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REGIONAL IMBALANCES IN INDIA

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ABSTRACT

Independent India inherited a backward and regionally imbalanced economy, reflecting a distorted pattern of development imposed by colonial power to sub-serve their own interests.. Successive Five Year in India stressed the need to develop backward regions of the country. The economic reforms initiated in India from 1991 brought major change in economic policy. Economic policy regime changed from state lead and directed development to market led growth i.e. policy of liberalization privatization and globalization was adopted. Regulatory mechanism, operational for last the four decades, was gradually dismantled. As a result, more reliance for development purpose shifted towards private capital, both domestic and foreign, to accelerate economic growth. This affected the development process of the states, particularly of the backward ones, as share of public investment got reduced, further widening the regional imbalances. Although India’s growth performance has been improved substantially in post reform period, yet considerable economic and social inequalities exist among different states of India despite pro-backward areas policies and programmes, as reflected in differences in per capita State Domestic Product. In short, it can be said that ongoing economic reforms increased both growth rates as well as regional imbalances. This paper analyses the extent of regional imbalances and the factors behind the increasing regional imbalances in India. The focus will also be on the measures that can be taken to reduce regional imbalances

KEYWORDS

Regional imbalances, extent, factors, policies, programmes

INTRODUCTION

Independent India inherited a backward and regionally imbalanced economy, reflecting a distorted pattern of development imposed by colonial power to sub – serve their own interests. After independence, successive 5 Year Plan in India stressed the need to develop backward regions of the Country as balanced regional development is considered as one of major pillar to achieve high economic growth and removal of inherited backwardness and regional imbalance was major challenge before policy makers. For this, Government adopted various policy measures such as larger flow of resources in favour of poor States, more allocation of public projects in backward region, capital subsides, tax holidays, basic infrastructure set up, etc. so that all these encouraged massive investment by private investors along with public investment in these areas. Despite these efforts of the Government to reduce regional imbalance, achievements were not often commensurate with these efforts as different parts of Country are in different stages of development.

The economic reforms initiated in India from 1991 brought major change in economic policy. Economic policy regime changed from state lead and directed development to market led growth i.e. policy of liberalisation, privatisation and globalisation was adopted. Regulatory mechanism, operational for the four decades, was gradually dismantled such as provisions for establishing public sector projects in backward regions which were earlier used by the government in pre-reform era to direct the flow of public and private investment in these areas were withdrawn. Also State Governments were persuaded to reduce concessions they offered to private investor for investment in their States. Along with this financial sector reforms also led to dilution of resources for social objectives. All this affected the development process of the States, particularly of the development progress of the backward States.

After reforms, private sector emerged as one of principal engine of economic growth, as a result which most of the restrictions on private investment got reduced. This lead to significant increase in the quantum of private investment and a sharp fall in public investment over last decade.

Although India's growth performance has been improved substantially in post reform period as growth rate in eighth plan was 6.7 %, ninth plan was 5.5 %, tenth plan was 7.8% and in eleventh plan target was 9 % but advanced estimated for 2011-2012 was revised to 6.9 % due to recent global crisis. Thus growth rate of the economy as whole has accelerated but grow rates of different States has varied and has even decelerated in some of poor States. It is important to recognize that the sharp increases in the growth rate and significant improvement in social indicators can be possible only if there is corresponding improvement in performance in backward States, yet considerable economic and social inequalities exist among different States of India despite pro-backward areas policies and programmes, as reflected in differences in per capita State Domestic Product.

AIM

The aim of the study is to analyse the extent of regional imbalances and the factors behind the increasing regional imbalances in India. The focus will also be on the measures that can be taken to reduce regional imbalances.

RESEARCH METHODOLOGY

In order to achieve the aim of present research, the data on regional imbalances has been taken from secondary source as mentioned on Handbook of Statistics on Indian Economy 2015,RBI and SIA Statistics, May 2015, Department of Industry Policy and Promotion, Ministry of Commerce and Industry, Government of India. To have more accuracy and rigorous analysis of research study, the tabular and functional analytical dots were used.

