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States as Drivers of Development²

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¹ The views presented here are those of the authors and do not necessarily represent the position of either Institute for Competitiveness or Stanford University. Working papers are in draft form. This working paper is distributed for purposes of comment and discussion only.

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States as Drivers of Development

Introduction

Competitiveness and Strategy seem to resemble the story of the six blind men and the elephant; it means vastly different things to different people. The Roundtable on States as Drivers of Development allowed a peek into various such perspectives from experts across academia, government, international organisations and industry. The developmental model of states is crucial for fostering innovative initiatives that tackle state-specific challenges, promoting sustainable growth. To achieve this, it is essential to have a deep understanding of each state's competitiveness and implement targeted strategies at the sub-national level. This approach aims to address disparities, foster inclusive development, and unlock the full potential of states and their districts. To make progress towards economic goals, capitalising on strengths and addressing challenges is essential. The Round Table sought to gather insights from experts and thought leaders on the evolving role of states in India's development, with a focus on strategies to enhance competitiveness at the state and city levels.

Regional Disparity

One of the central themes that permeated the conference was the stark reality of regional disparities within India. The data presented underscored the magnitude of this divide, revealing that a mere 100 districts are responsible for a staggering 85% of the country's exports. This concentration of economic activity in a handful of regions speaks to the existence of underdeveloped or what can be termed as "dark" areas that warrant urgent attention. The experts emphasised that understanding these disparities was pivotal to addressing them effectively. Inherent in this narrative is the imperative of shedding light on the economic conditions and developmental needs of these urban centres. This, they argued, should be the starting point for devising targeted policies and initiatives aimed at bridging the regional gap.

State-level analysis delved into the trajectory of development across different regions of India. One participants' research findings from an ongoing research project unveiled a significant concern: disparities in per capita income were on the rise, with richer states outpacing their less affluent counterparts in terms of growth. This divergence raised pertinent questions about the root causes and potential policy interventions necessary to mitigate these disparities. A sector-specific analysis revealed intriguing trends. Labour productivity within manufacturing and services was diverging, with states having inherent strengths in these sectors pulling ahead. In contrast, agriculture showed a convergence pattern, with regions characterised by lower agricultural productivity making strides to catch up with their more agriculturally advanced counterparts.

Basic needs and services provided another lens through which regional disparities were examined. It was emphasised that while indicators related to health, gender equality, and the provision of amenities were converging, disparities persisted in economic and production-related aspects. This juxtaposition raises the question of whether convergence in social indicators necessarily translates into, or implies, broader economic development. The movement of resources, both labour and capital, across states, became a topic of in-depth debate. Labour migration was found to be a common phenomenon, particularly from regions with labour surpluses to areas with higher labour productivity. In contrast, the challenge of capital movement was underscored, with the experts pointing out the tendency for capital to agglomerate in specific regions, further accentuating regional disparities.

The concept of policy space at the state level and the need to explore alternative development models was another salient theme. It was suggested that states often find themselves constrained by their limited influence over macroeconomic factors. This limitation poses questions about the extent to which states can chart their own growth trajectories. Additionally, the conference encouraged a re-evaluation of traditional development models, particularly the transition from agriculture to manufacturing, in favour of more diverse and adaptable approaches.

During the conference, the enduring patterns of regional disparities in India were examined from a historical lens. One participant emphasised the historical advantage of certain regions over others, particularly the contrast between peninsular and Indo-Gangetic regions. They noted that the nature of agrarian economies had a profound influence, with peninsular regions historically having more developed agricultural sectors. This advantage contributed to faster urbanisation and industrialisation in areas “south of Godavari”. The participant also pointed out that policy continuity played a crucial role in sustaining development. They provided examples of Telangana and Tamil Nadu, where successive governments have consistently promoted development without reversals. These insights underscore the importance of historical legacies in shaping regional economic dynamics and the significance of policy consistency in attracting business investments and fostering long-term growth.

