Report of the Task Force
on
Connectivity
and
Promotion
of
Trade & Investment
in
NE States

Planning Commission
Government of India
October, 2006
1. Preface
2. Listing of Recommendations
3. Industry
4. Border Trade
5. Highways
6. Railways
7. Air Connectivity
8. Inland Water Transport
9. Power Sector
10. Financial Requirements

This is recomposed version of the final report circulated by Planning Department, Government of Arunachal Pradesh vide Letter No. PD(NEC)52/2005(Part-II), Dated Itanagar the 11th June, 2007.
Preface

Task Force on Connectivity and Promotion of Trade & Investment in NE States

A Task Force on Connectivity and Promotion of Trade & Investment in North East has been constituted at the behest of Prime Minister with the following Terms of Reference:

a). To Identify for urgent implementation, important infrastructure requirements for enhancing investment and trade, especially in areas of Highways, Power (including NE Grid for evacuating Power), Airports, Railways, etc.,

b). Critically examine the existing policies and facilities for internal and external trade, especially in view of the emerging opportunities for international and inter-regional trade.

c). Identify potential entrepreneurs and investment hubs to attract domestic and foreign investment for greater value addition.

d). Suggest measure for relevant human resource development, especially for promotion of education and training in high skills and high demand categories.

This report accordingly identified for urgent implementation various policies, facilities and infrastructure with the primary objective of promoting trade & investment in the Region.

Natural Resources & Economy of NE States

2. The Region is bountifully endowed with bio-diversity, hydro-potential, oil and gas, coal, limestone, bamboo and forest wealth. It is ideally suited to produce a whole range of plantation corps, spices, fruit, flowers and herbs, much of which could be processed and exported. However, barring the Imphal Valley and pockets elsewhere, agricultural yields are low while traditional farming, with a shrinking jhum cycle, has become ecologically unsustainable. Much land in the hills is owned by the community, not the State, through privatization and ‘enclosures’ are evident in some place.

3. There is no agricultural surplus and limited capital formation and entrepreneurial skills. Assam had seen some earlier development around tea, oil and timber. The Region is, however, basically pre-industrial despite a number of saw mills and plywood factories, a few cement plants and other miscellaneous enterprises.

Unique problems of NE States

4. Mainstreaming the north-eastern (NE) States into the economy of the country remains a formidable challenge. The NE State have unique economic problems arising out of remoteness and poor connectivity, hilly and often inhospitable terrain, a weak financial resource base, poor infrastructure,
sparse population density, shallow markets, inadequate administrative capacity, low skill endowment and finally a law & order situation frequently threatened by insurgency.

**State Finances & Investment**

5. As regards the State finance, NE State differ from deterioration in other States in many aspects. First the deterioration in NE State was because expenditure expansion outspaced revenue expansion. Second, although the deterioration in the fiscal deficit of other States was much sharper, the NE States started with significantly higher fiscal deficits notwithstanding much higher central transfers on a per capita basis, being Special Category States. Third, the decline in capital expenditure between 1995/6 to 2003/04 in NE State at 2.8 percentage points of GSDP was much steeper than the decline of 1.0 percentage point in other States.

6. The fiscal vulnerability of NE States is a consequence of low economic activity, the virtual absence of the private sector and the consequent disproportionate burden on the public sector of generating and maintaining economic activity. Moreover, the NE State are not able to capture the benefits of higher public spending as the incomes and profits out of this spending are largely transferred outside the region. Continued dependence on central transfers has eroded the incentive for these States to raise their own revenues and improve the efficiency of their public expenditures.

**Key issues of NE States for trade & investment**

7. Though deepening of subsidies & concessions and extension of North East Industrial Policy, 1997 beyond 2007 is required for some time to come, major improvement in connectivity is the key issue. It not only imparts a sense of isolation, but also adds to the transportation cost making trade & investment uncompetitive and cost of providing services very high. The foremost objective of the 11th Plan, therefore, has to be providing highway, rail & air connection to all State capitals and major economic destinations, all-weather roads to all districts/block headquarters and border trade points, and telecom facilities in all villages.