[A] EXTENT OF REGIONAL IMBALANCES IN INDIA

There are several indicators to study regional imbalances extent. The indicators used in this paper is Net State Domestic Product(NSDP) At Factor Cost (at constant prices) from period 2004-05 till 2013-14. For simplicity, data is further divided as Union Territories, Northern States, Eastern States, Western States, Southern States, Central States and North –Eastern States. Through NSDP of States is increasing year by year but at the same time, variation in NSDP of States is also getting widened.

Table 1 shows NSDP among Union Territories, Delhi has highest NSDP 2246.55 billion in 2013-14 whereas Andaman & Nicobar island have very low among Union Territories and also among all States, which clearly shows regional imbalances.

Table 1: Net State Domestic Product At Factor Cost (at constant prices) among Union Territories (base year 2004-05) (Rs billion)

Year	Andaman & Nicobar Islands	Chandigarh	Delhi	Puducherry
2004-05	16.33	76.10	947.17	50.33
2005-06	17.20	84.42	1044.73	63.75
2006-07	20.29	96.90	1174.44	66.14
2007-08	22.38	104.05	1306.83	71.37
2008-09	25.79	111.87	1469.61	77.92
2009-10	29.11	117.67	1590.44	91.97
2010-11	36.64	117.65	1722.35	98.12
2011-12	34.31	119.59	1876.72	101.74
2012-13	37.03	122.69	2053.96	112.92
2013-14	38.39	134.46	2246.55	127.75

Source: Handbook of Statistics on Indian Economy 2015,RBI, website as on 05.05.2015

Table 2 shows NSDP of North-Eastern States. North-Eastern States have very low NSDP compared with rest of India, which clearly depicts that there are regional imbalances particular in this region. Moreover Assam is only state in this region which NSDP more than 400 billion and 773.76 billion in 2013-14, rest all States in this region have low NSDP particularly Mizoram whose NSDP doesn't even more than 50 Billion. This region needs special attention for development purposes if India wants to reduce the regional imbalances

Table 2: Net State Domestic Product At Factor Cost (at constant prices) among North – Eastern States(base year 2004-05) (Rs Billion)

Year	Assam	Sikkim	Tripura	Arunachal Pradesh	Manipur	Megh a-laya	Mizoram	Nagaland
2004-05	471.81	15.11	81.70	31.88	46.03	58.46	24	54.21
2005-06	486.02	16.62	87.08	32.81	49.07	63.03	25.77	59.86
2006-07	507.97	17.60	94.58	34.58	49.92	67.78	26.93	64.54
2007-08	529.68	18.62	100.82	38.73	52.67	69.91	29.88	69.78
2008-09	561.23	21.06	111.46	41.91	56.67	78.89	34.38	74.22
2009-10	612.94	36.59	122.07	45.30	60.40	83.96	38.32	78.42
2010-11	657.26	40.26	132.15	47.25	58.62	92.26	45.39	85.87
2011-12	690.35	45.48	143.39	49.42	64.20	102.99	44.05	92.91
2012-13	730.81	148.86	155.85	51.46	66.20	104.90	46.88	98.87
2013-14	773.76	52.71	-	55.49	-	118.38	-	105.22

Source: Handbook of Statistics on Indian Economy 2015,RBI, website as on 05.05.2015

Table 3 shows NSDP among States of Northern Region. If Northern Region is compared with another region except North- Eastern Region, Central Region and Union Territories have low NSDP. Uttar Pradesh has highest NSDP in this region.

Having 3 States hilly States may be reason of low NSDP as geographic factor also act as barrier for balanced development.

Table 3: Net State Domestic Product At Factor Cost (at constant prices) among Northern States(base year 2004-05) (Rs Billion)

Year	Haryana	Himachal Pradesh	Jammu& Kashmir	Uttar-Pradesh	Uttarakhand	Punjab
2004-05	862.22	211.89	232.92	2310.29	222.88	861.08
2005-06	940.11	230.09	243.71	2445.14	254.48	903.30
2006-07	1047.05	248.19	257.94	2639.35	285.14	1000.72
2007-08	1128.96	263.62	273.87	2808.51	334.98	1087.38
2008-09	1215.80	276.49	291.02	3021.92	370.64	1147.66
2009-10	1367.80	291.49	305.12	3209.89	434.07	1220.83
2010-11	1490.53	315.90	322.56	3466.21	479.67	1299.83
2011-12	1585.24	339.55	340.40	3646.84	527.49	1369.87
2012-13	1673.89	360.63	355.62	3836.44	553.72	1425.27
2013-14	1784.58	383.74	375.63	4035.23	585.61	1499.48

Source: Handbook of Statistics on Indian Economy 2015,RBI, website as on 05.05.2015

Table 4 shows NSDP among Southern Regions. This data shows that this region is quiet developed. In 2013-14 Tamil- Nadu has highest NSDP followed by Andhra Pradesh. Both these States have second and third highest NSDP in India. Costal region have made this region more attractive for development particularly for private investment.

