



IMPACT OF REGIONAL IMBALANCE ON COMMERCE AND INDUSTRY

Shri. Ningappa N. Kudupali

Guest Faculty, BESM Arts and Commerce College, Bydagai

Tq: Bydagai, Dist: Haveri. State Karnataka-581106

E-Mail: nkudupali@gmail.com

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Abstract

Regional imbalance is the disparity in economic and social development of two regions. One region/city/area is stronger than another region/city/area. Regions develop when investments are made to set up industries, service sectors, educational institutions, health care facilities etc. In India after liberalization, the role of private sector has increased in investment decisions. Naturally, the investments will flow in regions which are favorable to return maximum return on investments. This rule is out the possibility of investments in poorly connected and geographically separated regions (for example mountains), and regions with hostile political environment. The maximum share is gained by the regions which have adequate physical and social infrastructure and a conducive environment. This results in development of one region as compared to the other region. Some consequences of this imbalanced development are: Migration, Social unrest, Aggregation of the imbalance etc., regional imbalance is directly adverse effect on Commerce and as well as industry.

Keyword: *Regional imbalance, adverse effect, Commerce-industry, adequate physical and social infrastructure.*

I. INTRODUCTION

There exist wide areas of debate about the regional imbalance. The relationship between trade and economic growth has spawned a large theoretical and empirical body of literature. Free trade is generally acknowledged to increase economic performance and national welfare. Perhaps one of the most obvious examples is the relation between trade and regional disparities. While both topics have received ample treatment in recent years, and while mainstream trade theory holds basic and fundamental implications for income inequalities, the relation between trade and spatial income disparities within trading countries has remained under-explored. Within the new economic geography school, discussion over how falling transport costs affect

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the wealth of different regions is central to the entire approach (see Krugman, 1991). And outside new economic geography, the traditional Heckscher–Ohlin (H–O) based models of trade might well lead, on the one hand, to declining disparities as trade evolves, if capital and investment look for the areas with the lowest cost base and if labor migrates to higher salary zones. Another possible outcome, on the other hand, is rising disparities, since the owners of abundant factors in trading countries will profit and scarce resource owners experience falling returns, at least in the medium term. The admittedly scant empirical research into the issue reflects these disagreements.

II. THE PROBLEM OF STUDY

Regional Imbalances have made it evident that hindrance of commerce and industrial activity is a complex problem to which there is no simple solution. The hindrance of commerce and industrial activity help to grow unemployment, poverty, low level of income, lead to decrease in investment. The investigators decided to study the various factors which are related to the Regional Imbalances and their adverse effect on overall economy. So, the purpose of the study is to find out what factors are influencing Regional Imbalances.

III. REVIEW OF LITERATURE

- ❖ **Gunnar Myrdal Theory:** He argues that due to industrialization and gain in productivity, rich regions benefit more. He does not deny that growth spreads to poor regions through access to larger markets and trade opportunities. However, he insists that gains are offset by stronger backwash effects generated by deteriorating terms of trade resulting from high productivity gains in industrialization in rich regions. Therefore, the theory predicts divergence in regional incomes.
- ❖ **Theory of Unbalanced Growth:** Unbalanced growth is a natural path of economic development. Situations that countries are in at any one point in time reflect their previous investment decisions and development. Unbalanced investment can complement or correct existing imbalances. Once such an investment is made, a new imbalance is likely to appear, requiring further compensating investments. Therefore, growth need not take place in a balanced way.

Review of Studies Related to India: India has experienced wide regional imbalance in achievement of development goals. Whether such imbalances have widened over the years have been studied by the Williamson (1964), Dhar and Sastry (1969), Rao (1973), Gupta (1973), Raj (1990), Dholakia (1994), Ahluwalia (2000), Jha (2000), Kurian (2000), Majumdar (2004), Nayyar (2008) etc.,

- ❖ **Williamson (1964)** investigated the pattern of regional inequalities in the 1950's and concluded that the decade was marked by increasing inequalities. This was however contested by **Dhar and Sastry (1969)** who using power consumption as a proxy for industrial development found a tendency towards narrowing down of inter-state disparity in industrial output.
- ❖ **Rao (1973)**, the states were grouped into categories on the basis of factor analysis of a number of indicators. He found that broadly the same set of states remained within the different categories over the period thereby negating convergence or divergence.
- ❖ **Gupta (1973)** found that public investment had a significant contribution in reducing regional income disparity during 1950-66.
- ❖ **Nair (1983)** in which on the basis of compiled SDP data for 1950-51, 1955-56, 1960-61 to 1975-76 from different official and unofficial sources, and showed that inter-state disparities in per capita net state domestic product (NSDP) had declined over the period 1950-51 to 1964-65, but increased between 1964-65 and 1976-77.
- ❖ **Raj (1990)** finds that the disparities in the level of income across rural and urban sectors tend to persist because of slow growth of per capita income in the rural sector. The study covered the period between 1950-51 and 1986-87. In an analysis of 20 Indian states during the period 1960-1990.