8. NEDFi, NERAMAC, NEHHDC etc., intended to serve the vital needs of the region, have not achieved the objective. In fact NERAMAC and NEHHDC have virtually become defunct. NEDFi has shown some signs of revival recently.

9. Through the general literacy is high, inadequacy of quality vocational and technical education, particularly in high & market-driven skills, renders unemployment a serious problem, often the cause of unrest & insurgency.

10. Of 50,000 MW hydro power potential identified in the country, North-East alone has over 30,000 MW. Apart from providing cheap power for industrialization, it would a major source of revenue. Problems, however, of both generation and evacuation need to be solved.
11. Strengthening communities, enlarging their livelihood opportunities and generating surplus for market through scientific use of vast natural resources is another challenge.

**Strategy & Action Plan for the 11th Plan**

12. The relevant strategy of the 11th Plan should therefore be:

(a). pooling of funds available under various programmes for taking up connectivity projects on an integrated & large scale and accordingly creation of Infrastructure Development Fund. Correspondingly, creating a SPV to manage such funds and manage projects approved for NE States by various agencies.

(b). Promoting investment in utilization of huge hydro-power potential, big reserves of oil, gas, coal, lime stone etc., through better crafted North-Eastern Industrial policy of Govt. of India, to be supplemented by regional NE Industrial Policy evolved through consensus among NE States.

(c). Strengthening of National Horticulture Mission for intensive cultivation of selected horticulture crops in various regions with processing & marketing facilities, undertaking an ambitious regional integrated bamboo mission, and accordingly strengthening ICAR institutions.

(d). Opening border trade points with modern infrastructure in the fulfilment of ‘Look East Policy’.

(e). Targeted capacity building of the state govt. and NEC officials for improving preparation, implementation, monitoring and evaluation of projects.

(f). Close monitoring of connectivity projects to ensure projects are taken up and complete within their targeted schedules.

(g). Major rejuvenation of NEDFi, NERAMAC NEHHDC through infusion of funds & transfer to joint venture with majority equity (about 74%) holding by private owner.

(h). Promoting tourism by improving connectivity, tourist facilities and removal of RAP/ILP.


**Acknowledgement**

14. Concerned Union Ministries, Divisions of Planning Commission, States, Industry Associations of NE etc. have provided the basic information and it is they who would ultimately be implementing the recommendations, once accepted. Ms Sharmistha Das has put in sincere & hard work in finalization of this Report.

*B.N. Yugandhar, Member*
*A.N.P. Sinha, Senior Adviser*
Listing of Recommendations

List of recommendations made under various chapters are as follows:

Industry:
- Develop infrastructure and create other enabling conditions in NE Regions, which seem to have prime deterring effect on investment in the region (Refer subsequent chapters)
- Geographical isolation further demands invigoration of border trade (Refer Chapter on Border Trade).
- Implement the Report of the Committee of Financial Sector Plan for NER set up by RBI in true spirit (Para 10 of Industry Chapter).
- Provide better incentives under the NEIP, 2007, than those being offered under the industrial policies for the state of Uttarachal/Himachal Pradesh/J&K.
- Provide differentiated package even among states within NER as most of the investment has taken place in two state of Assam and Meghalaya.
- Promote industrial development based on natural resources of the region like hydro power, gas, bamboo, horticulture rather than investment in Pan Masala, Gutka.
- Enhance the present debt-equity ratio from 60:40 to 80:20 so as to reduce initial investment by the investor.
- States of the Region, under the aegis of NEC, should come together for evolving a comprehensive regional industrial policy so as to make NER a single Economic Unit through removal of internal barriers, uniform taxation regime, promoting NE brand equity etc.
- the regional policy should complement and supplement GOI NE Industrial Policy. These should include quick and easy access to land and credit, availability of quality power and water, transportation networks, warehousing, marketing networks etc. The regional policy should be applicable for 10 to 15 years, to allow for longer gestation period for setting up industries in the Region.
- Strengthen public sector institutions, such as NERAMAC, NEHHDC and NEDFi, transfer in joint ventures (with majority private ownership) and make these pro-active to provide professional guidance and support to entrepreneurs.
- Accelerate the activities of various commodity boards fro Tea, Coffee, Spices etc. the Region.
- To enable NEFFi to play a substantial role in the development of NER, sanction Rs. 400 crores during the 11th Plan Period as Interest Free Loan conditional upon a good perspective business plan covering all NE states.
- Transfer Growth Centres & IIDCs under implementation in joint venture with private ownership. Set up more Industrial Centre (hubs) after doing feasibility study.

