	65324	-12832

Table 3.7: India's BOP during 1990-91 to 2011-12 (values in US $ million). **Source:** Reserve Bank of India

India's external sector exhibited sturdiness at the time of the global financial crisis of 2008. The balance of payments deficit, however, started increasing as exports started declining and imports not falling significantly, resulting in increase in current account deficits. Though capital flows have been bridging the gap, but rupee volatility and portfolio capital vulnerability has been significantly impacting India's overall financial position. India's growing external exposures can also be a reason for this imbalance which is reflected in its current and capital account transactions in the recent past. The combined share of exports and imports of goods have predominantly increased to about 43.0 per cent in 2011-12 as referred in table 3.8*(Economic Survey, 2012-13).*

(As a per cent of GDP)						
Items	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Exports	13.6	13.4	15.2	13.4	14.8	16.5
Imports	20.1	20.8	25	22	22.6	25.8
Trade balance	-6.5	-7.4	-9.7	-8.7	-7.8	-9.4
Invisible balance	5.5	6.1	7.5	5.9	5	5.8
Goods and services balance	-3.4	-4.2	-5.3	-6	-4.9	-6
Current account balance	-1	-1.3	-2.3	-2.8	-2.7	-3.6
ECBs	1.7	1.8	0.6	0.1	0.7	1.2
FDI(net)	0.8	1.3	1.8	1.3	0.6	1.3
Portfolio investment (net)	0.7	2.2	-1.2	2.4	1.8	0.1
Total capital account (net)	4.7	8.6	0.5	3.8	3.7	4.5

Table 3.8: Balance of Payments Transactions as a percentage of GDP (mp). **Source:** Economic Survey, 2011-12

3.1.2.5. India's Merchandize Trade Balance:

Since there was a huge macro-economic imbalance in the country, the fiscal deficit had reached a staggering rate of 8.5 per cent of the country's GDP in 1985-86. The current account deficit had increased by 3 per cent and growth rate of the country was just around 5 per cent. By early 1991, Indian economy was under the severe grip of economic crisis resulting in a steep fall in the Foreign Exchange Reserve (FER) of the country. Despite the external assistance provided by IMF, the situation couldn't really be stabilized. This is when the country felt the need of revising and introducing new economic reforms. Hence, as a part of the policy initiative, import licensing on all capital goods were abolished. Except for 300 tariff lines of goods subject to licensing on grounds of safety considerations, all other goods were made importable without restrictions. The tariff rates were also lowered with time. The reform had also lifted a ban on foreign exchange control and devalued the rupee currency against dollar by 22 per cent. Dual exchange rate system was also instituted which permitted the exporters to sell 60 per cent of their foreign exchange in free market and 40 per cent to government at a lower official price. Further to that, importers were authorized to purchase foreign exchange in the open market at a higher price culminating the foreign exchange control from the system altogether. Many current account transactions (invisibles) were also permitted to trade at the pre-determined market exchange rate from 1994 onwards. Restrictions on foreign investments like FDI and portfolio investment were also facilitated. As a result of these initiatives undertaken, the export growth soon speeded up with a growth rate of over 20 per cent annually. To boost exports further, various trade related initiatives have been introduced in the recent past, one being introduction of Special Economic Zones (SEZs). The physical exports from these SEZs have increased by 121 per cent to 47,981 million in 2009-10 with a compound average growth rate of 58.6 per cent from 2003-04 to 2009-10. By the year 1995-96, exports started increasing exponentially with an annual growth rate of over 20 per cent as is evident in table 3.9 below.

	in Rs. Crore			**Rate of Change (per cent)**	
Year	**Exports**	**Imports**	**Trade Balance**	**Export**	**Import**
1990-91	18143	24075	-5932	9.2	13.5
1991-92	17865	19411	-1546	-1.5	-19.4
1992-93	18537	21882	-3345	3.8	12.7
1993-94	22238	23306	-1068	20	6.5
1994-95	26330	28654	-2324	18.4	22.9
1995-96	31797	36678	-4881	20.8	28
1996-97	33470	39133	-5663	5.3	6.7
1997-98	35006	41484	-6478	4.6	6

1998-99	33218	42389	-9171	-5.1	2.2
1999-00	36822	49671	-12849	10.8	17.2
2000-01	44076	49975	-5899	19.7	0.6
2001-02	43827	51413	-7587	-0.6	2.9
2002-03	52719	61412	-8693	20.3	19.4
2003-04	63843	78149	-14307	21.1	27.3
2004-05	83536	111517	-27981	30.8	42.7
2005-06	103091	149166	-46075	23.4	33.8
2006-07	126414	185735	-59321	22.6	24.5
2007-08	163132	251654	-88522	29	35.5
2008-09	185295	303696	-118401	13.6	20.7
2009-10	178751	288373	-109621	-3.5	-5
2010-11	251136	369769	-118633	40.5	28.2
2011-12	304624	489181	-184558	21.3	32.3
2012-13	214100	361272	-147172	-5.5	-0.7

Table 3.9: India's Trade Balance. **Source:** Directorate General of Commercial Intelligence and Statistics, Ministry of Commerce, Govt. of India

The unfolding of the euro zone crisis and uncertainty surrounding the global economy have impacted the Indian economy causing a drop in its growth, higher current account deficit (CAD) and declining capital inflows. As in 2008, the transmission of the crisis has been mainly through the balance of payments (BoP) channel. Export growth has decelerated in the fiscal year 2011-12, while imports have remained high, partly because of continued high international oil prices *(Economic Survey, 2011-12).*

3.1.2.6. India's Services Exports

The focus of world trade has shifted from just facilitating trade in merchandize, with services trade picking up pace for new opportunities. Virtually, all commercial service became tradable across borders. The trend towards globalization, reinforced by liberalization policies and the removal of regulatory obstacles, has fuelled steady growth of international investment and trade in services *(Economic Survey, 2010-11).*

Since the time the economic reforms were initiated, the services sector also opened up heavily to private participation, both domestic and foreign. Services like that of construction, tourism, health and computer-related services have been put on automatic approval route for FDI. Telecom services are also liberalized to a great extent with foreign firms being allowed to invest in several segments of this sector. Financial services, too, has witnessed some liberalization policy. The foreign ownership limit for foreign banking organizations has been liberalized from 20 per cent to 74 per cent in 2004 through the automatic route. Other financial areas like insurance, mutual funds and capital market has been opened for foreign participation. For healthcare services, construction, the government has approved 100 per cent FDI through automatic route.

If we look into the growth contributors of Indian Economy, we can notice that India is moving more towards a service dominated GDP growth and service-dominated export growth with a CAGR of 23.6 per cent from 2001-02 to 2011-12 which is faster than growth of exports in merchandize. Indian services exports have been driven by business services (includes software) and account for 67.8 per cent of the total service exports in 2008. Since 1999, India is the second largest exporter of business services among the emerging Asian economies.