Table 4: Net State Domestic Product At Factor Cost (at constant prices) among Southern States (base year 2004-05) (Rs billion)

Year	Andhra Pradesh	Karnataka	Kerala	Tamil Nadu
2004-05	2013.03	1487.29	1047.76	1936.45
2005-06	2209.01	1640.31	1155.00	2215.88
2006-07	2445.87	1810.86	1246.25	2562.86
2007-08	2727.26	2038.10	1357.47	2723.40
2008-09	2922.58	2183.09	1440.94	2867.44
2009-10	3036.68	2183.63	1571.23	3167.60
2010-11	3381.64	2408.17	1671.78	3599.61
2011-12	3638.08	2480.17	1808.12	3865.71
2012-13	3826.33	2595.00	1960.77	3974.71
2013-14	4054.82	2745.31	-	4271.82

Source: Handbook of Statistics on Indian Economy 2015,RBI, website as on 05.05.2015

Table 5 shows NSDP among States of Western Region and Maharashtra not only have highest NSDP in this region but also in whole India followed by Gujarat. It must be noted that Gujarat has become one of the most attractive States for private investment, particularly after Tata Nano project got shifted from West Bengal. Gujarat is using many investor- friendly policies to attract private investment.

Table 5: Net State Domestic Product At Factor Cost (at constant prices) among Western States (base year 2004-05) (Rs billion)

Year	Goa	Gujarat	Maharashtra	Rajasthan
2004-05	109.99	1722.65	3700.23	1126.36
2005-06	119.16	1972.70	4236.32	1202.02
2006-07	130.85	2139.54	4819.83	1343.50
2007-08	136.55	2392.53	5380.81	1404.71
2008-09	147.24	2464.80	5465.33	1522.84
2009-10	161.19	2847.32	5993.38	1611.59
2010-11	192.93	3158.92	6676.25	1853.66
2011-12	232.79	3417.23	6980.86	1946.51
2012-13	244.03	3689.07	7390.40	2032.98
2013-14	-	-	8112.68	2125.23

Source: Handbook of Statistics on Indian Economy 2015,RBI, website as on 05.05.2015

Table 6 shows NSDP among Central States which comprise of two States which have low NSDP compared with rest of region except North-Eastern States and Union Territories, thus this region development level is low may be to factor that these have more tribal areas, which need to addressed to resolve the regional imbalances problem.

Table 6: Net State Domestic Product At Factor Cost (at constant prices) among Central States (base year 2004-05) (Rs Billion)

Year	Madhya Pradesh	Chhattisgarh
2004-05	999.40	413.87
2005-06	1049.75	420.63
2006-07	1145.45	500.65
2007-08	1199.58	541.12
2008-09	1349.80	576.62
2009-10	1488.91	604.90
2010-11	1605.49	678.89
2011-12	-	755.70

Source: Handbook of Statistics on Indian Economy 2012,RBI, website as on 05.04.2013

Table 7 shows NSDP among Eastern region, which is consider as backward region as Bihar and Jharkhand have low NSDP and also this region have tribal area. in this region only West – Bengal is consider as developed States. There can be seem clear regional imbalances exists as only West- Bengal has NSDP more than 2000 billion.

Table 7: Net State domestic Product At Factor Cost (at constant prices) among Eastern States (base year 2004-05). (Rs Billion)

Year	Bihar	Jharkhand	Orissa	West Bengal
2004-05	701.67	530.56	679.87	1900.29
2005-06	704.47	506.78	710.05	2019.94
2006-07	838.46	515.27	798.45	2178.49
2007-08	901.33	630.05	866.92	2347.98
2008-09	1038.67	604.72	932.07	2442.62
2009-10	1151.31	637.24	998.35	2682.92
2010-11	1324.88	680.13	1071.29	2873.37
2011-12	1503.98	726.60	1135.87	3080.18

Source: Handbook of Statistics on Indian Economy 2015,RBI, website as on 05.05.2015

It becomes clear that there exist regional imbalances in India as Maharashtra has NSDP as high 8112.68 billion in 2013-14 where as Mizoram have NSDP as low 46.88 billion in 2013-14.