- Adopt Mission approach for specific areas of industrial growth such as bamboo processing, horticulture produce processing and for use of medicinal & aromatic resources.

- Pursue growth of IT sector vigorously and develop IT parks to utilize the literate and educated manpower. This industry is not dependent on transportation networks and raw material supply.

- Incentive service sectors, Power generation, Bio technology, Tourism related activities, Hospital and Nursing homes and Vocation training institute.

- Since handloom industry is traditional to the Region, evolve a special policy for development of the handloom sector with linkages with the contemporary markets, design, etc. specially for exports.

- Open new it is and strengthen the existing with new trade, better faculty & equipment to provide for market – driven high skills. IIT Guwahati could be mentor & guide for the purpose. Create at least one centre of excellence in each state through PPP model.

- Promote vigorously NER as an attractive destination for investment through persistent image building & holding of NE Business Summits.

- Establish a manor Exhibition and Emporia complex at Guwahati to display industrial products of the Region. The Trade Centre being set up by ITPO at Guwahati may integrate the above activity. Operation & maintenance of this Centre could be under PPP model along with the local Industry Association.

- Setup some medium and large units through CPUs for promoting investor confidence. Assam gas Cracker Project & tulli Paper Plantould be operationalized in time bound manner.

- Revive or close down the existing ailing PSUs.

**Border Trade:**

Undertake following rail/road/IWT projects based on detailed project formulations and cost benefit analysis.

**A. Road Network:**

- Improvement and Construction of all weather Highway, RCC Bridges etc., leading to 12 major Land Customs Stations (LCSs).

- Opening of Stilwell Road linking Central Myanmar and China on priority basis.

- Re-opening of Karimganj-Sylhet-Dhaka Road for Transportation.
• Extension of Amguri-Mokokchung-Tuensang Road linking Myanmar.
• Extension of Sibsagar, Sonari-Nemtola Road from Assam-Nagaland border to Lungwa in Myanmar.
• Construction of road from Indo-Myanmar border to NH-54 at Nalkawn (Mizoram) to provide Kaladan multi-modal transport.
• Up-gradation of NH-39 and 53 connecting Indo-Myanmar Border via Dimapur & Silchar.
• Up-gradation of NH-40 and 62 & 62 E connecting Indo-Bangladesh Border via Dawki & Gasupara LCSs. Improvement of road leading to Borsora LCS in Meghalaya.
• Improvement of road stretch from NH-44 to Agartala LCS.
• Connection with North East to Trans Asian Highways.
• Construction on priority basis 1300 km long trilateral Highway connecting Moreh (India), Bagan (Myanmar) & Maesot (Thailand).

B. Railways.
• Restore Mohisashan (Assm, India) – Shahbazpur (Bangladesh) railway traffic to facilitate export of bulk mineral (coal, limestone), foot items and agro - horticulture based products from NER.
• Double track Railway line from new Jalpaiguri to Tinsukia via Dimapur.
• Extend ICD facility at Silchar, Moreh and Dimapur.
• Connect NE with Trans Asian Railway for faster movement of goods.

C. Airway:
• Create air travel circuit between North East and Bhutan, Nepal, Bangladesh, Myanmar, China, Thailand, Singapore to increase Export and Tourism from the region.
• Provide an Air Cargo Complex at LGB Airport, Guwahati to cater to Export and Import of Goods.