Exports in services has been constantly on a rise for all the service-related sectors over the years, if we look into the summarized data below (table 3.10(a) and 3.10(b)). However, due to the recent global financial crisis hovering around all economies of the world, the growth rate of exports in service in India has drastically slowed down to 4.3 per cent as against 22.7 per cent in the preceding year.

	Commodity Groups	Percentage (per cent) Share				CAGR
		2001-02	2011-12	2011-12	2012-13	2001-02 to 2011-12
				Apr- Sept		
1	**Travel**	18.3	13	11.9	10.7	19.4
2	**Transportation**	12.6	12.8	13.3	12.1	23.8
3	**Insurance**	1.7	1.8	1.8	1.6	24.8
4	**GNIE**	3	0.3	0.4	0.4	-0.8
5	**Miscellaneous**	64.4	72	72.6	75.2	25
	(a) Software Services	44.1	43.7	43.3	45.6	23.5
	(b)Non-software Services	20.3	28.3	29.3	29.6	27.8
	Business Services	3	18.2	17.8	21.2	47.9
	Financial Services	1.7	4.2	4.3	3.8	35.2
	Communication	4.4	1.1	1.1	1.3	7.8
	Total Exports	**100**	**100**	**100**	**100**	**23.6**

Table 3.10 (a): India's Exports in Services. **Source:** Economic Survey, 2011-12

	Commodity Groups	Growth Rate (based on values in US$ terms)			
		2010-11	2011-12	2011-12	2012-13
				Apr- Sept	
1	**Travel**	33.2	16.9	21.3	-5.9
2	**Transportation**	27.4	28	37.1	-4.8
3	**Insurance**	22.3	35.3	39.8	-9.3
4	**GNIE**	21.3	-10.7	30.6	7.7
5	**Miscellaneous**	29.8	11.3	20.2	8
	(a) Software Services	6.8	17.2	21.8	9.8
	(b)Non-software Services	83.4	3.3	18.1	5.4
	Business Services	112.4	7.7	10.6	23.9
	Financial Services	76.2	-8.3	-6.2	-6.9
	Communication	27.2	2.4	1.1	16.5

	Total Exports	**29.8**	**14.2**	**22.7**	**4.3**

Table 3.10 (b): India's Exports in Services. **Source:** Economic Survey, 2011-12

For 2012-13, NASSCOM had projected a lower export growth in IT and business process management mainly due to reduced spending on technology by US corporations and continued crisis in Europe, which is also one of the prime reasons for decelerated growth of services exports from India.

It is now evidently clear that globalization has hugely intensified interdependence of Indian Economy with the world economies. This interdependence could be reflected in terms of growing trade in goods and services and movement of capital with outside countries. As a result, the country's economic growth is greatly dependent not only on its domestic policies but also international policies and economic conditions prevailing across globe. No doubt, India has come a long way in the last 20 years post economic reforms to emerge as one of the fastest growing economies of the world.

3.2. STATUS OF ASSAM ECONOMY

3.2.1. Background of Assam Economy

Assam is located in the North-Eastern part of India and is considered to be the largest economy of the North-Eastern Region. It shares its borders with Arunachal Pradesh, Nagaland, Manipur, Mizoram, Meghalaya and Tripura. The states are connected to the mainland India via a narrow strip in West Bengal called the Siliguri Corridor or "Chicken's Neck". It is the most industrially advanced state in the North-East India because of its proximity to the rest of the country and availability of infrastructure. Assam also shares international borders with Bhutan and Bangladesh; and culture, people and climate with South-East Asia. Assam is the gateway to the North-East as well as to the neighbouring countries of Myanmar, China, Bangladesh, Nepal and Bhutan, providing a vital link for trade and investment with the South-East Asian countries.

With a geographical area of 78, 438 sq. kms i.e., 2.4 per cent of the country's total geographical area, Assam provides shelter to 2.57 per cent population of the country *(Economic Survey, Assam, 2011-12).* Assam is well-known for its tea plantation, large and old petroleum resources and minerals, Assam silk and for its rich bio-diversity.

Assam was reckoned among the economically prosperous and advanced states of the country in the early 1950's. The per capita income in Assam was 4 per cent above national average in the year 1950-51 as revealed in table 3.11 below. From the period 1951-79, Assam economy grew more or less at the same rate as mainland India.

Year	**1950-51**	**1960-61**	**1970-71**	**1980-81**	**1990-91**	**1995-96**	**1996-97**	**1998-99**
India	1127	1350	1520	1630	2222	2608	2761	3132
Assam	1173	1140	1221	1284	1524	1606	1628	1708
Change (per cent)	4.08	-15.56	-19.67	-21.23	-31.41	-38.42	-41.04	-45.47

Table 3.11: Per capita Income (at constant 1980-81 prices). **Source:** Government of Assam, Vision Assam 2025

But, the economy of Assam today represents a unique juxtaposition of backwardness amidst plenty. Despite its rich natural resources, and supplying up to 25 per cent of India's petroleum needs, growth rate of Assam has not been able to keep up the pace with India and the differences started widening since 1970s. The disparity widened and the per capita income of Assam by 1998-99 was below 45 per cent of the national average. While the Indian economy grew at 6 per cent from 1981 to 2000, Assam State GDP grew only at 3.3 per cent. In the sixth plan period, Assam experienced a negative growth rate of 3.78 per cent when India's was positive at 6 per cent. In the post economic reform era i.e., after 1991, the difference widened further and decelerated to new lows altogether. Although the Indian Economy has been benefited from the time new economic reforms were initiated since 1991, Assam remained to be far from the purview of India's rapid development. The relative stagnancy in the growth of income is attributable to the inability of each of the component sectors to grow at rates that would allow the state to reach the levels attained by the rest of the country.

3.2.2. Current Status of Assam Economy

In spite of being a reservoir of natural resources, Assam has become one of the most underdeveloped regions of India, even in the era of globalization. The state has not been able to generate sufficient state income growth over the years. Industrial diversification and growth has been constrained by the inadequacy and quality of complementary infrastructure, geographical isolation of the region, and lack of well-developed markets. There are a few traditions of indigenous entrepreneurship, and tentativeness of private investment from outside the state which has necessitated a major, if not always efficient, role for the state.

Although agriculture remains to be the major contributor to the state economy, but has not grown at a rate comparable to that of the rest of the country and the contribution has been seen to be gradually falling over the years. The overall growth rate since the 1980s has been a little over 2 per cent, not sufficient to generate surpluses for investment, or create purchasing power in the rural sector to provide market for local industries. Although productivity has increased marginally in 2010, but it still remains to be quite lower than highly productive regions. In other words, Assam's agricultural sector is yet to experience modernization in real sense. Floods have been another external source of low development of Assam as it cause serious soil erosion, loss of livestock, heavy damage to infrastructure and retarding agricultural productivity every year.

Industrial growth in Assam is growing at a very slow pace compared to mainland India. Low industrialization is a resultant of physical isolation (landlocked) from mainland India with poor infrastructure that has remained undeveloped since independence. Although having a poor overall industrial performance, several industries have been started. But the industries have not been able to tap the benefits from the local markets. Even though Assam has a geographical proximity with South East Asian countries, the industries here not been able to compete outside the region, because of poor infrastructure leading to high transport costs.