Demographic challenges, especially the ageing population in the southern regions of the country, were also considered. The need to create equitable economic activity across states, especially considering the persisting anti-migration policies, pointing out that they can be detrimental to the economic growth of states. Also, whether the nature of the labour force available was sufficient to ensure economic growth and if the increase in labour productivity was genuinely promoting large-scale employment was questioned. Additionally, the states often struggle to deliver projects effectively, particularly in areas such as skilling and healthcare. To address this, project management units (PMUs) are often invited to manage complex projects. This practice highlights the need to empower local governments and communities, especially in emerging city centres, to drive regional development.

Cooperative and Competitive Federalism

Participants emphasised the pivotal role of states as drivers of development, shedding light on NITI Aayog's dedicated approach to prioritising state-centric initiatives. With the governing board, chaired by the Prime Minister, inclusive of Chief Ministers and administrators from Union Territories, the annual meetings underscored a significant commitment, channelling approximately 70% of resources toward state-centric endeavours.

Cooperative federalism, a familiar concept, has evolved to incorporate comparative federalism, introducing a vertical relationship where states not only cooperate but actively compete. This competition extends beyond resource allocation to attracting investments, including Foreign Direct Investment (FDI) and Production-Linked Incentives (PLI). Participants also acknowledged the challenges posed by existing ecosystem advantages, citing examples from the mobile phone industry where developed states with established ecosystems attracted the major share of investments. Further, the discussion on the Export Preparedness Index revealed that merely 100 districts contribute a substantial 85% to the country's exports. Despite this concentration, the discussion highlighted the success stories of specific districts, such as Jamnagar and Tirupur, along with emerging hubs like Noida in Uttar Pradesh. The evolving policy landscape was discussed, with an observable shift toward proactive efforts by states to attract investments, as demonstrated by initiatives in West Bengal, Haryana, and Rajasthan.

The participants addressed the misconception that schemes like PLI were primarily focused on regional disparity obliteration. Instead, the primary objective was to bolster the manufacturing sector, aiming to diversify and strengthen the overall economy. Success stories, like the entry of TATAs into mobile phone casing manufacturing, showcased the ripple effect and potential for spin-offs. Insights into the challenges faced by states were drawn from experiences with other successful programs like Pradhan Mantri Gram Sadak Yojana. The introduction of Detailed Project Reports and Performance Guarantees was discussed as transformative measures introduced by central government programs. The Aspirational Districts Programme was cited as evidence that, when implemented correctly, large-scale programs significantly enhance state capacities and drive sustainable development.

Role of Governance

Participants stressed the importance of revisiting historical practices to inform contemporary strategies for addressing India's complex developmental challenges, highlighting the perennial challenge of possessing solutions without clear implementation strategies. Governance and diversity emerged as a major theme in the conference, recognising that India's diversity is not confined to its demographic or cultural dimensions alone but extends to its social, economic, and regional characteristics. The participants articulated the need for a governance model that acknowledges and accommodates this diversity. They proposed a hybrid approach that integrates top-down and bottom-up strategies, contending that both are indispensable for steering a country as vast and varied as India. The crux of this approach is the recognition that local-level implementation is key to achieving specific development goals, including poverty alleviation, disaster mitigation, and the effective delivery of public services. By allowing local authorities and communities to take the reins, this approach facilitates a more tailored response to regional challenges and a more agile adaptation to the unique needs of diverse regions.

One of the participants delved into the critical aspect of the population's attitude towards authority, particularly in regions like Eastern Uttar Pradesh and Bihar. The influence of local figures raised pertinent questions about the effectiveness of economic initiatives in areas where authority might be fragmented or wielded by non-official figures. Highlighting the significant divergence in public administration across states, one of the participants called for a study where the correlation between attitudes toward authority and the level of industrial development is analysed, citing examples from the South where a higher adherence to the rule of law seemed to correlate with more significant economic progress. Feudal remnants were identified as a hindrance to progress, with states less influenced by feudal structures exhibiting higher industrial development.

