

Chapter 9

Institutional Barriers to Development in the State of Nagaland

Chothazo Nienu

Abstract Assessing Nagaland's economy from the usual economic denominators like Gross State Domestic Product (GSDP), Per Capita Income, Human Development Index (HDI), economic growth rate, etc., gives the misleading picture that the state is doing well. There are other indicators which show the weak side of the state's economy: there is a preponderance of the service sector, the public administration contributes nearly a fifth of the state's GSDP, the industrial sector is small, the infrastructure is poor and the state is dependent on the central government. The state's economy has these ills because of the political problem that it is stuck in, resulting in the existence of many nationalist groups and a consequent weak government. Unless this is solved, Nagaland will continue to have the same economic problems it is having.

Keywords Gross state domestic product (GSDP) • Service sector Administration • Political problem

9.1 Introduction

On 1st July 2015, a businessman was assaulted in Dimapur, the commercial capital of the state (Businessman Assaulted in Dimapur Market 2015). A month later, another businessman was murdered by unknown persons in the same city (One Shot Dead in Dimapur 2015). Prominent news going around during that time was the killing of two school children in the conflict between the Assam Rifles security forces and the Naga nationalist group, the Nationalist Socialist Council of Nagaland—Khaplang (NSCN-K). This had occurred while the Assam Rifles were returning after a successful raid on the Naga nationalist group, the NSCN-K, where two cadres of the nationalist group were killed. The villagers stopped the convoy of the security forces and demanded the bodies of the slain cadres and in the confusion

C. Nienu (✉)

School of Economics, University of Hyderabad, Hyderabad, India
e-mail: chothanienu@gmail.com

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175

that ensued the two innocent children were killed (Assam Rifles Puts Burden of 16 July Shooting on People 2015). This was a few days after the NSCN-K ambushed the Indian Army in Manipur killing 18 of them and injuring 11 (Manipur Ambush 2015). The security forces after that had, out of suspicion, arrested five youth in the capital city of Kohima and subjected them to interrogation inflicting on them physical and mental scars. After they were abused, it was learnt that the five youth were arrested by mistake and they were law-abiding citizens (AFSPA Unleashes Its Brutality 2015).

The rule of law, the security of life and property, are pre-requisites for economic progress to take place. All these requisites can exist only where there is a strong government committed to providing security of life and property to all the individuals. The presence of forces which compete with the government to pull it down or which makes its functioning difficult brings instability and thus stifles development. The latter seems to be the feature of Nagaland's economy and the chapter argues that unless a strong well-functioning government exists, the state will not be able to solve its economic problems.

9.2 Economic Scenario in Nagaland

The economic scenario in the state is analyzed before embarking to understand the features inhibiting its development. Nagaland has a population of 19.78 lakhs according to the 2011 census. The state has an area of 16,579 km² with a population density of 119 persons per square km. Literacy rate according to the 2011 census stands at 79.55%. The sex ratio according to the 2011 census is 931 females per 1000 males (as compared to 940 for the country). The Infant Mortality Rate is 23. The unemployment rate is 16 persons per 100 persons. The state comes in the category of Medium in the Human Development Index (Statistical Handbook of Nagaland 2013).

9.2.1 *Structure of the Economy*

There is a preponderance of the service sector in Nagaland's economy. As of 2012–13, 66% of its Gross State Domestic Product (GSDP) came from the service sector, 16.5% from the industrial sector and nearly 18% from the agriculture and allied sector (see Table 9.1). In terms of employment, as of 2014–15, 61% of the state's population is engaged in agriculture and allied activities while 32% are engaged in the service sector. Only 7.6% of the work force is engaged in industry (The Employment Scenario in Nagaland 2015).

