

# Challenges Confronting the Development of Jammu & Kashmir

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## Abstract

State of Jammu and Kashmir is so far in the infancy of development. Problems confronting the state are manifold and diverse. Major evils and issues obstructing the development of the state are like erosion of state autonomy, unutilized resource base of the state economy, mass unemployment, unstable and erratic nature of state finances, problem of law and order. The tempered autonomy of the state and its gradual erosion has broken the trust maintained under constitution (Article 370) between centre and the state. State's unutilized resource base due to law and order problem has never allowed it to come out of the clutches of poverty, misery and backwardness, while its remote location and difficult terrain has added fuel to fire in its backward character. The finances have always been asymmetric and having suffered both from the over expenditure and insufficient revenues. An attempt will be made to make an analysis of the issues and to suggest the possible solution to economic problems. But, one can say that there can be no redressal of issues in the absence of peace and without taking people into confidence.

**Keywords:** Article 370, Indus Water Treaty, Autonomy, Fiscal Federalism, Jammu & Kashmir.

## Introduction

The state of Jammu & Kashmir being delineated as 'paradise on earth' times back rests in the nature of conflict and terror from past few decades. The state economy is ravaged by more than two decades of insurgency and counter insurgency operations. The state has forgone its opportunities of development and has only got involved in either repairing the damage or minimizing the same. The state has been in isolation the whole time while the most other federal units of 'Union of India' were busy in achieving the higher feats of development and securing their citizens' best on all fronts. The state subjects particularly in the Kashmir region from among the three regions (Kashmir, Jammu and Ladakh) bore the brunt of the chaos and suffered maximum. The state was accorded special category benefits only in 1990, however it was declared as a special category state much early. The benefits could never help it discover or recover its potentialities rather it created a 'dependency syndrome' on the Centre for the financial support. And ultimately the state landed into helplessness with ever increasing debt burden. An effort to generate own revenues and to be self reliant has never attracted the attention of state planners, nor has ever the government at the centre been interested in it. The state is further debarred from using its water resources, land resources and having trade directly with the rest of the world to earn foreign exchange reserves. The state's location from the rest of India has not played less important role in its adversities. Apart from been difficultly accessible it is highly prone to the natural disasters and

calamities which has added fuel to fire in its under developed character.

The problems confronting the state are manifold and diverse but revolve round the same pin of autonomy. The right of its subjects to decide their destiny does not exist yet with them. There can be some broader categories under which the challenges of the state economy can be collected and discussed. An effort through this paper can be advanced to gather the issues and to suggest some possible solutions from practical point of view and being far from abstract or metaphysical and diplomatic strategies. The need of the hour is to further find all the different aspects and facets of the issues confronting the state through extensive research. The researchers and policy makers should then possibly address these issues in the first priority and should try to work out reliable strategies and solutions to overcome them. Challenges of the state as of now include broadly its dwindling autonomy cum identity, untapped natural resources (land, water, demographic), erring state finances etc. Research work should primarily answer quarries related to these issues.

## State Autonomy

The state of Jammu & Kashmir was one of the 565 princely states of India at the time of India's independence in 1947. With the end of British paramountcy in India, the princely states were simply left with the choice to either remain independent or to accede with either of the two, India or Pakistan. That time Jammu & Kashmir being ruled by the last Dogra dynasty ruler Maharaja Hari Singh, who made