Participants highlighted the significant role that states can play in driving development, stressing that once a national framework is established, states have the opportunity to take initiative and action at their own level. In the '90s, before Chandra Babu Naidu's efforts, Andhra Pradesh was not known for future-looking industries. However, Hyderabad, through strategic initiatives, particularly in the technology and IT sectors, transformed into a crucial hub. Participants also acknowledged the varied responses of different states to the digital public infrastructure framework, citing Uttar Pradesh's notable initiatives for citizen welfare. The mention of Tamil Nadu's specific bodies and policies, such as the Tamil Nadu e-governance Authority and its blockchain and AI policies, highlighted how states are leveraging technology for local needs. One participant argued that the interplay of governance, technology, and growth forms a virtuous cycle. Technology enables good governance, which, in turn, facilitates growth. This reciprocal relationship is unfolding uniquely in each state. While financial constraints are often cited, intent and effective resource management are crucial factors in state development. There is

a need for more in-depth research to understand the impact of technology on governance and its potential role in reducing disparities among states.

The discussion on the developmental model of states emphasised several key factors that play a pivotal role in fostering impactful change. One crucial aspect highlighted was the correlation between authority at the district or state level and the ability to bring about significant improvements. The role of officers in positions of authority, especially in local governance, was emphasised, acknowledging their competency as a crucial factor for the success of initiatives. Another critical point addressed was the need to recognise and address resource allocation disparities, with a strong emphasis on the role of good governance in ensuring effective utilisation of available resources. Furthermore, the discussion emphasised the autonomy for states in shaping a new India. Empowering states and local governments was identified as essential for fostering a more futuristic and aligned approach to development, reflecting the importance of decentralised decision-making in the pursuit of overall progress and growth.

State Competitiveness

There was a discussion about the link between inequality and opportunity, expressing concerns about balancing India's growth and equity. Participants stressed the need to move away from the idea that growth and equity are mutually exclusive and encouraged a focus on creating opportunities that support innovation and risk-taking.

The participants also highlighted the significance of competitiveness, suggesting a continuous measurement of state competitiveness. The participants stressed understanding and leveraging natural economic phenomena, like clusters, as a cohesive strategy for fostering competitiveness in India's growth narrative. Migration was discussed positively as a competitive advantage, especially when states strategically encouraged labour migration. The participants argued for celebrating and measuring migration rather than worrying about relocating industries to specific regions. Clusters in industry development were seen as crucial, and the idea that promoting competitiveness within states could help these clusters emerge was suggested.

One participant delved into the challenges posed by the Finance Commission and how certain elements create disincentives for states to be competitive. Participants expressed concern about the growing culture of freebies during electoral cycles and the need for the Finance Commission to address this. The upcoming 16th Finance Commission was discussed, with a focus on the difficulty in defining and regulating freebies. Participants emphasised the role of State Finance Commissions in defining and regulating freebies, urging the 16th Finance Commission to encourage states to establish and act upon these commissions.

When discussing India's challenges, there was an emphasis on addressing last-mile connectivity issues, especially in socially and economically backward Hindi Heartland states. Coastal states like Andhra, Kerala, Maharashtra, and Gujarat were noted for outperforming their Hindi Heartland counterparts, indicating a link between coastal development and overall progress. To ensure more equitable growth, participants suggested enabling states to play a more active role in mechanisation, modernisation, and technology adoption, particularly in agriculture. Lastly, they agreed that NITI Aayog should share success stories from different states to promote learning and emulation. Similar global best practices could be adopted as learning from successful global examples, particularly China, was encouraged.