However, given its geographic location, wherein Assam shares international border with various nations, it could have been an international hub of trade and commerce. Ironically, despite the fact that Look East Policy which has been in existence for more than a decade has substantially benefitted the other states of the country, but its benefits to Assam still remains negligible. With its geographical remoteness, inherent deficiency in infrastructure and the bad publicity for recurrent ethnic strife and militant activities, the region obviously could not become an attractive destination for private and foreign capital investment.

The state is still underdeveloped in terms of both intra-regional connectivity and inter-state connectivity, lack of specialization in exportable products, low level of industrialization, poor infrastructure, existence of undeveloped market and poor investment climate. Also, the state has functioned over a decade now under severe fiscal stress. There is a mismatch between the resources needed to provide basic services, maintain assets, promote growth and development, and create infrastructure, and the resources available to the state of Assam.

3.2.2.1. Assam's Growth Rate and Sectoral Composition

State Domestic Product (SDP) in common parlance known as "State Income" is a measure in monetary terms of the volume of goods and services produced during a given period of time within the geographical boundaries of the state. This is the most important single economic indicator used to measure the growth and study the structural changes taking place in the economy.

Although there has been periods of relatively encouraging growth, the growth rate of NSDP of Assam has not been able to keep pace with that of the country. There is a trend particularly perceptible since the early 1970s. In 1992-97, the growth rate of domestic product has slowed considerably, especially when compared to the encouraging growth rates for the country as a whole.

While the Indian Economy grew at 6 per cent over the 1981-2000 period, Assam's GDP grew only by 3.3 per cent. Prior to this period, although there were differences in the rate of growth, the variations were relatively modest, in part because the Indian Economy itself registered only moderate rates of growth. The periods of widely diverging rates of growth appear to have commenced around the early 1980s. As the Indian Economy begun to register comparatively higher rates of growth, the economy of Assam stagnated, and in several respects, actually recorded negative growth. In the sixth plan period, the state witnessed a negative growth of 3.78 per cent against a growth of 6 per cent for India. The growth of NSDP for Assam was the highest in the Seventh Plan period at 4.78 per cent. The NNP for India was 5.4 per cent in the same period (refer to figure 3.1).

In the 1990s, the growth rate of India accelerated, but Assam experienced a slow-down. Significantly, in this period of the commencement of the process of LPG reforms and the concomitant process of modifying the role of the government, the gap between the rate of growth of economy of the state and the country widened amicably.

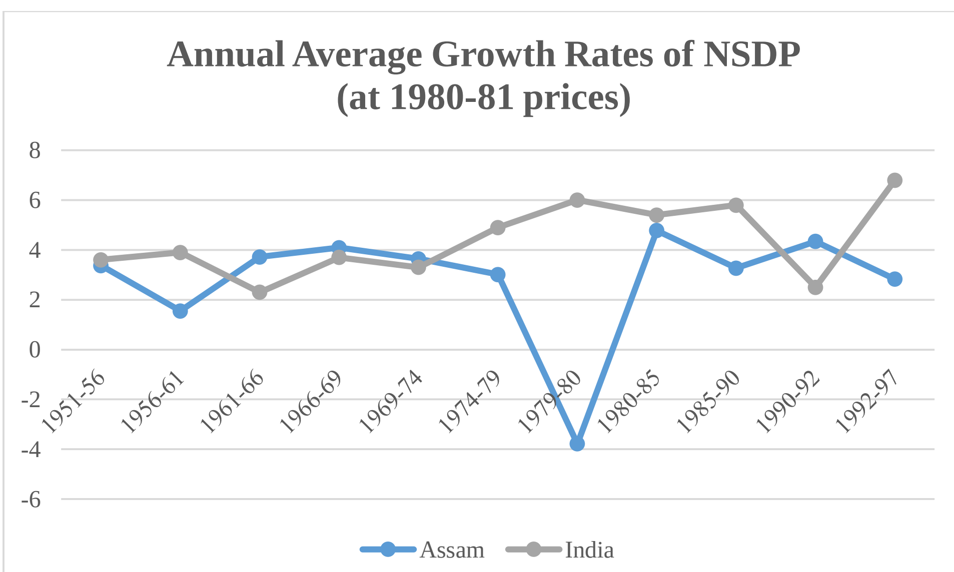

Figure 3.1: Annual Average Growth rates of NSDP- comparison of Assam NSDP and All India NSDP. **Source:** Directorate of Economics and Statistics, Assam

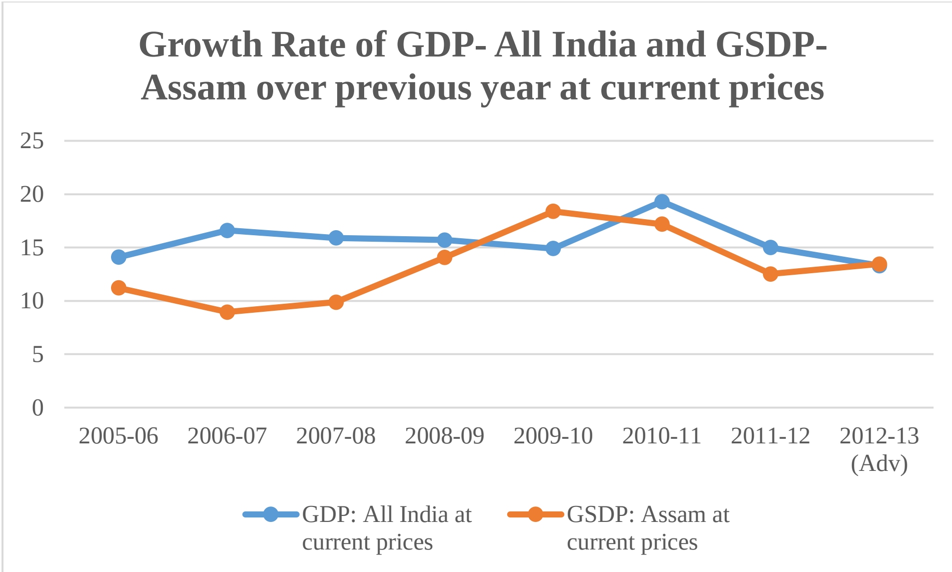

Figure 3.2: Growth Rate of GDP- All India and GSDP- Assam over previous year at current prices. **Source:** Directorate of Economics and Statistics, Assam

As is evident from figure 3.2 that the gap of GDP-All India and GSDP-Assam was quite high till 2007-08 where Assam Economy grew at a rate of 9.8 per cent GSDP at current prices compared to 15.9 per cent GDP of Indian Economy at current prices. The reason for this slow and sluggish growth of Assam was due to poor agricultural productivity and manufacturing sector growth also dipping in the corresponding year. Rapid floods have been one of the reasons that have impeded the growth of agricultural sector and use of technological transformation resulting in low productivity. Industrial growth has also been quite low over the years. The industries struggle to develop a strong demand base for their manufactured goods. To add to their woes, the situation for them has further worsened because of poor infrastructural facilities. Movement of raw materials and goods is not just expensive outside Assam but transport costs are quite high within North-Eastern region resulting in poor inter-state connectivity. But over the years, tertiary sector have come to emerge as one of the important contributors of State Income for Assam which has led to the increased growth of GSDP in the recent past.