D. Waterways:
• Open up and improve Inland waterways with Bangladesh and Myanmar through a number of river port existing in North East.
• Declare Jogighopa, Moreh, Dawki, Ashuganj and Karimganj as ports of call.
• Government of Bangladesh/Myanmar to provide access to Chittagong/Mandalay Port for exports/import from and to the NER. This would help neighbour earn substantial revenue by charging a fee for the use of Roads/River.

**Infrastructure at LCSs:**

• Construct Integrated Export Complex including Customs Office, Immigration, Banking, Clearing and Forwarding Agents buildings, Truck parking bay, Warehouses, Cold Storage Facilities, Post Offices, Telephone Exchange, Shopping Centres, BSF Complex, Police Outpost, Electronic Weigh Bridge, Electricity, Potable Drinking Water, Health Facility etc. at all the 12 notified LCSs.

• Develop Border Town and Trade Centre at major LCSs of NER.

• Open more border trading points with adequate infrastructural facilities and upgrading the infrastructure at non-functional LCS of the region.

• Create more border haats and regularize these haats.

**F. Quality Control Facility:**

• Set up inspection house, Testing facility for Phyto-Sanitary certificate, Plan Quarantine etc. at major LCSs to boost export of agricultural/horticultural products.

**G. Banking:**

• Create adequate Banking infrastructure for both International and Border trade.

• Banks functioning in NER should have correspondent arrangements with Banks in the neighbouring countries. At present this correspondent relationship are restricted to the Banks functioning in Kolkata.

• Install high value currency chests at major towns near LCSs.

• Regularise & institutionalize Letter of Credit (L/C) arrangement between the Banks of India and Myanmar for smooth and enhance border trade through Moreh & Zokhawthar.

• Reduce Letter of Credit advising charge from Rs. 500 to Rs. 200 considering LoC value is less than US $ 20,000.

**H. Policy & Miscellaneous:**

• Pursue Bangladesh to reduce Tariffs, North East exports to Bangladesh suffer High Tariff Barriers since the Customs duty structure in Bangladesh includes Value Added Tax, Advance Income Tax and Infrastructure Development Charge in addition to Basic Customs Duty.

• Pursue neighbouring countries for duty free import/export.
• Pursue Bangladesh to have corresponding LCS to Demagiri LCS on Mizoram side.

• **Transport Subsidy**: Consider Freight Subsidy @50% for all items of export through LCS/Airport or nearest port of call since the exporters of the region have to pay double freight charge, as there is no or little import through various LCS. Subsidy eligibility could be verified against transport bills & custom documents.

• **Consulate Office**: persuade neighbouring countries to open their visa offices in the North East.

• Ensure more exchange of trade delegations and Buyer - seller meets. Exhibitions of goods at regular intervals with neighbouring countries.

• **North East Council (NEC)**: should play a major role in the creation of infrastructure for development of export from the region and co-ordinate export promotion efforts in this region with various Union Ministries.

• NE states should bring exports in their development agenda and improve law & order at LCS & enroute.

• **Ministry of Commerce** to take immediate steps to formulate effective North East Exim Policy to provide incentive for export.

• Setup a separate Zonal Joint Director General of Foreign Trade - cum - Development Commissioner office in Guwahati with the jurisdiction over entire NE states including Sikkim.

• Review schemes for export promotion (ASIDE, EDF, MDI/MAI, EPIP, STP, AEZ, SEZ) and make these effective. Create SEZs in NER in a PPP mode.

• Develop brand image for special products of NE for export enhancement.

• Create & constantly update interactive website for NER to facilitate border trade.

• Setup a branch of Indian Institute of Foreign Trade on North Easter for the development of professional manpower and creation of entrepreneurship in Foreign Trade.

**I. Measures to reduce informal trade.**

• Introduce a special package of incentives like DEPB entitlement at enhance rate of additional 1%.

• Have a special scheme on the line of duty free licensing scheme at 5% of F.O.B. value of exports.

• Expand the list of tradable goods and commodities under barter mechanism.