Adolescent and Youth Engagement

In the discussions, participants focused on India's demographic strength, particularly the sizable adolescent and youth population, constituting over a quarter of the total demographic landscape. A key emphasis was placed on the vital role of meaningful engagement of adolescents and youth in policy and programs, highlighting the necessity of incorporating their perspectives for comprehensive development. Insights derived from a survey conducted in Delhi, spanning 10 states and targeting young people aged 10 to 29, were shared, revealing priorities crucial to their well-being. These priorities aligned with the broader session discussions. Foremost among the identified priorities was the imperative for access to quality education, highlighting the need for inclusivity in educational opportunities. Additionally, participants recognised the importance of financial assistance for higher education, aiming to ensure that the youth not only acquire skills but also possess the competence and opportunities for innovation. The survey also noted the significance of gender equality and a safe environment for youth, emphasising that an enabling atmosphere contributes significantly to their overall well-being. Participants acknowledged the pivotal role of states in areas such as health, education, and gender equality. They emphasised the importance of tailoring development approaches to meet the diverse needs of youth across different states, recognising the nuanced challenges and opportunities unique to each region.

Skilling and Education

Participants addressed geographical poverty, stressing the need for inclusive growth, especially in traditionally neglected regions like northeastern states. Using the example of MGNREGA, a participant drew attention to the challenges faced by the agricultural sector in India, particularly issues like low productivity and the necessity for skill development. A suggestion was made to move the surplus labour from agriculture to vocational skills by promoting skill development initiatives with employment opportunities. Participants emphasised the importance of thinking innovatively to address the persistent challenges and tap into existing opportunities. The key takeaway was the need for out-of-the-box solutions to reshape the agricultural landscape and enhance the skills of the workforce. Additionally, the need for competence, distinct from mere skills, was noted as a critical aspect of addressing India's challenges. There was an emphasis on the need for a comprehensive approach to competency development in the country.

One panellist discussed the implications of basic training and primary education by recounting the story of Krishna Raja Wadiyar IV of Mysore, who died in 1940. Before he died, he set into motion a number of developmental projects; he built a Dam on the Kaveri River, which brought a lot of prosperity to the region. He used the funds from the Kolar Gold Fields to promote women's education, removed discrimination against backward classes and castes, and pushed everyone into gaining primary education. As a result, the Bangalore area had access to a very large pool of semiskilled workers. Any company that wants to come in there can benefit from labour that has finished school and has some technical awareness. A common feature between Bangalore and Pune is a large pool of hardworking workers has been created due to the investment in education undertaken by their visionary predecessors who emphasised basic training for all. Nowadays, the panellist speculated, the "dignity of labour" is gone. Children in the education system are not learning to work with their hands, and the timeless creative skills of the weavers and artisans are fading due to an imperfect learning system that does not value handicraft skills enough. India's skilling and education ecosystem needs to work towards more productive outcomes of quality and foundational learning so that the nation can reap the benefits from its demographic dividend.

During the discussion, participants underscored the pivotal role that states play in driving transformative change, emphasising the necessity for autonomy and empowerment at both the

state and local government levels. One focal point of the conversation revolved around the intersection of basic education and gender equality within the framework of the New Education Policy (NEP) and the Sarva Shiksha Abhiyan. Participants recognised the importance of these initiatives, noting that their clear guidance allows states to tailor their plans to address specific needs, fostering a more targeted and effective approach. Using Madhya Pradesh as an illustrative example, participants commended the state's proactive stance on education reform. The launch of Mission Ankur and its alignment with the NEP served as a testament to the state's dedicated commitment to enhancing education.

Energy Sector

A key focus was laid on the energy sector and its centrality to India's climate ambitions and climate goals. The nation is grappling with a twin problem of providing energy access to a large part of the population and reducing emissions from carbon-intensive sectors to mitigate climate change. States, with their decision-making power, become important building blocks to how the nation looks at issues surrounding electricity, renewable energy generation, energy storage concerns, and new technology applications. Another critical area of research could be the effects of climate policies and decisions, not just in India but around the world, on the manufacturing sector. These policies, such as the United States and EU putting a price on carbon, trickle down to key industrial sectors – aluminium, cement, steel – and would affect India's trade and manufacturing competitiveness in fundamental ways. The states that are heavily dependent on these sectors for their economic growth need to be better prepared for the clean energy transition and carbon pricing and what they could mean for them.