IV. OBJECTIVES OF THE STUDY

In the light of above analysis following are the specific objectives of the study.

1. To analyze the causes of Regional Imbalances.
2. To suggest the solving of Regional Imbalances.

➤ **Hypothesis of the study:**

1. The Regional Imbalances are adverse effect on Commerce and Industry.

➤ **Study area and period:**

The present study is confined to different states in India. The study covers a period of last 10 years.

➤ **Sources of Data and Research Methodology:**

Secondary data collected and analyzed by using simple statistical tools.

➤ **Analysis of Data:**

The data was collected, analyzed, interpreted and evaluated keeping in view the objectives and hypothesis of the study. Various tables were also prepared where ever needed.

V. CAUSES OF REGIONAL IMBALANCES IN INDIA

1. Historical factors: Historically regional imbalance started in India from British regime. British industrialist mostly preferred to concentrate their activities in two states like west Bengal and Maharashtra and more particularly to their metropolitan cities like Kolkata, Mumbai and Chennai. They concentrated all their industries in and around these cities neglecting the rest of the country to remain back ward.

2. Geographical factors: The difficult terrain surrounded by hills, rivers and dense forests, leads to increase in the cost of administration, cost of developmental projects, besides making mobilization of resources particularly difficult. Most of the Himalayan states of India, i.e., Himachal Pradesh. Northern Kashmir, the hill districts of Uttar Pradesh and Bihar, Arunachal Pradesh and other North-Eastern states, remained mostly backward due to its inaccessibility and other inherent difficulties. Adverse climate and proneness to flood are also responsible factors for poor rate of economic development of different regions of the country as reflected by low agricultural productivity and lack of industrialization. Thus, these natural factors have resulted uneven growth of different regions of India.

3. Failure of planning: Although balanced growth has been accepted as one of the major objectives of economic planning in India, since the second plan onwards, but it did not make much headway in achieving this object. On the other hand, the backward states like Bihar, Assam, Orissa, UP, Rajasthan have been receiving the smallest allocation of per capita plan outlay in almost all the plans. Due to such divergent trend, imbalance between the different states in India has been continuously widening in spite of framing achievement of regional balance as one of the important objectives of economic planning in the country.

4. Financial: Financial sector reforms have led to a booming stock market that has helped large firms finance their expansion easily, however small and medium enterprises which are important engine of growth and productivity have not been able to access finance in rural areas.

5. Infrastructure: India's tier 1 cities i.e., Mumbai, Bangalore, Delhi, Chennai and Hyderabad are at breaking point regions bootlicks in basic infrastructure such as power, water, roads and airport exist. The concentrated mushrooming of out sourcing companies in these cities lead further higher growth, while as other areas do not poses the same situation prevailing in these metropolitan cities.

6. Disparities in Socio-Economic Development: Development is a multi-dimensional phenomenon. In India, the states are earmarked with wide disparity in socio-economic development. This in turn influences the regional imbalances in a country. The role of social development such as education in promoting literacy, especially of female is prerequisite for overall development (The below table – 4 gives information about the literacy rates in different states of India).