delay and showed least interest to sign the instrument of accession with either of the two nations. Perhaps Maharaja had an intention of keeping an independent identity for his state and people, free from both India and Pakistan which eventually proved to be a costly political blunder. However the events of external invasion from the neighboring countries soon followed, which led to the state's accession with India on 27 October 1947. By this accession, three subjects, i.e., defence, external affairs and communications stood explicitly transferred to India, and the rest retained by the ruler of Jammu and Kashmir to be governed by the Jammu and Kashmir Constitution Act 1939, then in force in the state. On 15 February 1954, the state's Constituent Assembly legally ratified the state's accession to India. It was Article 360A (now Article 370) which upheld the accession of the state with India. It gives the special status to the state while at the same time declaring it as the integral part of the country. Section 3 of the state's Constitution reads: "the state of Jammu & Kashmir shall be an integral part of India." Section 147 of the state's Constitution has made this article unamendable by a future legislative assembly of the state. Further the abrogation or amendment in the Article 370 requires recommendations of Constituent Assembly which was dissolved in 1956 after it completed drafting constitution for the state (Noorani 2010). The special status of the state was too upheld by the Supreme Court under its various rulings. Autonomy in its own sphere of legislation and matters too was legally assured to the state under the aegis of accession as it has reserved to itself all subjects relating to internal administration of the state and transferring only the defence, external affairs and communications as per the 'Instrument of Accession' and no more. The autonomy to the state of Jammu and Kashmir was assured and granted so much so that it was allowed to have amongst others, its own Constitution, judiciary, legislature and executive. Its autonomy was further underlined by the fact that residuary powers under schedule VII of the Constitution of India were vested with the state government and not with the Parliament.

But despite the guarantee envisaged under the Constitution, the approach adopted by India towards the autonomy of Jammu and Kashmir has resulted in the loss of trust and faith that the state of Jammu and Kashmir had in its democratic relationship with India. Article 370(2) provides that the president can pass orders to extend the provisions of the Constitution of India to the state of Jammu and Kashmir with respect to subjects mentioned in the IOA. While for the application of provisions outside the ambit of IOA, the presidential order was subject to the approval of the state government so long state's constituent assembly was convened. Once the Constituent Assembly was convened, the concurrence given by the state government was to be put before it, thus, making it the final

authority to confirm such a presidential order. Since the constituent assembly was dissolved in 1956 after when the constitution was drafted, so this should have really meant the obstruction on the President's powers with regard to things outside IOA. But it didn't happen, presidential orders were passed on all those matters from now and then which required the concurrence of the now dissolved 'Constituent Assembly' (Peer and Rahman 2012). From 1954 to 1986, 42 presidential orders were passed with respect to matters other than the ones specified in the IOA despite the fact that the president's powers in this regard should have expired on dissolution of the state's Constituent Assembly (Anand 2010). These presidential orders undermined the importance of the state's constitution and superimposed the influence of the 'Constitution of India' on the state. At the same time while giving the widest meaning ever to the word modification vide Article 370 (1) the Supreme Court has allowed the maximum provisions of the Constitution of India over the state of Jammu and Kashmir. The designations to the powers of highest eminence earlier designated as 'Sadri-e-Riyasat' and 'Prime Minister' too were altered with 'Governor' and 'Chief Minister' vide 6th Amendment Act, 1965. Both these were supposed to be the state subjects but hereafter the governor of the state got to be a nominee from the Centre and a non state subject. Thus, giving colonial feeling to the citizens of the state same as experienced by the people before independence at the hands of Governor General or Viceroy who then happened to be the officer of the British Government.

There have been issues too at the regional autonomy of the state. The state consists of the three ethnically separate entities like Ladakh, Kashmir and Jammu. While Kashmir and Jammu being the most dominant of the three. The lack of regional autonomy often sprouts up among the regions one way or the other. While the outlet from succession forms the regional expression of the people of Kashmir region, communalism or ultra nationalism (abrogation of Article 370) sums up the intensions of Jammu region (Balraj Puri 2008). The decentralisation of power and finances are expected to be the effective treatments of the problem. But, however the absolute decentralisation and political autonomy restoration to the three regions may altogether have disastrous consequences to the identity of the state as a whole and there won't be a common bond integrating the regions then. However, the autonomy and decentralisation of the districts within the regions can verily help overcome the regional autonomy grievances.