• Permit common market rate between India and Bangladesh at selected ports for locally produce surplus items.
• Identify locally produced surplus items with some certification of rules of origin and accordingly reduce custom duty to zero.

• Waive off non-tariff barriers like requirement of phyto-sanitary certification for locally produce goods.

Highway:

• Complete Modified Phase A of SARDP-NE as planned.

• Take up the Tans Arunachal Highway (about 1254 km), as mentioned in para 4 of the chapter, urgently and complete on top priority through BRO.

• Take up the road links in Manipur, as mentioned in para 4 of the chapter, on top priority.

• Complete Phase B selectively based on resources availability in the 11th plan.

• Construct a bridge (4 km) at Sadia/Dholaghat point to connect NH-52 & NH-37 for enhancing accessibility to upper Assam, Dibang HEP, and foothills of Arunachal and support strategic border areas in Walong & Anini sectors of Arunachal.

• Encourage PPP for road development with increased viability gap grant.

• Construct bridges between Jorhat and north Lakhimpur & between Dhubri & Phulbari over Brahmaputra in PPP mode considering its importance and cost implication.

• Take a policy decision that NORTH will take up only Highways, NEC only MDR roads and NLCPr only ODR roads, to avoid overlap of efforts.

• Build capacity of PWD’s staff in road engineering & management, planning for development and proper maintenance of road network. Strengthen road management & maintenance cell in each state.

• Develop benchmark indicators for quality control of roads and install an inbuilt system of monitoring through random checks and field inspection.

• Address the lack of availability and capacity of local contracting and consulting services in NER. Provide incentives to improve capacity of local contracting with clause for adherence to quality control norms.

• Ensure quality contracting through hiring of professional firm to improve quality and for timely completion of the projects.

• Establish a separate unit for road research at IIT, Guwahati or a branch of Central Road Research Institute (CRRI) in the NER to provide technological support to road and bridge construction activities in NER given it unique climate, geography and geology. Introduce new and modern technology in road construction & maintenance work.
**Railways:**

- Complete the ongoing projects in the 11th Plan (para 3 of Railway Chapter).
- Declare following projects as National Projects or finance through GBS:
  
  i)  Rangia – Murkongselek gauge conversion along with lined fingers  
  ii)  Bogibeel rail cum road bridge project  
  iii)  Harmuti – Itanagar & Murkongseleck – Pasighat for Arunachal  
  iv)  Dudhoni – Depa & Azra – Byrnihat for Meghalaya  
  v)  Sivok – Diellikhola and further be extended to Rangpo for Sikkim  
  vi)  Bhairabi – Aizwal for Mizoram  
  vii)  Dimapur – Zubza (Kohima) for Nagaland  
  viii)  Agartala – Akhura for Tripura

Other rail links / gauge conversion could be taken up out of Railway’s own resources including 10% obligation for NER.

- Take up Guwahati Bye Pass railway line urgently for diverting passenger and freight away from the main city for movement to upper & lower Assam and to Manipur, Mizoram, Tripura.

- Extend Lumding – Badarpur section gauge conversion to existing / proposed railway lines in Manipur, Mizoram and Tripura.

- Take up warehouse infrastructure improvement (as suggested in para 7 of Railway Chapter) on priority.

**Air Connectivity:**

a). Construct airports at Pakyong (Gangtok) & Itanagar (Arunachal) with increased viability gap funding from GOI.

b). Operationalise non-operational airports in NER (Rupsi, Pasighat, Kailashahar, Tezu) and expand scheduled air services to smaller airports (Ziro, Kamalpur) which were in fact being serviced earlier.

c). Do not count flights to Guwahati from Delhi towards 10% obligation of airlines for Category II States.

d). Rs. 35 crore provided by NEC to IA be borned by MoCA and provided to airlines/operators based on competitive bidding subject to their operating from NER and running air service to smaller places having landing facilities. In the meantime, the hub for operation and maintenance of IA services to NE be shifted forthwith to Guwahati from Kolkata as per the agreement with NEC. Silchar be developed as another Air hub for NE states, it being equidistant from NE capitals (except Sikkim).
e). Ensure convenient daily air link from all operational airports of NER to Kolkata & Guwahati in quick phases.

f). Incentives private operators to start at least weekly flights to international destinations.