[B] FACTORS FOR REGIONAL IMBALANCES

Geographical Features

Most of the more developed States seem to be located in the western and southern parts of the Country and have vast coastal areas. The groups of relatively backward States are in eastern and northern parts of the country and are mostly in the hinterland. Studies have shown that India's growth has been urban-led, favouring those States where urbanization is high due to coastal access (e.g. Maharashtra, Gujarat, Tamil Nadu) or where there is relatively high productivity of agriculture (e.g. Punjab, Haryana).Even with faster overall growth , inland areas are likely to continue to grow more slowly than coastal areas, widening the gap between fast and slow growing areas. Another distinct geographical region that remains less developed is the north-east region. The economic backwardness of North-eastern States seems to have a lot to do with their geographically disadvantageous location. Further States located in hilly terrains face additional per capita costs of providing development services due to the factor termed as divergence between the surface area and the geographical area of the state, for e.g. Himachal Pradesh and Punjab have identical geographical areas, the surface area of the former is double that of the latter, hence more resources are required to deliver services to hilly state as compared to plain region which wides the regional imbalances.

Infrastructure Endowments

Many of the less developed States have less favourable initial infrastructure endowments relative to other States. This is evident in the index of social and economic infrastructure prepared by the Eleventh finance commission. Bihar, Madhya Pradesh, Orissa, Rajasthan and most of the north-eastern States are ranked low in index, on the other more developed States such as Punjab, geo and Gujarat had better infrastructure endowments. There is greater need for higher levels of investment in social services and infrastructure in the backward States as compared to developed States. The government of backward States tends to be fiscally weaker and is, therefore, unable to find enough resources to meet the huge investment requirements.

On another hand, more developed States been fiscally better off and are able to improve their social and economic infrastructure, thus attract private investment, both domestic and foreign which further wide the regional imbalances.

Flow of Private and Public Investment

Before reforms, both public and private investment were largely regulated and directed in nature. However, in post- reforms period particular private, institutional and external capital flows (or investment) have tended to become more and more market- determined. Thus, this confirms the apprehension of the economists that new liberal policies would lead to concentrated pattern of investment in richer States since studies have shown that there is correlation between per capita capital inflows and the state ‘s infrastructure, hence States with better infrastructure are able to attract more private investment. Table 8 shows State-wise Break up of Industrial Entrepreneurs Memorandum (IEMs) implemented (during the last five years and upto April 2015), which based on part – B of IEM filed by entrepreneurs. It is clearly observed in the below table investment made by via IEM has increased but increased in investment has been not in proportional.

Table 8: State-wise Break up of Industrial Entrepreneurs Memorandum (IEMs) implemented (during the last five years and upto April 2015, Investment in Crores)

State	**2010**	**2011**	**2012**	**2013**	**2014**	**2015(till April)**
Andaman & Nicobar	0	0	0	0	0	0
Andhra Pradesh	1011	2266	7150	5021	2801	1470
Arunachal Pradesh	0	0	33	0	22	0
Assam	0	63	290	1012	470	152
Bihar	0	0	471	869	420	340
Chandigarh	0	0	0	0	0	0
Chhattisgarh	749	0	0	31	0	566
Dadra & Nagar Haveli	62	294	42	69	96	180
Daman & Din	79	0	0	3	41	44
Delhi	0	0	0	0	0	0
Goa	51	21	228	37	2	0
Gujarat	4565	2148	49616	15478	40954	1546
Haryana	282	394	1289	889	977	432
Himachal Pradesh	71	42	609	27	112	0
Jammu and Kashmir	69	0	0	0	0	0
Jharkhand	0	424	406	0	1002	0
Karnataka	1771	890	1672	4912	2361	2379
Kerala	0	0	0	0	37	22
Lakshadweep	0	0	0	0	0	0
Madhya Pradesh	11959	268	2157	1519	2625	253
Maharashtra	1291	4671	7509	30266	6024	2650
Manipur	0	0	0	0	0	0
Meghalaya	0	51	401	1100	47	232
Mizoram	0	0	28	0	0	0