### State's Resource Base

The state of Jammu & Kashmir is surely host to a vast but an unexplored resource base. The unexplored and unutilized character of its resources has got its deep roots in

the prevailing conflict of insurgency and counter insurgency operations in the state. This obstruction of the state over shadows all its problems whether they arise out of genuine reasons or due to the political blunders or inefficiency on the part of policy makers. The state is no doubt rich in land resources, water resources, horticulture and tourism potential, but alas! Of what use when it can't realize its full potential given its hardcore efforts to do so. The identified hydro electric power potential of the state is estimated to be between 15,000 to 20,000 MWS. This comprises 11283 MW in Chenab basin, 3084 MW in Jhelum basin 500 MW in Ravi Basin & 1608 MW in Indus basin. Out of the identified potential, only 3263.46 MW i.e. 20% (of identified potential) has been exploited until now which comprises 1211.96 MW in State Sector, 2009 MW in Central Sector and 42.5 MW in private sector. The hands of the state further in this matter have been chopped off as the waters of the state were battered to Pakistan to be used for the purpose of irrigation as well as

power generation via Indus Water Treaty (IWT). According to this agreement, control over the three "eastern" rivers - the Beas, Ravi and Sutlej was given to India and the three "western" rivers - the Indus, Chenab and Jhelum was given to Pakistan. The rivers transferred to Pakistan contained the prime water potential of Jammu & Kashmir. The treaty was signed in 1960 between Prime Minister Jawaharlal Nehru and his Pakistani counterpart Ayoub Khan. The treaty did settle the water issues between the two countries, but at the cost of whom. It was the state of Jammu & Kashmir which had to bear the whole loss of the treaty (Warikoo 2002). As per Jammu & Kashmir Economic Survey-2016 the state is today incurring on an average a loss of more than 4000 crore expenditure on power due to this treaty. The survey further says that in last 5 years the state has spent an amount of 20,000 crore on power purchases from Central Public Sector Undertaking, mainly NHPC.

#### Power Purchase

<b>Table – 1: Year – wise value of power purchased and other expenses (Rs. in crore)</b>						
<b>S. No.</b>	<b>Year</b>	<b>Expdt. on purchase of power from CPSUs</b>	<b>From PDC</b>	<b>Total Expdt. on purchase of power (3+4)</b>	<b>Other Expdt (Est., O&amp;M, Dep., Int.)</b>	<b>Total (5+6)</b>
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>
1	2011-12	3051.02	710.33	3761.52	690.49	4452.01
2	2012-13	3510.85	592.23	4103.08	687.42	4790.50
3	2013-14	3989.20	482.45	4471.96	665.57	5137.53
4	2014-15	4661.16	491.97	5153.13	776.56	5929.69
6	2015-16	4803.64	489.98	5293.62	715.16	6008.78
<i>Source: Economic Survey 2016</i>						

The survey mentions that in 2015-16 as shown in Table -1 above that J&K govt. spent Rs. 4803 crore on power purchases from outside. In 2014-15 Rs. 4661 crore, in 2013-14 Rs. 3989 crore, in 2012-13 Rs. 3510 crore and in 2011-12 Rs 3051 crore were spent respectively. This includes the electricity purchased from NHPC, which generates more than 2000 MWs within state of Jammu & Kashmir. It has been further estimated that the treaty amounts a loss of 6000 crore to the state annually as the state can't use the waters neither for irrigation nor for the power generation (Navlakha G. 2004). Successive governments of the state have time and again been asking for the compensation by way of transferring one or two of the central power projects in the state (Dulhasti and Salal) to it, while researchers too have reached the same conclusion (C. Rangarajan et.al 2006). But the Union Govt. has always been putting down the demand on the reason of arising similar demands by other federal units. The state has been running into an acute power deficit for its no fault. Recently in 2015 the demand was again put

down by the BJP govt. at the centre when put forward by coalition partners of the state (BJP and PDP).

There is a similar story with that of land resources of the state. Jammu & Kashmir is the sixth largest state of India with a geographical area of 222,236 sq. kms. It has a share of 6.76 per cent of the country's size of which 78114 kms. lies under POK (Pakistan Occupied Kashmir) and 37555 kms. under China. Although the state is abundant in its land resources but can't be put to some productive use due to some unfortunate reasons which either include border sensitive area, troops occupied area, military establishment and cantonment area, no permission zones etc. The issue of land occupied by troops is so grave and of concern that “

large tracts of land, probably up to 10 per cent of the total, have been occupied by the security forces” (Navlakha G., 2005, p. 351). Thus, preventing the land to be used for domestic, commercial, agricultural and tourism purpose. The state is inhabited by more than half a million military and paramilitary troops apart from JK police and SOG's for

the purpose of counter insurgency operations. Further low productivity in agriculture and allied sectors has impeded employment and income generation. Poor industrial infrastructure along with the poor investment climate has left the industrial sector in its infant stage. There has not been a suitable strategy for the potential sectors to achieve higher economic growth. Lack of good governance and sound fiscal management has also been responsible for the poor economic growth of the state.