Sl. No.	State	Literacy rate (2001 Census)	Literacy rate (2011 Census)	Decadal Change in Literacy rate (2001-2011)	Literacy Rate-Male (2001 Census)	Literacy rate-Male (2011 Census)	Decadal Change in Male Literacy Rate (2001-2011)	Literacy Rate-Female (2001 Census)	Literacy rate-Female (2011 Census)	Decadal Change in Female Literacy Rate (2001-2011)
1	Andaman & Nicobar	81.30%	86.30%	5.00%	86.30%	90.10%	3.80%	75.20%	81.80%	6.60%
2	Andhra Pradesh	60.50%	67.70%	7.20%	70.30%	75.60%	5.30%	50.40%	59.70%	9.30%
3	Arunachal Pradesh	54.30%	67.00%	12.70%	63.80%	73.70%	9.90%	43.50%	59.60%	16.10%
4	Assam	63.30%	73.20%	9.90%	71.30%	78.80%	7.50%	54.60%	67.70%	13.10%
5	Bihar	47.00%	63.80%	16.80%	59.70%	73.50%	13.80%	33.10%	53.30%	20.20%
6	Chandigarh	81.8%	86.40%	4.60%	86.10%	90.50%	4.40%	76.50%	81.40%	4.90%
7	Chhattisgarh	64.70%	71.00%	6.30%	77.40%	81.50%	4.10%	51.90%	60.60%	8.70%
8	Dadra & Nagar Haveli	57.60%	77.70%	20.10%	71.20%	86.50%	15.30%	40.20%	65.90%	25.70%
9	Daman & Diu	78.20%	87.10%	8.90%	86.80%	91.50%	4.70%	65.60%	79.60%	14.00%
10	Delhi	81.70%	86.30%	4.60%	87.30%	91.00%	3.70%	74.70%	80.90%	6.20%
11	Goa	82.00%	87.40%	5.40%	88.40%	92.80%	4.40%	75.40%	81.80%	6.40%
12	Gujarat	69.10%	79.30%	10.20%	79.70%	87.20%	7.50%	57.80%	70.70%	12.90%
13	Haryana	67.90%	76.60%	8.70%	78.50%	85.40%	6.90%	55.70%	66.80%	11.10%
14	Himachal Pradesh	76.50%	83.80%	7.30%	85.30%	90.80%	5.50%	67.40%	76.60%	9.20%
15	Jammu & Kashmir	55.50%	68.70%	13.20%	66.00%	78.30%	11.70%	43.00%	58.00%	15.00%
16	Jharkhand	53.60%	67.60%	14.00%	67.30%	78.50%	11.20%	38.90%	56.20%	17.30%
17	Karnataka	66.60%	75.60%	9.00%	76.10%	82.80%	6.70%	56.90%	68.10%	11.20%
18	Kerala	90.90%	93.90%	3.00%	94.20%	96.00%	1.80%	87.70%	92.00%	4.30%
19	Lakshadweep	86.70%	92.30%	5.60%	92.50%	96.10%	3.60%	80.50%	88.20%	7.70%
20	Madhya Pradesh	63.70%	70.60%	6.90%	76.10%	80.50%	4.40%	50.30%	60.00%	9.70%
21	Maharashtra	76.90%	82.90%	6.00%	86.00%	89.80%	3.80%	67.00%	75.50%	8.50%
22	Mangur	69.90%	79.80%	9.90%	79.50%	86.50%	7.00%	60.10%	73.20%	13.10%
23	Meghalaya	62.60%	75.50%	12.90%	65.40%	77.20%	11.80%	59.60%	73.80%	14.20%
24	Mizoram	80.80%	91.60%	10.80%	90.70%	93.70%	3.00%	86.70%	89.40%	2.70%
25	Nagaland	66.60%	80.10%	13.50%	71.20%	83.30%	12.10%	61.50%	76.70%	15.20%
26	Odisha	63.10%	73.50%	10.40%	75.30%	82.40%	7.10%	50.50%	64.40%	13.90%
27	Puducherry	81.20%	86.50%	5.30%	88.60%	92.10%	3.50%	73.90%	81.20%	7.30%
28	Punjab	69.70%	76.70%	7.00%	75.20%	81.50%	6.30%	63.40%	71.30%	7.90%
29	Rajasthan	60.40%	67.10%	6.70%	75.70%	80.50%	4.80%	43.90%	52.70%	8.80%
30	Sikkim	68.80%	82.20%	13.40%	76.00%	87.30%	11.30%	60.40%	76.40%	16.00%
31	Tamil Nadu	73.50%	80.30%	6.80%	82.40%	86.80%	4.40%	64.40%	73.90%	9.50%
32	Tripura	73.20%	87.80%	14.60%	81.00%	92.20%	11.20%	64.90%	83.10%	18.20%
33	Uttar Pradesh	56.70%	69.70%	13.00%	68.8%	79.20%	10.40%	42.20%	59.30%	17.10%
34	Uttarakhand	71.60%	79.60%	8.00%	83.30%	88.30%	5.00%	59.60%	70.70%	11.10%
35	West Bengal	68.60%	77.10%	8.50%	77.00%	82.70%	5.70%	59.6%	71.20%	11.60%
	Whole India	64.83%	74.04%	9.21%	75.26%	82.14%	6.88%	53.67%	65.48%	11.79%

