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Regional Development And Income Convergence In India: Before And After Economic Liberalization

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Abstract

This article examines regional development and sub national level income convergence within the framework of post-economic liberalization implemented after 1991 in India. At the state level, analysis of development inputs like human resource, education and private & state investment are being discussed. Indication of convergence in the pre- or post-reform period is absent according to the rising standard deviation of net state domestic product over time. There have also been differences in State Government capital spending ,population increase and private bank lending. However, there is evidence of state-to-state convergence in literacy.

Introduction

India's economic performance has dramatically improved in recent years. As per World Bank, 2009 average growth of 9% during the last four years, it has become one of the economies with the fastest growth rates in the world. This stands in contrast to 1980s average growth of 5–6% and the after independence decade growth of roughly 3.5% each year (Indian Government, 2008). India has been referred to as the "Newest Asian tiger" by the media and academics due to its rapid economic growth in the 2000s. India is the second most populous nation in the world, with a young and expanding population. This is a crucial aspect of India's role as a producer, investor, and consumer on the global market. India, a democratic nation, recently From the perspective of the relationship between development and democracy, a turnaround in growth is crucial.

India's Liberalisation

In 1991, India experienced a balance of payments crisis that prompted substantial reforms for economic liberalisation. Nearly all capital and intermediate items' import licences were abolished in 1991. To encourage exports, central government made provision for Special Import Licenses which was used to import prohibited goods. Exporters were permitted to acquire SILs in proportion to the volume of their export trading. In other words, for some commodities, import concessions were based on superior export performance. Export-related profits are now completely tax-free. A tax exemption lasting between five and eight years was provided as an additional incentive for the export promotion zones. Following the disagreement between trading partners in World Trade Organization, import licencing was repealed in 2001. (WTO). Nowadays, only a small number of environmentally delicate and canalised commodities require import permits. In 1998, India unilaterally renounced all quantitative restrictions on imports from SAARC members. 2003(Virmani). In terms of tariff rates, the economy saw high tariffs in 1980s, due to protectionist justifications and due to revenue-related considerations. The maximum tariff rate in 1990–1991 was 345 percent. In 1998-1999, this was decreased to a percentage of 50.8%. (Kumar, 2000). In 1994, tariff rates on capital goods, among other items, were reduced from 35% to 25%. 1995. Even while India's tariff rates may still be somewhat high compared to other Asian nations, they have dramatically decreased compared to their pre-reform levels. This was done to attract greater foreign direct investment. FDI has the potential to have a significant impact on how quickly industrialization occurs in developing nations. Along with money flows, FDI also delivers market access, advanced technologies, and skill levels. New Industrial Policy declared by Government officials loosened FDI regulations in 1991.

Research At The Local/State Level

The economic liberalisation implemented in 1991 decreased the degree of the state authority in numerous areas, as may be inferred from the discussion above. Particularly, decentralization in investment-related fields gave state and municipal governments more freedom to take initiative. The states were free to set their own policies since there was less central government interference and control to entice both domestic and international investment. It is crucial to research the trends in economic growth both before and after liberalisation was implemented. It is crucial to compare the economic performance at the sub-state level. The dynamics at the state level may be hidden by a study that only considers the national level. It would be possible to understand the distribution of the rapid economic trajectory seen after liberalization era by comparing and contrasting the economic performances of various states.