The demographic situation and level of socio-economic development remains far from satisfactory. The state occupies 19th rank in population, with 125.41 lakh souls as per 2011 census, sharing 1.10 per cent of India's population having population density of 124 persons per sq. km of area as against density of 382 persons per sq. km at national level. In fact the most marked characteristic feature of the state is low density of population being attributed to the nature of its hilly and inhospitable terrain. Literacy rate of the state is 68.74 per cent with 78.26 per cent male literates and 58.01 per cent female literates which is much lesser than All India level i.e., 74.04 per cent, 82.14 per cent and 65.46 per cent respectively. The state is characterised by mass unemployment and heavy dependence on public sector. Private sector is somewhat non-existing or very less employment generating sector of the state economy. The colleges and universities in the state are busy in producing unproductive graduates and post graduates among whom a rare proportion finds place in the job market whether private or public. The state is abundant in redundant unskilled labour force lacking technical skills but possessing inept academic degrees. On the other hand the state is suffering from missing multiplier as there is capital flight out of the state on the grounds of external construction agencies operating in the state as well as external skilled labour force. The population growth rate in

the state has been consistently high and during 1981-2001 it was more than 2 per cent but however ineffective to the state.

### State Finances

State finances have been an issue of major chaos in the state. State's own tax and non tax revenues fall short on expenditures. Finance Ministry while announcing the annual budgets has been fooling the people of zero revenue deficit budgets, while ignoring the fact that the grants from the centre are entertained as revenue receipts and form the major portion of revenue. There has been an average fiscal deficit of 5 per cent from past decade. However, the state was recognized as a special category state much early with Assam and Nagaland in 1969 under 5th Finance Commission, but the benefits of special category accrued to state only in 1991 when the conditions went worst in the state. The ratio of grant to loan of the state is 90:10 while that for other general category states is 30:70. But past few years the centre has been minimizing the grant component of the states'. The major route of devolution has been of tax from centre after recommendations from 14th Finance Commission from 32 per cent previously to 42 per cent now, while at the same time dispensing from schemes like normal plan assistance, special central assistance and special plan assistance from 2015-16 onwards. So, the 'Special Category' status is no more special now following the above changes. But however the size of the state Jammu & Kashmir is very small as per the economy of the state, the major portion of revenue of the state so far continues to be the grants from the centre while the state's own tax and non tax revenue only form a little portion of total receipts. Table - 2 well illustrates the fiscal scenario of the state on the revenue and capital grounds both on the receipt and disbursement side.

Table – 2

Summary of Fiscal Scenario during 2014-15 and 2015-16 (Rs. in crore)					
Receipts			Disbursements		
Section – A Revenue					
Object Head	2014-15	2015-16	Object Head	2014-15	2015-16
Revenue Receipts	28939	35781	Revenue Expenditure	29329	36420
State’s Own Tax Revenue	6334	7326	General Services	12039	13675
State’s Own Non-Tax Revenue	1978	3913	Social Services	8501	11331
Share of Union Taxes / Duties	4477	7814	Economic Services	8789	11414
Grants from the Government of India	16150	16728			



Section – B Capital					
			Capital Outlay	5134	7331
Recoveries of Loans and Advances	3	4	Loans and Advances disbursed	87	94
Public Debt Receipts	10033	14645	Repayment of Public Debt	8323	10815
Contingency Fund	--	--	Contingency Fund	--	--
Public Account Receipts	22032	27450	Public Account Disbursements	17796	24094
Opening Cash Balance	1063	1401	Closing Cash Balance	1401	527
Total	62070	79281		62070	79281
Source: Economic Survey 2016.					