In other words, while the growth rate at the all-India level has picked up after the initiation of the economic reform process in 1991, Assam economy does not indicate any change in the trend growth rate in the post-liberalization period.

Corresponding to the above growth rates, there has been a major paradigm shift in the sectoral composition of GSDP of Assam. In almost all the plan periods, the tertiary sector has registered a higher growth rate than the primary and secondary sectors. Even when the secondary sector had negative growth in 1979-80, the tertiary sector recorded a growth of 2.99 per cent.

It is clearly evident from figure 3.3 that the contribution of the primary sector has been constantly falling in the post reform period and is continuing to fall further (see figure 3.4).

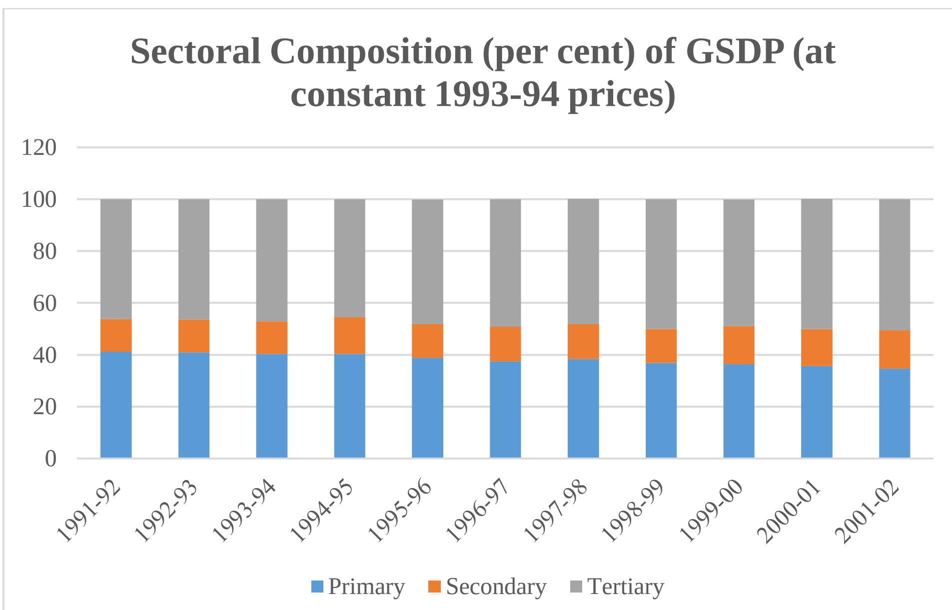

Figure 3.3: Sectoral Composition (per cent) of GSDP (at constant 1993-94 prices). The figures for the period 1991-92 to 1992-93 has been taken considering 1981-82 prices as the base year. **Source:** Directorate of Economics and Statistics, Assam

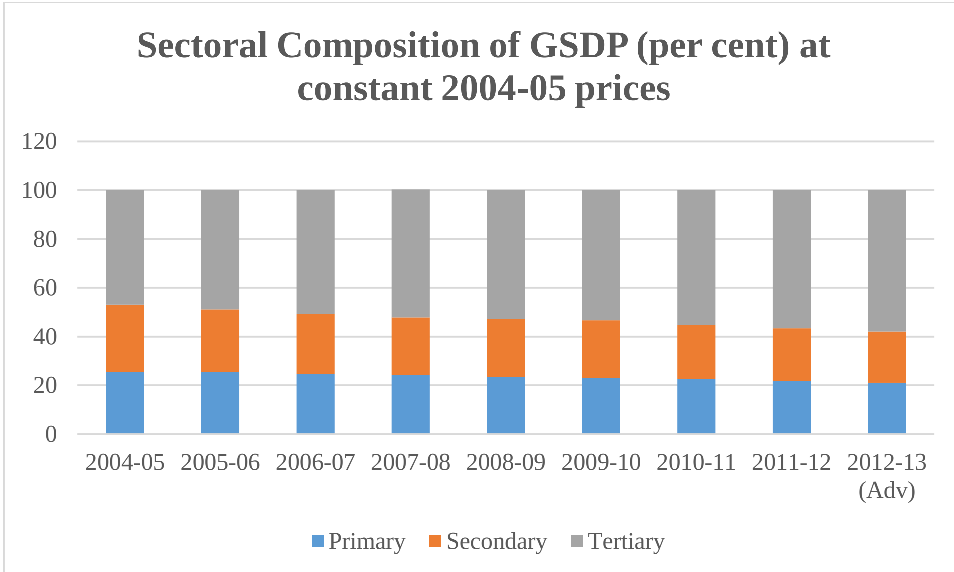

Figure 3.4: Sectoral Composition (per cent) of GSDP (at constant 2004-05 prices). **Source:** Directorate of Economics and Statistics, Assam

But what is alarming is the fact that although the contribution of the secondary sector has been increasing over the years, it is increasing only marginally indicating that Assam is yet to experience a state of Industrial Revolution and effects of LPG reforms. Assam is still amongst the industrially under-developed states. The transportation disadvantage has radically doomed Assam to get access to capital from outside resulting in slower growth in this sector. There are a few modern industries but they operate in an enclave type economy, with few backward or forward linkages *(Assam Development Report, 2002).* The share of the services sector has considerably increased over the years and in 2012-13, more than 50 per cent share of GSDP is contributed by this sector. Thus, the state economy has witnessed a change over the periods and the economy of Assam at present is notably sustained by the services sector.

3.2.2.2. Gross Fixed Capital Formation (Domestic Investment) in Assam

One of the major reasons cited for low income growth in Assam is the low rate of investment. The Gross Fixed Capital Formation (GFCF) rate was only 12.3 per cent for Assam in 1980-81, when the All-India rate was high at 21.4 per cent. Although the difference has narrowed down over the years, but Assam's GFCF rate was 17 per cent post-reform period compared to India GFCF rate of over 25 per cent *(Planning Commission, Assam Report, 2002).*

YEAR	**Assam (Rs. In Lakhs)**			**All India Rs. In Crores)**		
	GSDP	**GFCF**	**P.C.**	**GDP**	**GFCF**	**P.C.**
2006-07	6469220	1544384	23.87	3941865	1347057	34.17
2007-08	7107620	1653115	23.26	4540987	1630513	35.91
2008-09	8122101	2001451	24.64	5282086	1788803	33.87
2009-10	9247245	2444625	26.44	6133230	2016186	32.87

Table 3.12: Percentage of GFCF to GDP in Assam and All India (at current prices).**Source:** Directorate of Economics and Statistics, Assam

If we analyze the percentage contribution of GFCF to GSDP of Assam from 2006-07 with that of the percentage contribution of GFCF to GDP of All-India as depicted in table 3.12 above, we can clearly make out that Assam is still lagging behind India in terms of attracting sufficient investment in the state. Even after introducing NEIIP 2007 policy in the North-Eastern Region leading to formulate liberal policies for establishing private ownership, Assam still has not been able to attract large-scale private investment. Some of the prime factors that are hindering from attracting private investment in the region are insurgency problems, external and internal economic conditions, land acquisition problems, poor infrastructure and credit availability. Hence, central government (public sector) has to continue its liberal support for investment for a few years.