Table 9.1 Percentage share to total state GSDP (at constant 2004-05 prices)

Years	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Agriculture and allied	23.50	22.33	21.37	21.96	21.74	21.12	20.98	19.34	17.72
Industry	16.60	19.94	19.24	19.58	20.18	18.55	16.44	16.46	16.49
Services	59.90	57.75	59.39	58.46	58.09	60.33	62.58	64.26	65.80

Source Planning commission

Table 9.2 State's GSDP growth rate at current prices (per cent)

Year	Nagaland	North East Region	India
2004–05	–	–	–
2005–06	12.83	11.12	14.10
2006–07	10.15	9.93	16.60
2007–08	11.27	10.65	15.90
2008–09	16.85	15.17	15.75
2009–10	11.56	18.41	15.18
2010–11	11.70	16.77	18.66
2011–12	17.86	13.63	15.77
2012–13	13.11	11.45	11.88
2013–14	13.22	15.61	11.54
2014–15	13.24	–	–

Source Table constructed from NER Databank

Table 9.3 GSDP growth rate at constant (2004–05) prices (per cent)

Year	Nagaland	North East Region	India
2005–06	10.22	4.82	9.48
2006–07	7.80	5.38	9.57
2007–08	7.31	5.87	9.32
2008–09	6.34	7.37	6.72
2009–10	6.90	10.33	8.59
2010–11	9.35	6.26	8.91
2011–12	8.32	6.07	6.69
2012–13	6.45	5.80	4.47
2013–14	6.52	7.83	4.74
2014–15	6.80	NA	NA

Source Table constructed from NER Databank

The overall growth rate of the state's economy is good. This is more so when the GSDP is calculated at current prices showing an average growth rate of more than 10% per annum. This means that the income of state doubles in less than 10 years. The growth rate of the state compared with the average growth rates of the other northeastern states and the whole country shows that there is not much difference in the growth rates and the state does equally well (Table 9.2).

There is a high growth rate even when the growth rate of the economy is measured at constant prices or the per capita income is measured at both current prices and constant prices (Tables 9.3, 9.4 and 9.5).

The general picture that then emerges from studying the GSDP is that the state's economy is doing well. Contrary to popular beliefs, the industrial sector in the state has shown good growth rates over the years. This can be seen in Table 9.6.

However, the smallness of the industrial sector means that the high growth in this sector does not reflect much in the overall state's GSDP. Looking at the economic indicators like HDI, income level and growth rate of the economy, and

Table 9.4 Per capita net state domestic product at current prices (in per cent)

Year	Nagaland	India
2004–05	–	–
2005–06	11.01	12.38
2006–07	8.21	15.02
2007–08	9.35	14.80
2008–09	15.56	13.82
2009–10	8.78	13.42
2010–11	10.58	16.80
2011–12	14.75	14.50
2012–13	10.18	9.67
2013–14	10.32	9.64
2014–15	10.34	NA

Source Table constructed from NER Databank

Table 9.5 Per capita GSDP at constant (2004–05) prices (per cent)

Year	Nagaland	India
2005–06	8.65	7.75
2006–07	6.05	7.89
2007–08	6.40	8.07
2008–09	4.62	4.69
2009–10	3.97	6.76
2010–11	8.38	6.79
2011–12	5.34	5.10
2012–13	3.82	2.12
2013–14	3.85	2.70
2014–15	3.85	NA

Source Table constructed from NER Databank

sectoral contribution to the GSDP may give the wrong impression that the economy is doing well. A closer scrutiny/analysis of the economy will give a different picture.

9.2.2 Dependence and Stagnation of Nagaland's Economy

The state's administration contributes 16% to the state's GSDP. Table 9.1 has shown that the industrial sector also contributes the same amount to the states' GSDP. This comparison shows that a lot is spent for running the government's administration. The problem with this is that while government administration facilitates production, it does not lead to direct production of goods and services which could be exchanged in the market. Spending too much on administration thus becomes a wastage as beyond a certain level, spending on administration only

Table 9.6 Growth rate of GSDP in industry (2000–01 to 2013–14) (in per cent)

Year	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06	2006–07
Growth rate	7.11	11.11	14.09	9.82	–1.14	16.97	14.87
Year	2007–08	2008–09	2009–10	2010–11	2011–12	2012–13	2013–14
Growth rate	10.00	15.54	7.51	–14.97	6.55	6.57	–

Source Planning commission

reveals diversion of resources which could be better used for productive investment. Among the northeastern states, only Manipur and Mizoram spend more than Nagaland on public administration when measured as a proportion of state's GSDP (Table 9.7).

