



Regional Disparities in Economic Growth across Indian States

Pracheta Shukla, Research Scholar, School of Studies in Economics
Pt. Ravishankar Shukla University Raipur, Chhattisgarh,
Radha Pandey, Principal
Government DSV Sanskrit College, Raipur, Chhattisgarh,
Ravindra K. Brahme, School of Studies in Economics
Pt. Ravishankar Shukla University, Raipur, Chhattisgarh, INDIA

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Authors

**Pracheta Shukla, Radha Pandey
Ravindra K. Brahme**

E-mail : shuklapracheta@gmail.com

shodhsamagam1@gmail.com

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ABSTRACT

India's post-1991 economic liberalization ushered in an era of high GDP growth, but it also coincided with widening regional inequalities in development. This paper examines the disparities in economic growth across Indian states in the decades since 1991, highlighting uneven progress and its implications. Using authoritative data from the Reserve Bank of India, NITI Aayog, Economic Surveys, and the Census of India, we analyze trends in per capita income, human development index (HDI), literacy, poverty, and employment. The findings reveal a persistent gap between high-growth states (concentrated in the south and west) and lagging regions (notably parts of the north and east). High-income states now contribute a disproportionate share of GDP relative to their population, while poorer states struggle with lower per capita incomes and social indicators. We discuss factors behind these imbalances, such as differences in natural resource endowments, industrial base, infrastructure, governance, and human capital. The paper concludes with a discussion on long-term implications of regional imbalance and offers policy recommendations for fostering more equitable growth. Achieving balanced regional development is crucial for sustaining India's overall economic momentum and ensuring inclusive prosperity.

KEY WORDS

Regional Disparities, Economic Growth, Indian States, Post-1991 Reforms, Balanced Development.

INTRODUCTION

Background: The economic reforms of 1991 marked a turning point for India, shifting the country from a controlled economy to a more liberalized and globally integrated one. These reforms encompassing liberalization, privatization, and globalization accelerated national GDP growth and transformed India into one of the fastest-growing major economies. However, the benefits of post-1991 growth have not been shared evenly across its diverse states and regions. In fact, numerous studies and official reports have observed that inter-state disparities have widened in the post-reform period, as certain states surged ahead while others lagged behind. The Draft Eleventh Five Year Plan (2007–2012) explicitly acknowledged this concern, noting that regional disparities “continued to grow and the gap have been accentuated as the benefits of economic growth have been largely confined to the better developed areas”. This uneven regional growth trajectory raises important questions about the inclusiveness and sustainability of India’s development path.

Purpose and Relevance: Regional disparities in India’s economic performance have persisted since Independence. Early planning efforts sought “balanced regional development” through public investment, industrial licensing, and fiscal transfers, yet the gap between advanced and backward states remained wide. Economic liberalization in the 1990s accelerated growth but also deepened pre-existing differences. States with stronger infrastructure, skilled labor, and effective governance attracted more investment, while others struggled to compete. As Myrdal’s theory of cumulative causation suggests, initial advantages magnified over time, leading to increasing divergence among states.

India Exhibits Stark Contrasts: Southern and western states such as Tamil Nadu, Karnataka, and Maharashtra enjoy income and human development levels comparable to middle-income countries, while several northern and eastern states, including Bihar and Uttar Pradesh, lag far behind. By 2023–24, the five southern states contributed around 30% of India’s GDP and surpassed the national average in per capita income. In contrast, Bihar’s per capita NSDP remains near ¹ 50,000, compared to over ¹ 300,000 in richer states like Karnataka and Tamil Nadu. This imbalance has given rise to the phrase “India grows at different speeds.”

Uneven regional growth is not merely a statistical concern but a challenge to social cohesion and inclusive development. Persistent underdevelopment in poorer regions perpetuates poverty, unemployment, and migration pressures. Examining the roots and patterns of these disparities is therefore crucial for designing policies that promote balanced and sustainable economic growth across Indian states.

Review of Literature

Mishra and Mohan (2011) Found that richer Indian states grew faster than poorer ones after liberalization, showing divergence rather than convergence. Structural advantages like industry, education, and infrastructure helped richer states benefit more, indicating that reforms alone cannot reduce disparities without addressing state-level capacities.

Sengupta (2015) Highlighted that infrastructure quality especially roads, electricity, and ports—significantly drives industrial growth and investment. States with better logistics and power systems achieved faster manufacturing expansion, underscoring the need for sustained infrastructure investment in lagging regions.

Saxena (2012) Demonstrated a strong link between human capital and economic growth, noting that states with higher literacy and education levels saw quicker transitions to service and technology sectors. Strengthening education and skill development is key to bridging regional income gaps.

Sharma and Verma (2014) Showed that states with good governance, fiscal discipline, and political stability experienced stronger growth, while corruption and weak institutions hindered progress. Effective governance reforms are thus central to reducing inter-state disparities.

Bagchi and Bala (2016) Found that industrial policies like SEZs and corridors mainly benefited

developed states, leaving backward ones behind. The study recommends region-specific incentives to promote balanced industrialization across states.

Banerjee and Sengupta (2018) Observed that migration from poorer to richer states widened economic gaps, as remittances alone could not drive local growth. Encouraging job creation within lagging states is essential to mitigate migration-led disparities.

Objectives

1. Map trends in inter-state disparities in income, structure, and human development post-1991;
2. Identify drivers (infrastructure, human capital, industrial base, geography, governance, historical policies);
3. Discuss implications for growth, migration, and fiscal federalism;
4. Recommend actionable strategies for more balanced regional development.