In absolute terms, GFCF in both public and private sectors have increased. In relative terms, the share of public sector which was 49.6 per cent in 2006-07, increased to 53.8 per cent in 2008-09 and to 52 per cent in 2009-10. The private sector share was 50.4 per cent in 2006-07 and 46.2per cent in 2008-09 and which has increased to 48 per cent in 2009-10 (figure 3.5).

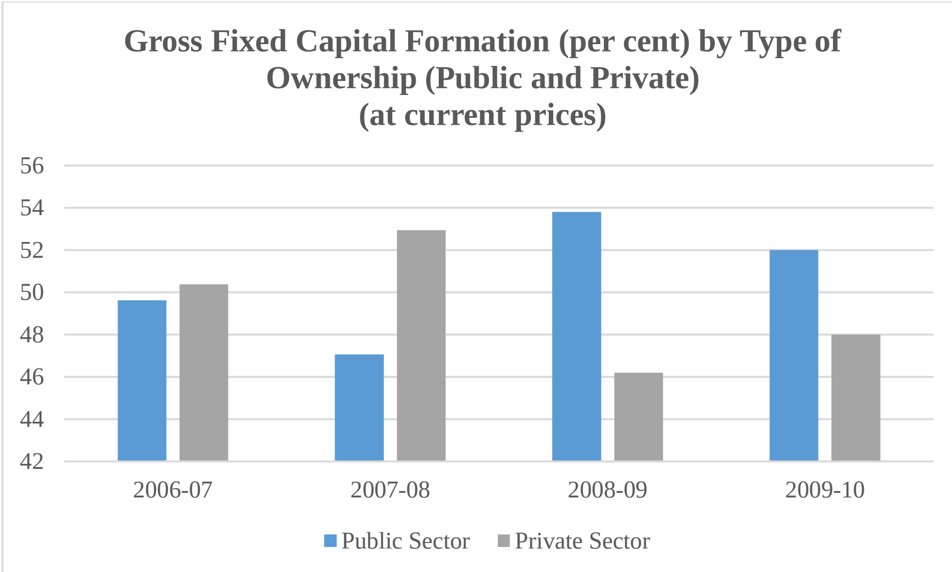

Figure 3.5: Gross Fixed Capital Formation (per cent) by Type of Ownership (at current prices).
Source: Directorate of Economics and Statistics, Assam

In 2009-10, outstanding investment in the state was US$ 42.2 billion. Of the total outstanding investments, the services (other than financial) sector accounted for around 34.0 per cent followed by chemicals sector at 27.9 per cent and electricity sector at 22.7 per cent (see figure 3.6).

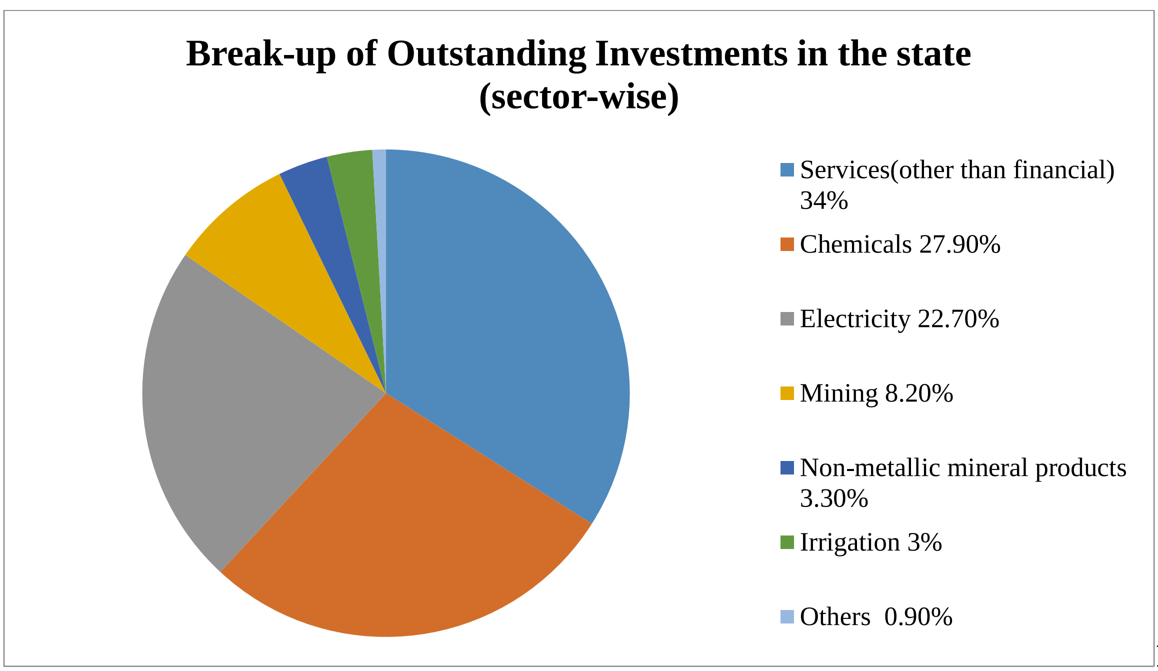

Figure 3.6: Break up of Outstanding Investments by Sector (2009-10). Note: Data is accumulated based

on Public Private Partnership (PPP) Projects. **Source:** Centre for Monitoring Indian Economy (CMIE).

3.2.2.3. Foreign Direct Investment in Assam

According to the Department of Industrial Policy & Promotion, the cumulative FDI inflows from April 2000 to April 2011 amounted to US$ 72 million for the entire North-Eastern Region representing 0.1 per cent of total inflow of FDI in the country. The FDI induced liberal policy of the Government has failed to make any headway in attracting FDI to the NER. This reflects the apathetic situation of the region in so far as investment climate is concerned. Whatever investment flowed into the region that largely came from Thailand as part of the extension of Look East Policy (LEP) to the NER in 2004 by flagging off the Indo-ASEAN car rally and subsequent effort made by the ministry of DoNER to promote foreign investment in the region *(Goswami, 2012)*.

The LPG reforms adopted in 1991 has progressively liberalized the flow of FDI into the country. However, there has been hardly any visible impact of the reform process on production and income generating activities in Assam resulting in negligible FDI inflow in the state. Despite having natural advantage of trade with neighboring countries and the potentiality to develop various industries as being endowed with vast natural resources, the state fails to attract any sizeable amount of FDI due to lack of infrastructure, problem of insurgency and bad governance *(Goswami, 2012)*.