Table- (1) Literacy Rates: 2001 Census and 2011 Census (States & Union Territories):

Source: 2001 and 2011 Census (Retrieved from my Blog: Vijay's Vision. Blog Spot.Com)

Analysis: Eleven states and Union Territories have recorded literacy rates below the national average of 74.04%. This includes Bihar, Jharkhand, Andhra Pradesh, Madhya Pradesh, Chhattisgarh, Uttar Pradesh and Rajasthan. Over the last decade these states have improved literacy rates anywhere by 6.2% to 24%. While Bihar is the most laggard, at a literacy rate of 63.8%, it has made substantial improvement over its Census 2001 performance of 47%. The most impressive gain was made by Jharkhand, which improved on its Census 2001 figure of 53.6%. The state's literacy rate is 67.6%. In Rajasthan, the male literacy rate is 80.51%, while the female literacy rate is 52.66%. This is a huge gap. The Goa's overall literacy rate in the state stood at 87.40 per cent and the same is 92.81 percent among males and 81.84 percent in

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females. More heartening new female literates outnumbered male literates during the past decade. Ten states and union territories achieved a literacy rate of above 85%. This is an achievement India can be proud of.

7. Political factor responsible for regional disparities: Political instability in the form of unstable government, extremist violence, law and order problems etc. have been obstructing regional flow of investment into the backward regions.

8. Predominance of Agriculture: The occupational structure of India from the beginning is agriculture. In 1921, it was 76.0% and around 72% in 2001 census. This indicated degeneration economic conditions, deindustrialization and realization of the economy. According to census 2011, yet 58.02% population is engaged with agriculture and remains poor as compared to industrialized civilization.

9. Lack of Motivation on the Part of Backward States: Growing regional imbalance in India has also been resulted from lack of motivation on the part of the backward states for industrial development. While the developed states like Maharashtra, Punjab, Haryana, Gujarat, Tamil Nadu etc. are trying to attain further industrial development, but the backward states have been showing their interest on political intrigues and manipulations instead of industrial development.

10. Locational Advantages: Locational advantages are playing an important role in determining the development strategy of a region. Due to some locational advantages, some regions are getting special favour in respect of site selections of various developmental projects. While determining the location of iron and steel projects or refineries or any heavy industrial project, some technical factors included in the locational advantage are getting special considerations. Thus, regional imbalances arise due to such locational advantages attached to some regions and the locational disadvantages attached to some other backward regions.

VI. CONSEQUENCES OF REGIONAL IMBALANCES IN INDIA

The following are some of the consequences of regional imbalances in India:

1. Inter - States and Intra State Agitations: Uneven regional development or regional imbalances lead to several agitations within a State or between the States.

2. Migration: Migration takes from backward areas to the developed areas in search of livelihood. For example, migration from rural to urban. Because, urban areas will provide better quality of life and more job opportunities when compared to rural.

3. Social Unrest: Differences in prosperity and development leads to friction between different sections of the society causing social unrest. For example, Naxalism. Naxalites in India function in areas which have been neglected for long time for want of development and economic prosperity.

4. Pollution: Centralization of industrial development at one place leads to air and sound pollution.

5. Housing, Water Problem: Establishment of several industries at one place leads to shortage of houses as a result rental charges will increase abnormally. For example, Mumbai, New Delhi, Chennai and Hyderabad and over population leads to water crisis.

6. Frustration among Rural Youth: In the absence of employment opportunities in rural and backward areas leads to frustration especially among educated youth.

7. Under – Developed Infrastructure: Rural and backward areas do not have 24 hours power, proper houses, safe drinking water, sanitation, hospitals, doctors, telephone and internet facilities.

8. Aggregation of the imbalance: Once an area is prosperous and has adequate infrastructure for development, more investments pour-in neglecting the less developed regions. So an area which is already prosperous develops further. For examples, the rate of growth of the metropolitan cities like Mumbai, Delhi, Kolkata, Chennai, Bangalore and Hyderabad is higher compared to other metro cities of India.

VII. SUGGESTIONS

1. Identification of the Backward Areas and Allocation of funds: First of all, government must identify all the backward areas within the country and special attention should be paid by preparing and implementing special plans and models suited to these for the overall development. Due care also to be taken by allotting sufficient funds.

