Regional Disparities and Indian Development

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While India has lower spatial income disparities than countries such as Brazil, China and Indonesia, these disparities have grown dramatically—the standard deviation of state level per capita GDP went from just below 0.3 in the 1980s to over 0.4 in the 1990s, an increase of more than one third.\(^1\) The gap between rural and urban areas also widened despite average growth in both.\(^2\) The contribution of rural-urban disparities to overall inequality has grown correspondingly.\(^3\)

A remarkable feature of Indian spatial disparities is the presence of backward areas even within states that have grown fast and are at relatively high income levels on average. Eastern and Northern Karnataka, and Inland Eastern Maharashtra, are examples of lagging regions within prosperous states. Moreover, they form a contiguous corridor with deprived areas of Andhra Pradesh, Orissa, Chhattisgarh, Jharkhand and Bihar. Income disparities are matched, even exceeded, by disparities in non-income indicators. Disparities in access to toilets range from 70% in some districts of India to 10% in others. Although Maharashtra’s Infant Mortality Rate (IMR) is near the best in the country, its worst districts have IMRs that are higher than those of much lower ranked states. Thus while income and non-income poverty in some parts of India is at the relatively low levels of Latin America averages, in other parts of India it approaches or is worse than African averages.\(^4\)

India is not unique. High and rising spatial disparities are a feature of many developing countries. In Peru, for example, the incidence of income poverty in districts at sea level is three quarters of that in mountain districts. In China rural per capita income in Shanghai province is more than five times that in Guizhou province. Moreover, Chinese regional inequality increased throughout the 1990s and early 2000s, reaching an all time historical high. In Indonesia, the poverty reducing impact of growth has been higher in Java and Bali than in the remote areas of Kalimantan and Irian Jaya, with a resulting widening poverty gap between regions.\(^5\)

Globally, opening up of an economy appears to be correlated with rising spatial inequality. This is not surprising, since global integration leads to a sharper expression of comparative advantage, and regions well placed in terms of location, education, governance and other initial conditions tend to surge ahead as global opportunities are accesses while others lag behind. This is the case for China and for

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1 World Bank (2007), Figure 1.10.
2 Sen and Himanshu (2005).
3 Gajwani, Kanbur and Zhang(2007), Table 2.
India, where sharply rising regional disparities have coincided with the period of external liberalization. The same argument applies to liberalization in general.⁶

High and rising inequality in general dissipates the impact of growth on poverty reduction. Spatial inequality contributes to overall inequality, but is important in and of itself where location aligns with differences in group identity. The deepening North-South divide in a small country like Ghana in West Africa is of major concern because the North is primarily Islamic, while the South is primarily Christian. Such divides are of course more likely to exist in large countries, as they do in China, Indonesia, Brazil and India. Spatial disparities in India align with other cleavages which threaten national unity and peace, whether it is the extreme of the “Maoist corridor” that matches the corridor of deprivation described earlier, or whether it is fissiparous tendencies within states, some of which have been accommodated but others of which continue to fester.

The regional policy debate has been between location-blind and location-sensitive approaches. The former encourage current locational comparative advantage and tolerate rising regional inequality with a view to relying on the eventual movement of people from lagging to growing regions. The latter attempt to (i) equalize comparative advantage by investing in lagging regions, and (ii) directly redistribute the gains of growth to the lagging regions through the central government. The former appears to be strongly supported by the World Bank’s 2009 Word Development Report.⁷ A combination of the two, migration with purposive regional policies, is the strategy actually followed by most countries with deep spatial divides.⁸

Location blind policies, while perhaps preferable from a purist economic perspective, are problematic in plural societies where extreme depopulation of an established spatial entity is not politically acceptable. Most polities, including China and India, have strong regional policies that combine direct redistribution of the gains of growth with investment in lagging regions—indeed, this investment is part of the redistribution. In China, after two decades of tolerating rising regional inequality, in the mid 2000s the government began a concerted series of policies to balance development between the fast growing coastal provinces and the lagging inland areas.⁹ Moreover, some redistributional policies that appear locationally blind can have a strong affect on regional inequality. Thus India’s National Rural Employment Guarantee Act (NREGA) addresses lagging states, since they will in general have lagging rural economies. It can also address contiguous corridors of deprivation that span states. In any weighing of the costs and benefits of NREGA, this potential impact on regional inequality should also be assessed.

Flush with the growth success of the past two decades, there is an argument from some quarters that balanced regional development is a thing of the past, that lagging regions should essentially send their populations to the fast growing areas and that is that. However, in the context of overall rising inequality, growing regional disparities are a real and present danger to Indian growth and

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⁶ Gajwani, Kanbur and Zhang (2007) and Kanbur and Venables (2007)
⁷ World Bank (2008), pp 4-10.
⁸ Fan, Kanbur and Zhang (2009), pp 11-13
⁹ Fan, Kanbur and Zhang (2009)
poverty reduction, and to Indian politics. India has a strong tradition of regional concerns, and policy instruments and frameworks that can and do address regional disparities. These policies of course have their problems of formulation and implementation, and we should discuss the specifics of better instruments, but this is different from a wholesale rejection of regional policy and sole reliance on migration. India should strive for regionally balanced development, between states and within states. In doing so, it would be in good global company.
References