3.2.2.4. Financial Status of the State

Development or the lack of it, has contributed to the disquiet that has characterized much of Assam and North-Eastern States. The region continues to be marked by low agricultural productivity, poor infrastructure, tenuous communications and low levels of industrial activity.

On account of the apprehensions of security, investments in large public sector industries in the region have often been deferred, scaled-down or relocated. And therefore, the option of compensatory investment in the public domain is not one that has always been exercised in the past in favor of Assam. In today's context however, it may even be less of a possibility, given that a growing part of the Center's own expenditures are foreclosed by increasing revenue obligations.

The state government of Assam has experienced transition from severe financial crisis prior to 2005-06 to a recovery path. The fiscal deficit turned to surplus during 2005-05 and continued up to 2008-09. Thereafter it started declining once again and in 2009-10 the fiscal deficit escalated to Rs. 4043 cr. and stood at 4.37 per cent of GSDP. Thus, the fiscal deficit remained above the 3.5 per cent of GSDP limit of State's FRBM Act as well as 4 per cent of GSDP limit raised by Govt. of India for 2009-10 as a part of stimulus packages to facilitate more borrowings for increasing capital expenditure for recovery from economic recession *(Economic Survey, Assam, 2012-13)*.

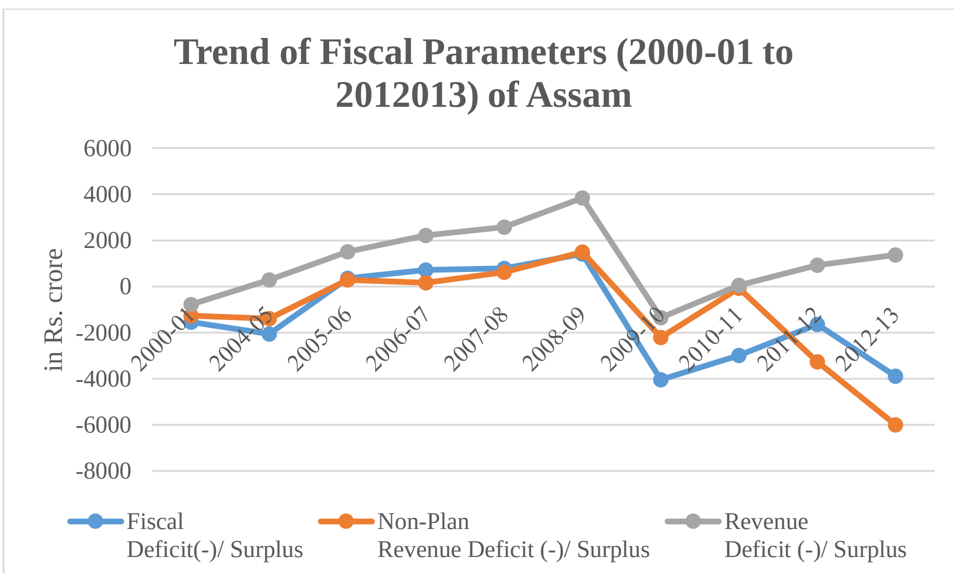

Figure 3.7: Trend of Fiscal Parameters (2000-01 to 2012-13) of Assam. **Source:** Department of Finance (Economic Affairs), Government of Assam

A review of the state's fiscal position from 2000-01 to 2004-05 shows a dismal picture. During the period, the revenue expenditure outstripped revenue receipts leading to unbridled increase of revenue deficit, fiscal deficit, and non-plan deficit. During 2000-01, the overall revenue deficit was Rs. 779 crore and it ended up with Rs. 292 crore in 2004-05. The non-plan revenue deficit which was Rs. 1269 crore in 2000-01 steadily increased to Rs. 1386 crore in 2004-05. During the same period, fiscal deficit escalated from Rs. 1540 crore to Rs. 2057 crore. The high proportion of revenue deficit as percentage of fiscal deficit indicated a declining trend in capital expenditure and borrowings were largely used to finance revenue expenditure rather than creation of capital assets. There were a number of fiscal reforms that were introduced to reduce the deficit gap. The fiscal reforms yielded a positive turn in 2005-06. During the year, the overall revenue and non-plan revenue account showed a surplus of Rs. 1509 crore and Rs. 281 crore respectively from a huge deficit in the previous year. Likewise, the fiscal deficit of Rs. 2057 crore turned into a positive figure of Rs. 356 crore in 2005-06. This favorable trend continued till 2008-09. In 2009-10, the revenue deficit rose to Rs. 1348 crore, non-plan revenue deficit and fiscal deficit escalated to Rs. 2457 crore and Rs. 4043 crore respectively *(Economic Survey, Assam, 2012-13)*. Figure 3.7 above summarizes the position.

The center's inability to curb its own deficits has impacted on plan and real transfers to the state. Also, the move towards domestic deregulation has deprived the government to steer private investment into backward areas. The efficacy of incentive based policies is debatable as shown by the Assam experience. Industries attracted to a region by fiscal incentives alone are likely to last in the region only as long as the incentives do.

3.2.2.5. Status of Exports in Merchandize from Assam

Since 1991, a number of measures were undertaken to correct the 'anti-export biases' of policy regimes in India. Export performance improved during post 1991 years with the announcement of Export-Import (EXIM) policy 1992-97. It came as a major thrust to accelerate India's exports through restructuring and revamping of various export promotion schemes and wide ranging measures for simplification of procedures with a view to make them more transparent and easy to administer. Hence, there has been a remarkable acceleration in the process of trade liberalization and globalization from the second half of 1990s.

Although Assam is significantly located, it could not take this advantage to increase its trade ties with its neighboring allies over the years. The Look East Policy also could not do much to increase the export base of Assam. Moreover, whatever trade takes place from the state is mostly confined to agricultural products. Although there are quite a few large and medium-scale industries which have emerged in the state which includes oil, non-metallic mineral products, cement, paper, sugar, jute, plywood, handicraft and handlooms have not been in any form major contributors in terms of exports. Since Assam alone produces more than half of India's tea production, the contribution of tea industry in the total share of exports is also maximum.

In the post 1991 liberalized and globalized economic environment, where economies are to be largely market-driven, the region has found itself in yet another phase of retarded economic growth. While the evidence of globalization of the Indian Economy is visible in the region in the form of wider range of goods displayed in the market places for consumers of the region to choose from, there is hardly any visible impact of the process in the form of a boost to production and income generating activities specifically exports *(Bezbaruah, 2007).*

Because of its strategic location, North-Eastern States and Assam have come in the forefront of India's policy regimes as NER can become a strategic point to increase the trade ties between India and ASEAN. But in spite of this geo-strategic advantage, Assam still could not increase its trade ties with its neighboring allies. As a result, not only the volume of exports from the state remains limited but so is its export base.