Nagaland	0	0	0	0	0	0
Orissa	80	163	105	652	7521	73
Pondicherry	0	5	0	0	0	12
Punjab	69	0	1042	38	162	132
Rajasthan	1592	158	2017	3173	1544	3262
Sikkim	0	0	142	370	504	393
Tamil Nadu	1374	235	524	2292	2500	41
Telengana	1174	173	1261	3365	1137	89
Tripura	0	0	0	0	17	12
Uttar Pradesh	244	82	1450	411	872	685
Uttarakhand	2079	197	2752	781	2749	520
West Bengal	1163	325	962	2462	3747	182
Total	**29735**	**12870**	**82156**	**78497**	**78747**	**15667**

Source:- SIA Statistics, May 2015, Department of Industry Policy and Promotion, Ministry of Commerce and Industry, Government of India website as on 05.05.2105

During the first three decades of planned development, major catalyst for the development of backward States was the massive Central Investment in key sectors. Though these public investment have not triggered regional development but they had some positive impact in number of backward regions of various States. After liberalization process, reforms in financial and industrial sectors and budgetary constraints of Union Government have reduced these investment as a result backward States suffered which further widened the regional imbalances.

Lack of Good Quality of Governance

The quality of governance is an important factor influencing the pace of socio-economic progress of a state. Successful implementation of development programmes requires adequate funds, an appropriate policy framework, formulation of suitable plan schemes, and effective delivery machinery. Through availability of funds, are important but may not alone be adequate to tackle the problem of backwardness. What is equally important is the capability of the delivery system to effectively utilize these funds and implement schemes on the ground but there is deficiencies in good quality of governance among backward States which are not able to utilise resources in efficient manner.

Tribal Areas

The tribal areas, in particular those in the Central India, are mostly in backward States. Though Central Government has attempted to address the special financial and developmental requirements of these areas through the Tribal Sub Plan(TSP), adopted since fifth 5 Year Plan. The idea was to provide a thrust to development of the tribal areas, to improve livelihood opportunities and fill critical gaps based on the special needs of the population of these areas. However, in practice, TSP has become loosely-knit agglomeration of schemes prepared by Line Departments and driven more by departmental priorities rather than any broad thrust on tribal development.

Marginalization of the impact of Green Revolution to certain regions

In India, the green revolution has improved the agricultural sector to a considerable extent through the adoption of advanced agriculture strategy. But the benefit of new agricultural strategy has been marginalized to certain regions only, keeping other regions untouched. As benefit of green revolution was much restricted to States such as Punjab, Haryana and plain of Uttar Pradesh, where assured irrigation networks already existed. Subsequently it was extended to a few irrigation commands in the South and West also. It was, however, expected that with the expansion of assured irrigation the green revolution would spread to other parts of the Country soon. In the essence this did not happen. Even today almost the entire foodgrain surpluses are generated by the small region, which benefited initially. Though massive public funds are spent on food subsidies, very little is spent on spreading irrigation. Besides food subsidies, large implicit subsidies to farmers for power, diesel, canal irrigation, fertilizer and credit are borne by public exchequer at the Centre and in the States. Agricultural Price Policy, which was evolved by APC to ensure adequate protection to the interests of the producers and consumers, has been 'hi-jacked' to serve the interests of the large farmers who produce for the market. Thus in this way new agricultural strategy has aggravated regional imbalances due to its lack of all embracing approach.

Political Factors

Even when a private sector wants to invest in backward area the political ramification uproot all investment plans. The recent Singur Tata Nano Car project is an example in this regard. Tata Company invested heavily but got uproots the opposition political forces.

Industrial Polices

The other example is of major public policy, which had gone sour after initial success is the Industrial policy. In the Fifties, when India initiated a policy of import substitution by starting various industries in key sectors there were very few critics both within the Country and abroad. Indeed, the industrial policy embedded in the second Five Year Plan, giving emphasis to basic and heavy industries, was lauded equally by Russian experts as well as Western experts. That policy enabled the Country to lay the foundations of an industrial base. Gradually the ills of public sector undertakings and the stifling effects of a market without competition became more and more evident. By late Sixties and early Seventies, several perceptive observers noted that there was need to deregulate the industrial sector to allow competition. Government, instead, went ahead with nationalization of more and more key sectors of the economy and also further throttling of private sector to control concentration of wealth and industrial power. The result was further retrogression and immiserization of the economy.