**Inland Water Transport**

- Renew Indo-Bangladesh IWT Protocol on long term basis (at least 5 years)
- Evolve Policy dispensation and Package on incentives for modal shift in favour of IWT especially for bulk cargo. Transport policy/planning implications of this suggestion be examined by an expert group. Suggestions include viability gap funding of 20 paise per ton-km, extension of Inland Vessel Building Subsidy Scheme, IWT development fund for equity participation, SPV for vessel leasing, New scheme for mechanization of country crafts.
- Make NW-2 (Dhubri-Saidya 891 km) fully functional
- Declare Barak River – a National Waterway No. 6 and develop it
- Support alternate route (Kaladan Multi Modal Project) connecting Mizoram and Myanmar (para 6 of IWT Chapter)
- Stronger and professional IWT Directorate in Assam holds the key to IWT prospects in the NER. Its Institutional strengthening it, therefore urgent and necessary.

**Power:**

**A. Generation:**

i) Complete the incomplete projects of 10th plan in the 11th plan along with the capacity addition programme for the 11th plan (Annexure - III & V).

ii) Do not count cost of security, diversion of roads etc. towards the project cost and fund through Govt. Budgetary Support.

iii) Fund DPR preparation of promising power projects.

iv) Review urgently the recent norms of Net Present Value for assessing the cost of Forest Diversion which has added huge burden on the storage hydro schemes, making them unviable.

v) Consider low density of the population in NE state, local demand would be better served with smaller projects feeding dependent local grids, minimizing T&D costs and logistic problems.

vi) Hydel Power in Arunachal:

Arunachal has decided not to encourage HE Project involving large storage. As there are very few suitable sites for construction of multipurpose storage projects, Arunachal should allow it for providing attendant benefits like full
generation of power round the year, irrigation, drinking water, flood control, etc. to the other constituents of NE States also. Arunachal could be compensated with a package such as mentioned in para 4(c) & (f) of the Power Chapter.

vii) Constitute an empowered committee for clearance of project to reduce delay in allotment, if need be through Centre’s constitutional role over inter-state rivers and river basins.

ix) Utilize part of revenue generate through sale of free power for displaced people.

x) Treat land submergence on the storage based power projects as equity.

xi) Identify zone for easily implementable projects and cluster of projects in a single region to reduce both infrastructure and transmission costs.

xii) Undertake Survey & Investigation of HE Projects through experienced hydro-power developers to minimize the geological uncertainties during construction. Electronically operated Theodolite Survey Machines (EDM) with lightweight drilling machines need to be used for geological surveys. Global Positioning System (GPS) also to be provided.

xiii) Convert identified Meter gauge to Broad Gauge rail links & extend rail network, develop adequate road network & strengthen existing roads along with construction of bridges, air services, effective telecommunication for smooth implementation of identified HE projects (Annexure – IV).

B. Transmission and distribution:

i) Build high capacity lines for evacuation of power from various HEPs. Devise modalities for commitment to pay transmission charges accordingly. It would be desirable to adopt the national approach in which beneficiaries outside NER share the transmission charges of identified transmission system in NER based on power allocation from NER generation projects.

ii) Strengthen transmission and distribution system to provide uninterrupted power supply particularly to industrial Areas. New Sub-transmission and adequate distribution infrastructure through APDRP would be of great help.

iii) Bring about greater competition in creation of transmission assets, increase debt component and move to competitive bidding to reduce transmission charges in NER.

C. AT & C Losses:

AT & C losses of NER being very high in comparison with all India averages, implement suggestions given in Annexure – IX.

D. User charges & Reforms:
Rationalise user charges. Presently, it is quite low. Moreover, create power utilities in all states (only Meghalaya and Assam have done so) to develop expertise in various areas of power sector.
Note:

The entire report is being composed. Rest of the texts shall be composed and uploaded in due course.

Bora Ete