

Chapter II

Strategic, Economic and Social Case for Special Category Status to Pondicherry

The strategic role of Pondicherry as an emerging model state on the national scene needs to be recognized and harnessed in full measure. With much needed provision of maritime port, functional airport and broad gauge rail network, Pondicherry has tremendous potential to be what Shenzhen Economic Zone and Hong Kong are to China.

In retrospect the State has within its limited means done well in terms of:

1. Emerging as a unique model of economic development based significantly on secondary (mostly SMEs) and tertiary service sectors. Its consistently higher spending on social and human resource infrastructure of education, health etc. nearly 35% of its budgetary resources augments well for its future. Such an effort is remarkable in the Indian context, particularly if one considers the remarkable economic progress of resource deficient Asian Tiger countries banking on their earlier push strategy of human resource development and social spending. Nobel Laureate and Economist Amartya Sen champions such a policy.
2. Harnessing the magnetic pull of its natural tourist potential and charm of Auroville, despite lack of rail, port and airport facility, the state has made its mark on the national and international arena.
3. Pioneering and channelising appropriate technology in the fields of renewable energy, computer hardware etc and ushering in quality oriented SMEs in good measure. Small is definitely beautiful as seen by the emerging outcome of small but focused efforts of the resource deficient state. The only company to receive Deming Award for quality outside of USA and Japan has a global standard unit in Pondicherry.

In prospect, Pondicherry could be transformed into special economic zone of India, given its heritage, natural endowments, socioeconomic launch pad and potential to create wealth, based on

human genius and skills. Such a strategic positioning of Pondicherry would be a long and difficult journey worth taking with the first facilitating small step of Special Category Status being accorded to the State.

The State also needs to address the following socio-economic problems:

1. All said and done, even today a third of Pondicherry's labour force ekes out its living in agricultural sector, being the mainstay of the rural masses. Major thrust on animal husbandry and fisheries would require sustained efforts and significant financial resources to ensure sustained and growing income prospects to those below the poverty line.
2. Urbanisation has brought its own problem of slums, unemployment and underemployment. High density of population beyond sustainable level has its own economic problems, which need to be addressed properly.

The measures of liberation and special incentives for Union territories announced by the previous Union Finance Minister seems to have given impetus to industrialization in outlying areas like Karaikkal, Mahe and Yanam and new companies are attracted towards Pondicherry. Adequate supporting social infrastructure in terms of schools, housing and hospital facilities would mean that the State has to step up its social spending even beyond 35 % of its budgetary resources. Once Pondicherry ceases to be a Union Territory such special incentives have to be continued by the state for balanced regional development of outlying areas. This would call for special assistance in the form of grants.

As per Gadgil formula, the Centre decided to grant special category status in 1969 to Assam, Nagaland and Jammu and Kashmir in view of the location of these states. Later the special category status was extended to Himachal Pradesh, followed by Sikkim, Manipur, Meghalaya, Tripura, Arunachal Pradesh and Mizoram.. Uttaranchal, which was carved out of Uttar Pradesh, became in April 2001 the 11th such state to get special category status. Such special states get grant up to 90% and 10% as loan under Central assistance as against 30% grant and 70% loan to normal states.

The main spirit behind special category status is to enable a disadvantageously placed state to get larger central assistance on more liberal terms to mitigate its problems in terms of strategic location, low density of population, difficult terrain to administer, economic and infrastructural backwardness and non-viable nature of state finances

.In respect of Uttaranchal the reasons given are: hilly and difficult terrain, low population density, strategic location, economic and infrastructural backwardness and non viable nature of the States' finances. It was then indicated that Uttaranchal is likely to get 3.8% of EFC's recommendation of 19.80% for U.P. i.e.,0.7524% of Central Devolvement of funds.

As per initial estimates, Uttaranchal was expected to get about Rs.500 crores as devolvement of funds ,which include components such as share in Central Taxes ,Local Body Grants, upgradation and special purpose grants, calamity relief funds and most importantly grants to cover revenue deficits and also further Rs.172 Crores as externally aided projects. Central assistance will be on the basis of 90% grants and 10% loan.In all Uttaranchal during 2000-01 expected Rs.1400 crores,which besides above indicated components includes about Rs.500 crores as small savings.

In respect of Pondicherry it is imperative to look at these five parameters as follows:

1. With introduction of Uniform Sales Tax Rate and advent of VAT, the reverse swing in ST revenues of Pondicherry is on the cards. As in the case of Goa at the advent of its statehood, Pondicherry once granted statehood without special status (obviously as a small state similar to Goa) requires special grants under Article 275(1) to bridge non-plan revenue deficit. However 11th Finance Commission has now indicated restriction of such a facility only to Special Category status states.

Earlier, under 10th Finance Commission Goa in addition to 0.18% share in Income Tax and 40% Excise duty was also allotted 0.975 % of 7.5% Excise duty to cover its deficit, which increased its overall % to 0.25% from 0.18%. This provision to cover deficit has now been dispensed with by 11th Finance Commission.

Even if Pondicherry continues as UT, the interest and principal instalment overdue rollover would soon become significant and unsustainable portion of Grants-in-Aid and Central Loans (Please see next chapter for details). Therefore on attaining Statehood, the interest needs to be waived and principal converted as interest-free loan repayable in easy instalments. Further special grants to bridge non-plan revenue budget is necessary and at present possible only as special category state.

2. The main Pondicherry region itself consists of 12 scattered areas interspersed with enclaves of South Arcot District of Tamil Nadu. Other three regions are far flung outlying areas in three different states. It is quite a difficult terrain to administer and ensure regional balance but for the cultural bond which unifies the four regions. While in other special category states thinly spread population over a large area poses administrative problems of reach, the problem of reach in UT of Pondicherry is one of geographical dispersal of areas
3. High density of population causes its own problems of urbanization, slums and large educated unemployment population. Density of population beyond sustainable level needs equally special attention and efforts. The horizontal problem of low density becomes a vertical problem when you have high density of population.
4. Extent of economic and infrastructure backwardness needs to be seen in the context of untapped potential for growth. Without functional airport, proper broad gauge railhead and maritime port, despite its heritage and natural endowments, Pondicherry would continue to face acute infrastructure handicap in realizing its full potential for itself and the nation.
5. Strategic location is at present seen in terms of common borders with neighbouring countries, particularly not so friendly ones. Obviously, it is not an over-riding factor as even earlier Uttar Pradesh with Uttaranchal

District as part of it had common border with China. Though Uttaranchal is really backward and deserves the Special Category Status, in many aspects of socioeconomic indicators, it is quite ahead of the main state

from which it has been carved for administratively sound reasons:

- i. The overall literacy rate in Uttaranchal (14th Rank) is 72.28%, whereas it is 57.36% in the main state of Uttar Pradesh (25th Rank). (Pondicherry with 81.49 % stands 7th Rank).
- ii. In Female to Male ratio Uttaranchal stands 10th rank as against 27th rank of Uttar Pradesh (Pondicherry stands second next only to Kerala).

In proper perspective, strategic location factor for a state should be seen as one which could impede its growth. Being significantly dependent on other states for raw material resources, power, river water, air link and railhead, underscores the impeding aspects of the strategic location for growth of Pondicherry. Under such circumstances a more benign view should be taken to accord special category status to Pondicherry to facilitate central assistance on liberal terms.

Under the above circumstances, there is need to appeal to the Central Government to look at strategic location as locational disadvantage which impedes state's growth in the case of Pondicherry and not to be solely tied to common borders with neighboring countries