Innovation

Innovation and its role in driving economic growth was a prominent part of the discussion. Participants stressed that innovation tends to concentrate in urban centres, which subsequently exacerbates economic disparities. However, the key takeaway was not to advocate for wealth redistribution but rather to create an environment that offers better access to innovation. This environment would enable more regions, particularly aspirational districts, to harness innovation as a catalyst for their own growth.

Speaking on Innovation, one of the panellists said that we are in the midst of a new industrial revolution, which is possibly being led by digital transformation and artificial intelligence, among other factors. Innovation is highly linked to the time in which it is happening. There are opportunities for innovation in 'Bharat'; the unmet demand for access to education, health, etc., is being tackled by social entrepreneurs who work with people on the ground and the youth. We need opportunity that leads to equality, and innovation needs to come from the practitioners on the ground, from the government, and from educational institutions. However, the missing piece in the current network is corporations; unlike Silicon Valley, where there is an opportunity to try out innovations in partnership with corporations or get funding from them, the absence of corporate participation and their risk-aversion in the landscape has led to slow global-scale innovation in India. Innovation has to look to solve problems at scale. Currently, technology and digital public infrastructure are driving innovation in India. One of the gaps that needs to be addressed is leadership by corporations to take risks and for them to meaningfully partner up with smaller businesses on the ground and in rural India. Today, a lot of traditional businesses have been disrupted due to the provision of digital infrastructure, which has provided alternatives; small businesses have been aggregated on platforms and given scale, and health and education access has been solidified through technology. This has, in turn, disrupted corporations and may drive them to take more risks and invest in R&D to develop the solutions that are needed. As an example, a company based out of Stanford with two young Indian

Founders was using AR-VR tools to improve STEM outcomes and was approached by the Goa government to integrate the system into government schools. The for-profit company is partnering with CSR units and NGOs on the ground to deliver it to these schools. One way, thus, for such sectors to achieve scale is to partner up with state governments. Odisha is another state that is going out of its way to partner with innovative companies in health, education and rural access. The key idea is that corporations need to partner proactively, not reactively.

Acknowledging the natural inclination of private sectors to invest in well-established and developed areas with robust infrastructure, regulations, and policies, the participants stressed the importance of increasing development even in rural areas. Drawing parallels with Japan's post-World War II experience, a participant highlighted how, despite income distribution disparities and variations between industrial and rural areas, strong initiatives from the central and state governments played a pivotal role. Japan prioritised specific industries, focusing on their development and strategically distributing industrial states across the country. This approach resulted in significant improvements in people's lives and the perception of being in the middle class. The significance of strong political direction for development was emphasised, asserting that even private sectors, while choosing attractive investment destinations, require robust support from both central and state governments. A united and decisive approach from the government is crucial for driving development, regardless of the sector. The discussion aimed to explore steps, challenges, and potential solutions in aligning state and central efforts for effective development.

Conclusion

The discussion ended on a note of acknowledgement of the regional diversity that has existed and continues to persist, as evidenced by all the latest data. Developed states remain developed while backward states remain backward, pointing to an issue of little convergence. There are many positive transformations happening in education, healthcare, innovation, startups etc.; however, the regional divide has yet to be overcome. On the flip side of the conversation on the demographic dividend is the reality that India is going to be home to a large ageing population soon. The eventual migration of people to urban centres to fill up job roles and economic activities in this scenario will create immense pressure on these urban centres, and state governments are yet to recognise and tackle these concerns. In summary, the roundtable conference served as a comprehensive and insightful platform for dissecting the regional development and economic disparities in India. The thematic areas of discussion encompassed the heterogeneity within the country, governance strategies, the role of innovation, state-level development patterns, and the dynamics of demographic changes.

As goes the story of the six blind men and the elephant, the elephant is huge and hence difficult to describe. With the diversity that can be found between states, it cannot be expected that one solution will fit everyone. The roundtable gave way to a fruitful discussion on the various and diverse concerns, opportunities and caveats for states to become drivers of development. To view economic growth not only in GDP numbers but as an improvement in quality of life and opportunity requires taking a look at the entire elephant and coming up with measures that can be useful for policymakers, academics and corporations.

List of Participants	
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