The state government is dependent on the central government for its revenue as its internal revenue mobilization is weak. In fact, over-dependence on the central government for its revenue is a feature all the northeastern states excepting Assam. Table 9.8 shows that the state received 80% of its total revenue from the centre.

Not only does the state generate a miniscule amount of revenue as a proportion of its total revenue, its absolute value has also been low. It could raise only Rs. 333.39 crores as tax revenues in 2013–14.

Tax rates and tax base has remained the same, growth in the economy leads to higher tax collection. In fact, the growth in tax revenue due to growth in the economy is how governments around the world are able to finance its social security programmes. That the state government is not able to raise proper revenue of its own when the economy is growing reflects poorly on the quality of governance.

There are 140,000 government employees in the state (1.40 Lakh Government Employees in Nagaland 2015). A huge proportion of the government expenditure goes to its employees. Since the employees do not engage in services which brings monetary returns to the state (as seen in the Table 9.9 on non-tax revenue), the government is left with less resources to invest in the state.

This has been one reason why the infrastructure position of the state is very poor. The state has been hampered by the lack of proper infrastructure. Data have shown that from 2003 to 2008, the Compound Annual Growth Rate (CAGR) of road was 4.06% for the whole country while it was 1.68% for Nagaland making the road growth to be low (Brahmachary 2007). The state has only one railway station with the rail tracks distance been 12.84 km. The only airport is in Dimapur leaving Kohima, the state capital, the only capital city in the country without an airport. Apart from transport, communication facilities also leave much to be desired. Mobile phones services were introduced only in 2003 (Vajpayee Launches Mobile Service in Nagaland, Calls for Peace 2003). Even with this, the insecurity in the state always threatens to take pre-paid mobile services away. Facilities which are enjoyed in other parts of the country are introduced only with time.

The state imports electricity from outside the state to the tune of 457.47 million kWh (Statistical Handbook of Nagaland 2013).

Table 9.7 Proportion of public administration contribution to states' GSDP among Northeastern states, 2012–2013 (rupees in lakhs)

Categories	States									
	Nagaland	Arunachal Pradesh	Assam	Manipur	Meghalaya	Mizoram	Sikkim	Tripura		
Public administration	252,944	113,259	134,988	253,951	223,849	155,176	52,247	212,044		
GSDP	1,567,638	1,094,145	1,181,714	1,248,423	1,829,639	836,292	570,284	1,699,667		
Proportion of public administration to state's GSDP (in percentage)	16.13	10.35	11.423	20.34	12.23	18.55	9.16	12.47		

Source Table constructed from NER Databank

Table 9.8 Centre's total grants to northeastern states (2010–11) (as a percentage of total revenue)

	State						
	Nagaland	Arunachal Pradesh	Assam	Manipur	Meghalaya	Mizoram	Tripura
Total revenue	80	79.4	41.3	71.2	64.1	75.9	66

Source RBI data

Table 9.9 Nagaland's own revenue (rupees, in crores)

	2012–13	2013–14
Own tax revenue	339.95	333.39
Own non-tax revenue	207.17	216.57
Total	547.12	549.96

Source Audit report on state finances

Table 9.10 Micro, small and medium enterprises (MSME) in Nagaland

Year	Particulars	Numbers
2008–2009	Regd. MSME	717
	Employment generated	4302
2009–2010	Regd. MSME	704
	Employment generated	4224
2010–2011	Regd. MSME	2062
	Employment generated	12,192
2011–2012	Regd. MSME	1092
	Employment generated	6444
2012–2013	Regd. MSME	560
	Employment generated	3360

Source Table constructed from NER databank

Social infrastructures like schools and hospitals provided by the government have been found to be unsatisfactory. These lacunae have been filled by the private sector, with its resultant exclusionary and profiteering principle.

Apart from the infrastructure bottlenecks which the state suffers, the most daunting problem facing the state is the lack of employment opportunities. Lacking any big industries, as of 2012–13, registered Micro, Small and Medium Enterprises (MSME) could employ only 3360 workers. This has fallen steeply from the 12,192 it employed in 2010–2011 (Table 9.10).