In 2010-11, the total share of exports in merchandize from Assam accounted for not more than 0.1 per cent of India's total exports (figure 3.8).

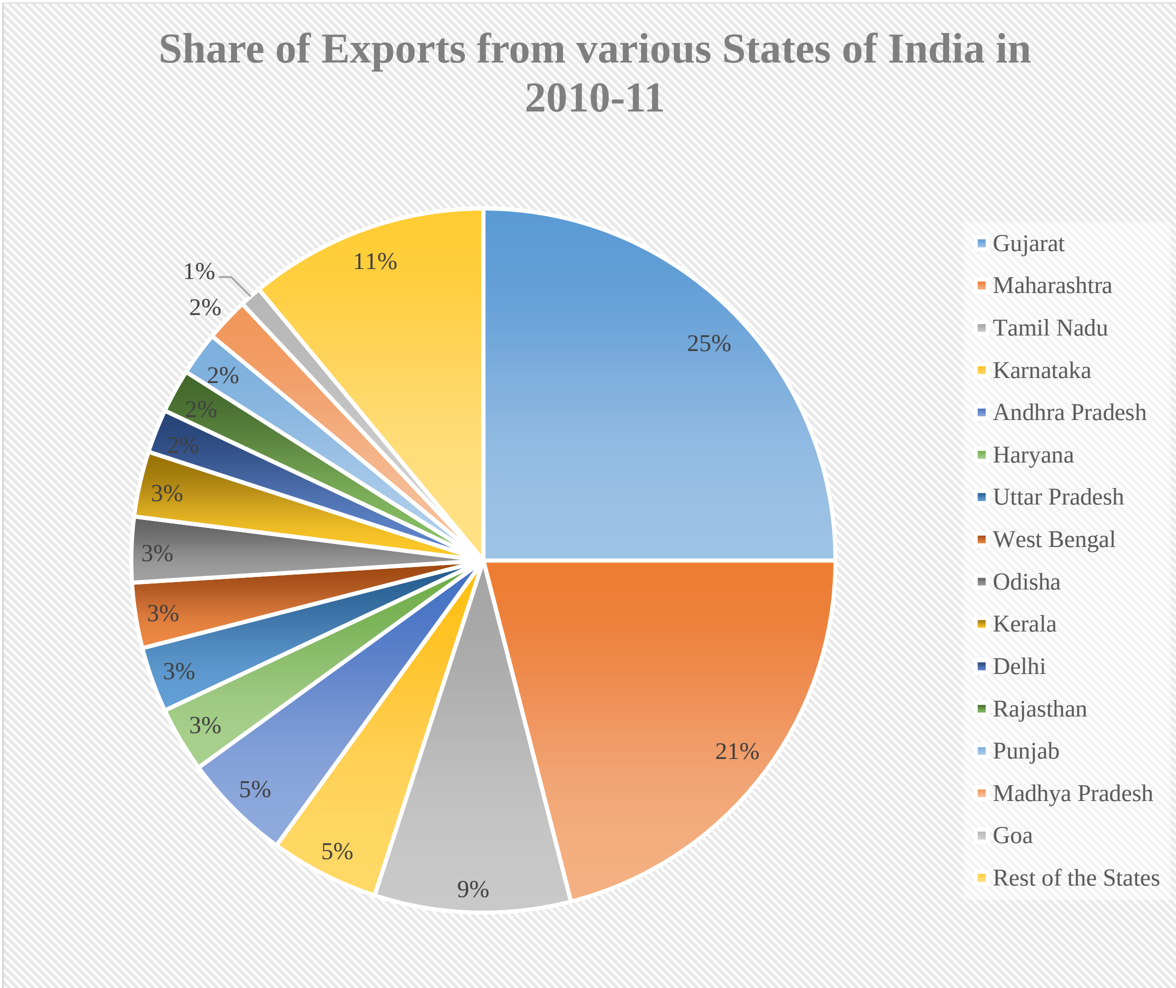

Figure 3.8: Share of exports (merchandize) from various states of India of the total exports of India in 2010-11. **Source:** India Economic Survey, 2010-11.

Estimating exports that take place from the NER is fraught with several limitations, due to lack of proper information and data in almost all the seven concerned states. A major limiting factors is that a major proportion of the exports emanating from the region is effected through dealers and exporters outside the region i.e. on indirect basis.

Year	Value (in Rs.)			
	Agro-based products	**Forest-based products**	**Mineral products**	**Engineering goods**
1998-99	32,94,37,451	6,06,749	18,09,12,178	16,36,033
1999-00	2,26,20,354	0	35,05,11,585	19,20,591
2000-01	1,19,65,255	92,80,042	18,80,19,990	24,998
2001-02	2,53,53,818	12,51,667	16,43,51,389	6,62,070
2002-03	3,92,45,185	26,60,902	25,40,21,856	5,01,937
2003-04	1,94,39,552	0	46,78,20,291	64,01,875
2004-05	4,15,16,174	9,04,846	21,53,03,387	2,08,82,565
2005-06	3,65,77,441	14,33,788	32,82,86,116	1,06,92,249
2006-07	6,44,85,698	0	51,29,40,841	2,02,07,162
2007-08	4,84,85,927	2,80,325	24,72,51,453	2,36,60,593
2008-09	10,83,64,531	4,02,060	29,59,04,664	2,72,24,284
2009-10	10,22,55,933	62,37,444	28,54,82,026	1,82,26,564
2010-11	14,59,26,675	0	18,81,16,588	5,29,23,653
2011-12	27,98,27,039	0	22,98,84,990	5,96,97,359
2012-13	42,79,40,297	0	25,70,11,721	5,76,48,825

Table 3.13 (a): Value of Exports from Assam from the period 1998-2013. **Source:** Commissioner of Customs, Shillong, Meghalaya

Year	(value in Rs.)			
	Tea	**Textiles**	**Chemical related products, oil products**	**Total**
1998-99	2,44,95,48,430	0	0	2,96,21,40,841
1999-00	2,22,76,66,352	75,863	0	2,60,27,94,745
2000-01	2,47,02,51,989	48,878	0	2,67,95,91,152
2001-02	1,90,55,43,497	56,187	0	2,09,72,18,628
2002-03	2,00,72,87,731	0	1,16,96,566	2,31,54,14,177
2003-04	1,84,85,30,899	1,02,650	1,48,64,000	2,35,71,59,267
2004-05	1,88,64,38,251	0	3,76,22,596	2,20,26,67,819
2005-06	1,99,68,00,759	0	16,32,29,626	2,53,70,19,979
2006-07	2,74,16,10,619	0	24,58,44,269	3,58,50,88,589

2007-08	2,48,45,22,701	0	24,96,81,412	3,05,38,82,411
2008-09	3,29,05,41,357	0	33,67,76,251	4,05,92,13,147
2009-10	4,65,47,14,763	0	44,20,64,774	5,50,89,81,504
2010-11	3,92,99,29,337	0	43,64,70,987	4,75,33,67,240
2011-12	4,89,42,34,248	0	91,90,50,181	6,38,26,93,817
2012-13	5,99,25,45,255	0	84,33,07,761	7,57,84,53,859

Table 3.13 (b): Value of Exports from Assam from the period 1998-2013. **Source:** Commissioner of Customs, Shillong, Meghalaya

***The following table 3.13(b) is a horizontal continuation of Table 3.13 (a).*

Despite all these limitations, some estimates of exports have been arrived at through the data provided by Customs House, Shillong (Meghalaya). The export basket of Assam is quite limited. If we see the estimates of total exports from Assam, we can clearly understand that Tea constitutes the bulk of exports (see table 3.13(a) and 3.13(b) above). The contribution of tea to the total exports of Assam has been on a rise from 1998-99 to 2012-13. Other than tea, petroleum-related products and chemicals have also been exported in large quantities. There are many locally manufactured products like ginger, dry chilly, fruits, vegetables, coal and limestone etc. which also form the export basket of Assam.