Strapped for funds among Backward States

The factors which attracted more and more private investments to developed regions have been their better developed economic and social infrastructure as well as more efficient and investor friendly State governments. The backward regions, to be attractive to the private investors, have to improve their infrastructure facilities, both economic and social, considerably. This needs substantial public investment. The State governments in the backward regions are, however, strapped for funds even to meet the current expenditure. Almost all the State governments in the backward regions find that their entire revenues are not sufficient to meet even the committed revenue expenditure like interest liability, salaries and pensions. A sizable share of their borrowings is diverted to fill the gap between the revenue receipts and revenue expenditure. There are several States where borrowings have been steadily increasing, but investments have been decreasing secularly.

[C] POLICY MEASURES

Some of the policy measures which can help to reduce the regional imbalances are :-

- Direct flow of financial support to less developed States remains the primary instrument available to the Centre for reduction in regional imbalances. However, a key issue is that despite of such efforts by Centre, desired development does not occur, governance and implementation does not improve, and state remains backward. It could be argued that preferential funding should be made strictly conditional. At same time it is not a feasible option to actually reduce flow of additional resources to backward States, rather it is very necessary to continue directing additional flows to these States in most effective manner if possible.
- Since Planning Commission acts as bridge between Centre and States as it is only agency that directly supports development plans of States. Therefore Commission must play more proactive role in championing the cause of States with Centre ministries in key policy issues that have strong equity and regional dimensions. Also in liberalized market responsibility of the commission is greater in that it has to ensure a level playing field for less developed States. In short, Commission role and influence must be leveraged more effectively with both the States and Central Ministries for bringing about grater inter –state and intra- state regional balance.
- There is need to have governance reforms because without good governance and programme implementation, much of the vast quantity resources being spent for development is wasted. Though governance reforms in recent years have been in focus of Planning Commission's development strategies. Also in tenth plan this governance reforms agenda was highlighted but still direction remain relevant today.
- The administrative framework needs to be significantly strengthened particularly in the north-eastern States. The reach of the administrative network is weak in several of these States, leading to difficulties in implementations of most development schemes. Therefore agenda of strengthening the administrative framework in the region needs to be address as most of States in north-eastern have low NSDP.
- While the development of depressed regions is a national responsibility, the solution mainly rests with the local leadership. Unless the local leadership—political, bureaucratic and intellectual—resolve to usher in development based on sharing the gains on egalitarian basis with the masses, results will be hard to come by. Resources are not the real constraint. It is the way resources are spent. Large sums are spent on education and health care in the backward States. But the results are not there. This happens because the teachers and medical personnel who are expected to provide the requisite services draw their salaries but provide poor services or no services. Unless this kind of

work culture in public services changes, funds alone will not solve the problems.

- The main interest of the foreigners in India is its large potential market. Unless the rural incomes grow, especially in the backward regions this potential market will not be realized. Corporate India must realize that its future lies with the masses. Raising rural incomes should no longer be looked upon only as a philanthropic objective.
- The TSP needs to be looked at as an integrated pool of funds that should be deployed only in a few key priority areas and activities that needed to achieve minimum norms of human development in the target areas and raise income levels of the scheduled tribes residing there. The TSP should be reviewed, revamped, energized and taken seriously.

CONCLUSION

To conclude, there is no doubt economic reforms have positive impact on increasing the growth rate of Indian economy and also Net State Domestic Product but it has also widen the regional imbalances, which is matter of serious concern. As if there is not balanced growth within country then fruits of success is not fully enjoyed. As after reforms private investment become important engine for development and developed States having better economic and social infrastructure were able to attract private investment they developed more whereas backward States were not able to do so as result regional imbalances got widen. Though backward States now are trying to cope up with higher development but still more has to be done. Thus we can say that reduction of regional disparities should be looked upon as a national objective. The strength of a building depends on the strength of its weakest pillar. In a similar way the strength of the Indian economy depends on the strength of the economy of Bihar or backward States.

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