Experience With State-Level Growth Prior To And Following Liberalization

Significant regional variations are evident from a cursory examination of SDP growth rates. There are socioeconomic differences among the Indian states. This is true for many measures of social indicator like literacy rates and demographic indices as well as numerous indicators of economic indicator like the development of SDP. Much of what is going on at the subnational level is hidden by the growing experience at the aggregate level. According to Aiyar (2001), India has more sub-national disparities in per capita income, urbanisation, and literacy rates. Bhandari and Khare (2002) emphasise the geography of development and note that, on average, the western sections of India have had grown faster than the eastern parts. After 1991, the economies of Kerala and West Bengal, were first middle-income states, which developed at faster pace. Despite experiencing slower growth in the years before the reform, these two states have had rapid growth since the change. Kerala's outcome is particularly intriguing because the socio-economic literature frequently discusses Kerala's "development conundrum." Kerala has made significant progress in terms human development metrics. Kerala has a nearly 91% literacy rate. Despite this, it had a poor economic record in the years before the reforms. However, Kerala actually had quicker growth in the decades following the reform, going from having an National State Domestic Product of '6991 in 1991 to 'nearly '23,201 in 2005.

India's Sub-National Convergence

Testing for economic convergence among Indian states is a relatively new field of study. At the national and regional levels, there have been several studies on economic growth and productivity in India, but the empirical study of income convergence didn't start until the middle of the 1990s. A number of studies on sub-level economic development have been conducted, beginning with a 1996 research by Cashin and Sahay convergence of income. Numerous of these use theoretical models to test for income sigma convergence as well as absolute and conditional beta convergence. The empirical papers use factors including interstate migration, transfers of monies from the centre to the state, investment and infrastructure to test for and explain disparities development indicators between Indian states. Using a variety of samples, techniques, and variables, different authors arrive at varying findings. Few of the most well-known studies, and in a longer list in Cashin and Sahay (1996) were the first to experimentally test for sub-level convergence in India, as was already established. They evaluate the Solow-Swan neoclassical growth model using data for 20 states from 1961 to 1991 and discover compelling evidence of complete convergence. They demonstrate that states in their sample were initially poor grew more quickly than the states that were prosperous at the start.

As per study interstate migration and grants given by the centre to state was the major factors causing wealth disparities across states. Income gaps between states may have been lessened through resources transferred in the form of aid, tax sharing, loans or distribution of credit. Although migration from poor to wealthy states and grant transfers from vice versa are both excellent possible causes of economic convergence, their data only provides scant support for these theories.

Case Studies Examining the Impact of Economic Policy Reforms on State Economies

An empirical investigation of economic liberalisation on sub-level growth in India would have been fascinating. However, a state-level research of this nature would have data issues. At the sub-national level, comparable annual data for variables like FDI and portfolio investment are not available for the years 1970 to 2005. The examination of the actual impact of policy reforms on state-level constrained by the lack of statistics. The level of the central government's influence was significantly lessened in several sectors by economic liberalisation. Particularly, decentralisation in investment-related fields gave state and municipal governments more freedom to take initiative. The states were free to create strategies to draw both domestic and foreign investment due to fewer central government controls and interventions.

Conclusion

Both before and after economic liberalisation, there has been an increase in the per capita NSDP's dispersion. Divergence is also suggested by the analysis of variables like population and investment. Literacy demonstrates cross-state convergence. Reversing the reform process is not the solution to mitigate the divergence. India should continue its economic reforms, if anything at a faster pace, if it is to reach its maximal growth potential. Reforms should be accelerated in the underdeveloped areas. Therefore, it is important to pay special attention to reforms in economically underdeveloped states. Additionally, as was already said, state governments and state policy have played a significant influence in the development of the economy since liberalization particularly in regard to investment

As a result, state governments must play a proactive role in facilitating the benefits of the reform process given the lagging economies' quick growth. The current growth surge in Bihar may serve as proof that the state's socioeconomic development might benefit from stronger infrastructure and governance. In the lagging states, the effectiveness and standard of governance must be raised Efforts must be made to expand investment in development. Central government aid to the states should be based on economic success (Ahluwalia, 2000). As a result, the observed economic divergence must be expanded rather than scaling back. It also asks for faster changes and improved infrastructure facilities in the poorer states. Political stability and national cohesion can be increased by growth that is evenly distributed across all regions of the nation. This is crucial for the start of India's second phase of economic reforms.

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