

CO-OPTED FEDERALISM? BORDER STATES AND RESOURCE REVENUE SHARING BARGAINS

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ABSTRACT

A growing international engagement by border states today has the scope to frame the terms of India's evolving engagement with its subregional neighbourhood. These hold the potential to recognise the local actor as a critical stakeholder on a range of transborder issues such as trade, energy, environment, land use and transport. Many of these questions will also hold increasingly tricky implications for resource revenue sharing for India, domestically and subregionally. Prime Minister Narendra Modi has articulated the idea of cooperative federalism calling for a 'new partnership' between the Centre and the states. But for all its feel-good appeal, it will take more than just rhetoric to get there. Are there effective ways to link fiscal federalism with resource revenue sharing?

A defining feature of the conduct and content of Indian diplomatic engagement in recent decades has been a growing international engagement by states. This is also producing a modest but valuable space for subnational actors to become active partners in framing the terms of India's engagement with its subregional neighbourhood. Bottom-up market driven processes of economic integration are today resulting in the rise of a new diverse set of actors with stakes in regional integration processes.¹ These hold the potential to recognise the local actor as a critical stakeholder on a range of shared transborder issues such as trade, energy, environment, land use and transport.

There are early signs that border states could be emerging as India's new power brokers with the potential to drive cross-border energy trade in South Asia. Border states are today demonstrating stamina and resolve for protracted institutional bargaining with the Centre for access to energy markets in the region. For instance, Meghalaya and Tripura have successfully lobbied the central government to permit export of surplus power to Bangladesh. An Indian delegation to Dhaka in January 2016, led by Tripura Power Minister Manik Dey signed a Memorandum of Understanding finalising the price of power at Rs 5.50 per unit. Transmission lines from the Surjyamaninagar power grid in western Tripura will now connect with Comilla in eastern Bangladesh. Direct subnational links are also beginning to script impressive success stories on the ground. The construction of the 726 MW Palatana gas power project in southern Tripura is a case in point. Palatana will be bookmarked in India's evolving subnational transborder engagement as one of the first instances of a subregional approach to problem solving. Since transporting heavy equipment to Tripura was a challenge due to the difficult terrain, Bangladesh allowed transshipment of heavy turbines and machinery through its Akhaura land port from Ashuganj river port on the Meghna river in eastern Bangladesh. Bangladesh's decision to allow transshipment through its territory has been a critical factor in the successful completion of the project.

Many of these questions will hold tricky implications for federal resource revenue sharing. For instance, what percentage of resource revenues are states likely to receive particularly following the Fourteenth Finance Commission recommendations for increased devolution? A more equitable share of revenues from resources such as minerals, oil and gas resources will become critical to reduce fiscal dependency. Are there effective ways to link fiscal federalism with resource revenue sharing? Prime Minister Narendra Modi has called for a 'new partnership' between the Centre and the states arguing that 'co-operative and not coercive federalism must be the norm in our country. (Prime Minister's Office, 2012) But for all its feel-good appeal, it will surely take more than just rhetoric to get there.

For it to work the idea of cooperative federalism has to be 'linked to resource federalism'. (Drabu 2014) These need to address imbalances in Centre-State distribution of revenues earned from timber, oil and gas, hydro and mining sectors. While states have a right to a share of resource revenues in the form of royalties, they do not have any say in either the amount or the

method of deciding the levy. Central government companies are veritable 'mineral cows' with the Centre receiving almost half of the revenues generated from natural resources with a dominant hold at all stages of the production process. (Drabu 2014) For instance, the Centre's share of revenues from iron ore in the forms of dividends and taxes collected is as high as 80 per cent.

There is also considerable definitional ambiguity regarding cooperative federalism and the implications it holds for Centre-State relations. For instance, does it entail an obligation on the part of the Centre to consult as well as seek the consent of states on issues impinging on their interests? The intractable nature of resource conflicts between the Centre and the state governments can be seen in the recent constitutional dispute between Nagaland and the Centre. The Centre contested Nagaland's claim that Article 371 (A) of the Constitution conferred upon it the right to develop its natural gas reserves. Similarly, Karnataka strongly contested the Centre's unilateral decision in 2014 to accord world heritage status to Western Ghats forest range in the state.²

Many of these resource revenue sharing conflicts are poised to get sharper with the growing international engagement by Indian states, particularly in the subregional neighbourhood.

NOTES:

1. The effects of lobbying by border states can be seen in India's recent decision to open 70 border haats along its border with Bangladesh, with 35 along the border with West Bengal; 22 at the Meghalaya border; five in Tripura and four in Assam.
2. Opposing the move by the Centre, the Karnataka Minister for Forest and Ecology C. H. Vijayashankar commented, 'We need not learn lesson from any one on this issue.' Press Trust of India, 'Centre cannot take 'unilateral' decision on Western Ghats, says Karnataka Minister', *The Hindu*, 24 June 2011.

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Press Trust of India. 2011. 'Centre cannot take 'unilateral' decision on Western Ghats, says Karnataka Minister', *The Hindu*, 24 June.

Prime Minister's Office. 2012. 'Cooperative not Coercive Federalism for Strong Republic' accessed at <http://www.narendramodi.in/co-operative-not-coercive-federalism-for-strong-republic>

For instance, Bihar has been demanding an equity stake in the power projects being executed in Bhutan particularly from the Puna Psangchhu hydel project. Bihar's Energy Minister Bijendra Prasad Yadav has demanded that Bihar receive at least 15,000 megawatts electricity from the Puna Psangchhu and the Mangdechhu hydel projects in Bhutan and 250 MW from the Arun-III hydel project in Nepal. India would also do well to keep an ear to the ground to some of these domestic debates in its subregional neighbourhood.³ There also needs to be a serious engagement with the sort of environmental norms and standards India would like to institutionalise within the subregion. There is, for instance widespread concern in Bangladesh regarding the environmental consequences of the Rampal coal-based power project India is building close to the Sundarbans mangrove forests. These could put India's credibility as a normative actor on the line, more so if its domestic and international environmental standards are seen to be at variance. While this is indicative of potential future conflicts over resource sharing, it also underlines the reality that the task of reworking the federal bargain is long overdue. Going ahead, many of these issues will be fundamentally linked to how India perceives its role in the region and how it chooses to engage with questions of benefit sharing, trade-offs and the allocation of risks and burdens in subregional Asia.

3. For instance, in Myanmar, the Arakan National Conference, a gathering of ethnic Arakanese representatives, demanded a 50 per cent share of oil and gas projects and for local involvement in resource management decisions. (Oye 2014) Similarly, the Chin National Conference also recently called of 'equitable sharing between the union and state government of the revenues obtained from the natural resources'.

Haseeb Drabu 2014 'A new basis for the budget: It is not finances that need budgetary planning but natural resources', *Mint*, 25 May.

Mari Oye, 2014. 'Natural resource revenue sharing: Are stakeholders negotiating blind?', *Myanmar Times*, 18 June.