The state's expenditures have been asymmetric and skewed mostly towards revenue expenditure side including interest payments, salaries, pensions, power purchases, social, administrative and economic services. On the contrary there is very little expenditure on capital account by the government. Means the major expenditures from total include mostly non-developmental expenditures not that much economically viable, they are done just to keep the govt. machinery running. The special category status of the state has further prevented it from achieving its real potential and has just got it over dependant on the centre for

grants. Sometimes the governments show keen interest in fiscal consolidation of the state and rationalizing its finances and expenditures by cutting down unviable expenditures and issuing 'New Job Policies'. But time and again for the sake of vote bank politics and retaining power break their commitments and policies too. There are great crisis for the effective planning in the state so far too. The revenue receipt and the public account receipts have shown upward trend. The state has accumulated huge debts due to insufficiency of revenue.

Table – 3

(Rs. in crore)

<b>Fiscal Sustainability</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>
Fiscal Liabilities	31272	36267	40265	44673	48314	55358
Revenue Surplus	3767	2103	1100	70	(-)390	(-)640
Fiscal Deficit	2367	2833	2975	4554	5608	8060
State's own deficit	20025	21730	22348	22543	26238	32606
Source: AG Accounts.						

The debts of the state include internal sources of debt, loans and advances from central govt., small savings, provident funds and other liabilities. The overall fiscal liability of the Government as shown in table – 3 increased from Rs 48314 crore to Rs 55358 crore ending March, 2016. As a percentage of GSDP, the stock of accumulated fiscal liability increased from 54.95 percent to 60.27 percent at end of 2015-16. The state is surely in the need of effective policy making.

### Conclusion

The autonomy of the state envisaged on it by the constitution and tempered with passing time has broken down the trust of the state subjects and has created an antagonistic feeling of the people towards the centre. In fact political parties have sensitized the issue so much so that that it has acted as a vote bank politics. Further the state

economy has been worst hit by the law and order problem past two decades or more and while the state has been in the utmost backwardness past same period. The resident and the outside investors are scared of investing in the state due to security reasons. In the same period of chaos and disorder Jammu region has no doubt developed given its peaceful atmosphere and viable zone for business investment purpose. Further more in the period of counter insurgency the state exchequer has been duped under the costs of security related expenditures and fake migrant families expenditures, which has been termed as state sponsored terrorism (Navlakha G. 2004). The main sources of development of the state can be the tourism sector of the state, its horticulture, handicraft and handlooms, land and water resources, demography (harnessing the young population), etc. There is need to invest on these sectors in bulk as the investment in these sectors sans from the very

beginning of the planning era. The need is to accord the priority to these sectors and to develop them on priority basis. State finances need good planners and policy makers. The planning needs to be done on effective and sincere grounds, not on the basis of vote bank politics. There is high need to prioritise the rightful expenditures and abstain from the economically unproductive and unviable expenditures. It is essential that different components of expenditure both revenue and capital are critically looked at and unnecessary expenditure is completely eliminated. The execution of projects without having necessary administrative and technical sanctions needs to be stopped. The government shall endeavor to introduce normative and zero based budgeting. This will eradicate unproductive and wasteful expenditure under certain heads and divert the savings towards developmental expenditure. This will be a major initiative on Budget Reforms which will further clean up Revenue Expenditure which has so far being bulging very fast. However, financing of capital spending in the wake of ever expanding revenue expenditure and squeezed resources is another challenge to handle. There is not only the requirement of the initiative at the state level but at the centre level as well. In fact, these two are not the only two parties in the game, but the grievances with the neighboring countries (Pakistan and China) for the effective development of the state and for guaranteeing a secure future to the citizens, too need to be sorted out as well. There is a need dire need to invest sincere and promising steps for revival of peace and order. There is a need to develop confidence in the people of the state towards a prosperous future. Presence of more armed forces will only escalate the tensions between the stake holders leading further to chaos and disorder. There is the utmost and die hard need of the dialogue between the stake holders for peace to prevail. In its absence, talking of development is utopian.

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