3.2.2.6. Status of Exports in Services from Assam

The services sector has been an integral part of India's overall reform process. Since the initiation of reforms in 1991, there has been a considerable opening up of the services sector to private participation, both domestic and foreign. Many services, including construction, tourism, health, computer-related services, for instance, have been put on automatic approval route for FDI. Therefore, this sector is becoming an important part of India's bilateral and regional initiatives, as there is growing recognition of the role such agreements can play in enhancing India's export interests in the services sector while also inducing the much needed FDI and technology transfer in key services with clear efficiency and productivity spill-overs for the economy.

Even though, trade liberalization in services sector has become an exhaustive story in so far as Indian economy is concerned, but trade liberalization in services sector is yet to be realized in the states of North-Eastern India. In the recent periods, issues centering on development of North-Eastern regional economy based on cross border trade in services have come to occupy an increasingly important place. The nature of economic benefits that North-Eastern states can earn because of sharing border with quite a few neighboring countries, has been on the discourse that took place in the region recently. However, comprehensive research on the issues of exports in services remained outside the ambit of regional or national research.

Although, there is no exports in services sector happening from the state of Assam, but Assam has tremendous potential in the services sector and tourism in particular, which can act as a catalytic agent in transforming the region into an economic power. It is also considered that Assam has tremendous potential for attracting Foreign Direct Investment (FDI) in this sector.

3.3. FINDINGS OF THE STUDY

- Indian policy-makers had brought in major policy changes in 1990s by introducing new economic reforms in the form of Liberalization, Privatization and Globalization (LPG). This transition model aimed at making India globally vibrant, competitive and one of the fastest growing economies.
- The average annual growth rate of India for the period 1996-2006 was over 6 per cent, which had put India among one of the fastest growing countries of the world.
- The average annual structural contribution of the agricultural sector has reduced over the years, whereas the services sector remained to be the major growth driver of the economy.
- With the opening up of industries to the private sector through the privatisation policy and selling off most of the public sector undertaking to the private sector as

a disinvestment strategy, also contributed greatly to the gross fixed capital formation of the country.

- India has emerged to be as one of the most preferred destinations for FDI after China.
- Two decades of economic reforms and free trade opened several opportunities that improved the balance of payments performance of the country. Until 2000-01, the current account deficit remained stagnant. The current account recorded surplus in its account during three consecutive financial years from 2001-02.
- The physical exports from the SEZs have increased by 121 per cent to 47,981 million in 2009-10 with a compound average growth rate of 58.6 per cent from 2003-04 to 2009-10. By the year 1995-96, exports started increasing exponentially with an annual growth rate of over 20 per cent.
- India is moving more towards a service dominated GDP growth and service-dominated export growth with a CAGR of 23.6 per cent from 2001-02 to 2011-12 which is faster than growth of exports in merchandize. Indian services exports have been driven by business services (includes software) and account for 67.8 per cent of the total service exports in 2008. Since 1999, India is the second largest exporter of business services among the emerging Asian economies.
- Assam was reckoned among the economically prosperous and advanced states of the country in the early 1950's. The per capita income in Assam was 4 per cent above national average in the year 1950-51.
- Growth rate of Assam has not been able to keep up the pace with rest of all India rate and the differences started widening up from 1970s. The disparity widened and the per capita income of Assam by 1998-99 was below 45 per cent of the national average.
- The overall growth rate since the 1980s has been a little over 2 per cent in Assam, not sufficient to generate surpluses for investment, or create purchasing power in the rural sector to provide market for local industries.
- In 1992-97, the growth rate of domestic product has slowed considerably, especially when compared to the encouraging growth rates for the country as a whole.

- The gap of GDP-All India and GSDP-Assam was quite high till 2007-08 where Assam Economy grew at a rate of 9.8 per cent GSDP at current prices compared to 15.9 per cent GDP of Indian Economy at current prices.
- Assam is yet to experience a state of industrial revolution and effects of LPG reforms. Assam is still amongst the industrially under-developed states. The transportation disadvantage has radically doomed Assam to get access to capital from outside resulting in slower growth in this sector.
- The Gross Fixed Capital Formation (GFCF) rate was only 12.3 per cent for Assam in 1980-81, when All-India rate was high at 21.4per cent.
- In 2009-10, outstanding investment in the state was US$ 42.2 billion. Of the total outstanding investments, the services (other than financial) sector accounted for around 34.0 per cent followed by chemicals sector at 27.9 per cent and electricity sector at 22.7 per cent.
- The cumulative FDI inflows from April 2000 to April 2011 amounted to US$ 72 million for the entire North-Eastern Region representing 0.1 per cent of total inflows of FDI in the country. This reflects the apathetic situation of the region in so far as investment climate is concerned.
- The state has failed to attract any sizeable amount of FDI due to lack of infrastructure, problem of insurgency and bad governance.
- A review of the state's fiscal position from 2000-01 to 2004-05 shows a dismal picture.
- In 2010-11, the total share of exports in merchandize from Assam accounted for not more than 0.3 per cent of India's total exports.
- The export basket of Assam is quite limited. The contribution of tea to the total exports of Assam has been on a rise from 1998-99 to 2012-13. Other than tea, petroleum-related products and chemicals have also been exported in large quantities. There are many locally manufactured products like ginger, dry chilly, fruits, vegetables, coal and limestone etc. which forms the export basket of Assam.
- Trade liberalization in services sector is yet to be realized in the states of North-Eastern India.

3.4. CONCLUSION

Although Assam is potentially and significantly located in the geographical map of Assam, but it is clear that Assam is lagging far behind the mainland India in terms of growth and development. Its geographical isolation along with low industrialization has been the major cause of concern for the Centre as well as the people of Assam. In-spite of having a literacy rate of over 70 per cent, a large chunk of brain drain is being witnessed from this part of the region which is also limiting entrepreneurial activities in the region.

Therefore, to witness inclusive growth in the region, it can use its geographical remoteness as its tool to increase International Trade with its neighboring allies which would further attract investments in the promising sectors of the region, thereby breaking the shackles of poverty and underdevelopment.