2. Need for Investments in Backward Areas: Government and the private sector must realize that regional disparities can be removed only, if greater attention is paid towards backward areas, which need more investments. It is also important to formulate special policies and programmes for the development of backward areas like - north- eastern regions.

3. Good Governance: Good governance refers to equitable distribution of the gains of development to all the regions without any prejudice so that over all development takes place in a country. Thus, the better the governance, the less would be the disparities in country.

4. Political Will: Political will is vital for the balanced regional development i.e. to remove regional imbalances in a country.

5. Incentives: Incentives should be provided for promoting investments in the backward regions. Incentives may be broadly divided in to (a) Central Government Incentives (b) State Government Incentives.

- Central Government Incentives: Income Tax Concession, Tax Holiday, Central Investment Subsidy Scheme, Transport Subsidy Scheme should be provided to all the identified backward and Hill areas to correct the regional imbalances.
- State Government Incentives: In order to attract private sector investment in backward regions, the State Governments have also been offering several incentives in different forms. The State Governments should review all these schemes time to time for further development of their backward regions.

6. Promoting New Financial Institution in Backward Region: In order to accelerate the pace of industrialization in backward areas, the Government of India should promote new financial institutions. Government must see that these Institutions functional well for all round development of the backward areas.

7. Setting up of Regional Boards: as per Article 321 D of Indian Constitution, Regional Boards with necessary legal powers, funds should be instituted to remove regional disparities in the States.

8. Growth Corridors comprised of education zones, agricultural zones and industrial zones should be operationalized for the rapid development of backward areas in the states.

9. Strict restrictions on usage of productive agricultural lands for non-agricultural purposes to be implemented. If required, permissions for non-agricultural usage should be granted only after the farmers have been guaranteed a better life.

10. Usage of natural resources for the development of tribal areas to be implemented. There should be guaranteed share for the tribal's in the income generated from the use of natural resources.

11. A composite criteria for identifying backward areas (with the Mandal/Block as a unit) based on indicators of human development including poverty, literacy and infant mortality rates, along with indices of social and economic infrastructure should be developed by the NITI Aayog.

12. Devolution of funds: Union and State Governments should adopt a formula for Mandal/Block-wise devolution of funds targeted at more backward areas.

13. Strengthening of local governments and making them responsible and accountable.

14. A system of rewarding States (including developed States) achieving significant reduction in intra-State disparities should be introduced.

15. Additional funds for Infrastructure: Additional funds need to be provided to build core infrastructure at the inter-district level in less developed States and backward regions. The quantum of assistance should be made proportionate to the number of people living in such areas.

16. Greater share of central pool of funds should be allocated to backward states.

17. Provision of Grant-in-aid by the Central Government to the backward states.

18. Launching of Special Area Programmes like Desert Development Programme, Drought Prone Area Programme, etc.

19. Propagation and use of improved dry farming technology.

20. Provision of infrastructural facilities in backward districts.

21. Development of forward and backward linkages in the backward regions.

22. Special grants are to be given to the backward and tribal areas.

23. Schools to be opened providing free and compulsory education to remove illiteracy.

24. Hospitals and dispensaries to be set up to give medical care to the people.

25. Water facilities to be provided for domestic purposes and agriculture.

26. Cottage and small industries are to be promoted to provide employment opportunities.

27. Roads and railway lines have to be laid down to link different places.

28. Shedding Caste and Religion politics and marching towards “Balanced Regional Development” is the need of the hour to reduce “Regional Imbalances in India”.

29. Government must speedup developmental works in backward areas: In the next few days to come the government must swing into action to free up blocked investment and projects. It must work with the relevant ministries and courts. If norms have been violated and fines need to be imposed, or if additional environment standards need to be imposed the government must get that done as soon as possible. If developmental works are not implemented with speed, especially in backward areas, they remain backward and regional disparities will increase further.

VIII. CONCLUSION

Regional imbalance is a threat to the goal of inclusive growth and reduction of poverty. The growing regional disparities have dampened the speed of further economic reforms, and hence may pose a barrier to India’s future economic growth. Regional disparities will result in

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regional tensions, which in turn may lead to popular agitations and at sometimes militant activities also. Regional disparities in economic and social development which exist within some of the States due to the neglect of certain backward regions have created and creating demand for separate States like in the past for separate Telangana and now and then for Vidhrbha and for Bodo land. As such, there is a strong need for strengthening of good governance in the backward areas. Towards this end, it is necessary that the local bodies in the backward areas are empowered and strengthened to reduce the regional imbalances in the country.

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