9.2.3 Why Nagaland Is Dependent and Poor?

Different explanations have been given while explaining the lack of economic progress in the state. These include the geography, the lack of proper infrastructure, and the lack of proper institutions to facilitate development. While geography could explain partly why development has not taken place, considering the increase in the cost of transportation due to the difficult terrains and the lack of durability of works, to say that all the ills of the economy is due to the geography entirely misses the point. This is also true of lack of proper infrastructure. In fact, the lack of proper infrastructure has been mostly due to the institutional failures.

Institutions have been defined as the rules of the game. For Douglass Cecil North, institutions are the ‘formal and informal rules [or norms] governing human behaviour’. Similarly, Lin and Nugget defined institutions as ‘A set of humanly devised behavioural rules that govern and shape the interaction of human beings, in part by helping them to form expectations of what other people do’. On the whole, institutions have been understood to include (a) the extent of property rights’ protection; (b) the degree to which laws and regulations are fairly enforced; (c) the ability of the government to protect the individual against economic shocks/macroeconomic stability (d) to provide social protection/providing insurance, and (e) the extent of political corruption (‘The role of institutions in economic development’). Needless to say, these features of what constitute proper institutions can be provided only where the government is strong and is committed to provide security of life and property to its citizens with affirmation for rule of law. It is the lack of these that has been the undoing for economic development in the state.

The reason a strong government has failed to come about is because of the many nationalist political groups in the state demanding cessation from the Indian union. These political groups have been given the name ‘Insurgent Groups’ in mainstream media. The chapter is not an attempt to understand whether their demands are legitimate or not or understand why these groups have emerged. It is to understand how the presences of many political groups have hampered qualitative economic growth and development in the state.

The foremost effect which one sees due to the presence of many political groups is the weakening of the authority of the legitimate government set up through democratic process as enshrined in the Indian Constitution. Not only a parallel government but parallel governments exist in many parts of the state which weaken the security of properties and lives of the people. Where there is insecurity in these aspects, investments cannot flow in from other parts of the country. Existing production units also function with less efficiency and finds difficulty expanding as a huge share of the profits are taken away by the nationalist groups.

The unsolved Naga Political issue has breed corruption in governance. Cases of nationalist groups interfering in the election process and getting involved in threats are not unknown. These are done at the behest of the politicians who then works closely with insurgent groups once they come to power. Needless to say, proper governance cannot be expected from such a government.

Unsolved political problem and all its entailment have changed the mindset of the people. Thus, people are satisfied with the low quality of works with the illusion that the quality of works must have been affected because of demands of the political groups.

The perpetuations of poverty in parts have also been due to the existence of parallel governments. People are not able to save from their income because of the high price of goods due to extortion demands by the political groups from the populace and business community. With no saving and social security, people go to the money lenders in times of unforeseen needs thus incurring debts.

The state possesses rich natural resources in the form of oil, natural gas, minerals, coal, forest resources, water, and so on. These are not put to any good use because various conditions put forth by the insurgent groups.

There are also frequent bandhs bringing a halt to the whole economy. These may be in the form of the political groups calling for bandhs to assert their authority in the state or bandhs by the people and civil society groups against the activities of the political groups because of the wrong activities like extortion, murder, threats or robbery committed by the political groups. These bandhs may be in the form of closure of business establishments, shops, government offices, schools, and so on. Needless to say, all these lead not only to immediate loss of economic activities but also to instability and unpredictability in the state's economy. Instability leads to speculation and hoarding on the side of the business community and panic buying on the part of the consumers. The result is price rise and black marketing.

A result of the political problem in the state is also what may be called 'Intellectual slack'—the inability to think and reason beyond political conflict. The best minds are occupied with efforts to solve the conflict. Problems of conflict, views and counter views fill the newspapers and magazines so that there is limited room for other social and cultural interactions. This is a hindrance to the development of human capital.

9.3 Conclusion

A study found that more than Rs. 937 crores were spent by the candidates contesting elections for the sixty seats to the 2012 Nagaland Legislative (Nagaland Pol. Parties Spend Over Rs. 937 Crores in Assembly Polls 2013). The huge amount of money spent by the candidates show that what is lacking in Nagaland is not capital but the proper environment for investments to be made. Unless a viable environment exists, where proper institutions could come up, Nagaland will continue to reel under the present syndrome of economic stagnancy and dependence.

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