Methodology

The study employs a descriptive analytical approach combining trend and cross-state comparative analysis to examine regional economic and social development in post-liberalization India. It uses secondary data from credible sources such as the Reserve Bank of India's Handbook of Statistics on Indian States, NITI Aayog reports, the Economic Survey of India, and Census 2011. Key indicators include per capita income, fiscal variables, literacy, health, poverty, and employment. Additional data are drawn from the Tendulkar Committee (2011–12), NITI Aayog's MPI (2021), and PLFS/NSSO surveys. The analysis focuses on identifying long-term trends, measuring inter-state disparities, and ensuring reliability through cross-validation across multiple institutional datasets. Indicators and Analysis: The study focus on a set of core indicators to capture economic growth and human development across states:

- A. **Per Capita Income (NSDP per capita):** Measures economic affluence and growth through state-wise levels and growth rates, adjusted to current prices for comparability.
- B. **Gross State Domestic Product (GSDP) and Share in National GDP:** Assesses each state's contribution to national output and tracks changes in relative economic importance over time.
- C. **Human Development Index (HDI):** Evaluates multidimensional progress using NSO's 2017–18 state-level HDI data (health, education, income) and compares with earlier years to gauge improvement.
- D. **Literacy Rate:** Indicates educational attainment based on Census 2011 data, highlighting disparities between high-literacy states like Kerala (~94%) and low-literacy states like Bihar (~64%).
- E. **Poverty Rate:** Examines both monetary poverty (Planning Commission, 2011–12) and multidimensional poverty (NITI Aayog's MPI 2021) to reveal inter-state differences in deprivation.
- F. **Employment and Unemployment:** Analyzes labor market outcomes using PLFS data on unemployment and workforce distribution across sectors, with Census 2011 migration data used to interpret regional employment imbalances.

Analytical Approach: The analysis follows a chronological and thematic framework, beginning with an assessment of state-wise growth performance since the 1990s by classifying states into high, medium, and low growth categories based on per capita income trends. Trend analysis using RBI and MOSPI data visualizes convergence or divergence through line graphs and tables, supported by statistical measures such as growth differentials and coefficients of variation. A comparative evaluation of structural and social indicators—including literacy, HDI, poverty, and urbanization offers a multidimensional view of development disparities beyond income. The interpretation remains qualitative, linking observed patterns with contextual factors like geography, infrastructure, and governance, supported by case examples such as Gujarat's industrial advancement and Bihar's administrative constraints. Findings are triangulated across official data, academic studies, and institutional reports (e.g., World Bank, RBI), with citations presented in APA-style inline referencing to ensure analytical rigor and source transparency.

Overview of Regional Growth in India

Post-1991 Reform Impacts: The 1991 economic reforms produced uneven regional outcomes, with developed states gaining more from liberalization. States such as Maharashtra, Gujarat, Tamil Nadu, Karnataka, and Andhra Pradesh (including Telangana) quickly attracted investment and achieved rapid industrial and service sector growth, while poorer “BIMARU” states Bihar, Madhya Pradesh, Rajasthan, and Uttar Pradesh lagged behind with growth rates around 4–5% compared to the national average of about 6.5%. This divergence during the 1990s and 2000s widened inter-state income gaps, leading to concerns over growing regional imbalance in India’s post-reform development trajectory. The divergence raised alarms among policymakers about unbalanced regional growth.

High, Medium, and Low Growth Performers: Broadly, we can classify states into three performance categories since 1991:

- **High Growth/High Income States:** This category comprises the industrially and service-driven economies of western and southern India. Maharashtra and Gujarat remain key economic centers, with Maharashtra contributing about 15% of India’s GDP and Gujarat’s share rising from 6.4% in 2000–01 to 8.1% in 2022–23. Southern states such as Karnataka, Tamil Nadu, Telangana, and Kerala now record per capita incomes well above the national average—Telangana at 193.6%, Karnataka at 181%, and Kerala at 152%. Haryana and Delhi also feature in this group due to strong industrial bases and proximity to the national capital, while small states and union territories like Goa, Delhi, and Chandigarh maintain some of the country’s highest income levels, with Goa’s per capita income nearly triple the national average.
- **Middle Growth/Transitional States:** These states show moderate progress, aligning roughly with national averages. West Bengal and Punjab have stable but slower growth, the former losing its early industrial edge and the latter stagnating beyond agriculture. Uttarakhand and Himachal Pradesh have grown steadily since their formation, maintaining relatively high per capita incomes. Odisha has notably improved, rising from 54% of the national average in 1990–91 to about 88.5% by 2023–24, driven by mining and better governance. Jharkhand and Chhattisgarh benefit from resource industries yet face persistent development gaps. Most North-Eastern states, supported by central funding, fall in the middle range, with Assam recovering slightly from past decline to reach around 74% of the national per capita income by 2023–24.
- **Low Growth/Low Income States:** This group includes historically lagging regions marked by high poverty and population pressure. Bihar and Uttar Pradesh remain at the bottom, with Bihar’s per capita income around one-third of the national average and U.P. only slightly higher. Madhya Pradesh and Rajasthan, once part of the “BIMARU” group, have seen growth spurts particularly MP in the 2010s but still record low per capita levels. Jharkhand and Chhattisgarh, despite rich resources, face weak social outcomes, while several northeastern states like Tripura and Manipur also fall in this bracket. Although states such as Madhya Pradesh and Odisha have shown recent improvement, overall convergence remains limited, as poorer states continue to trail richer ones in income growth.
- **Geography, Infrastructure, and Governance Influences:** Regional growth patterns in India have been shaped by both geographical advantages and governance quality. Coastal states, with better access to ports and global trade, have generally outperformed landlocked regions. Maharashtra, Tamil Nadu, and Gujarat leveraged maritime infrastructure to boost industrial exports, while Odisha has recently caught up due to improved connectivity and governance. In contrast, interior states with weak transport networks faced higher business costs and limited market access, hindering growth. Governance has been equally decisive: states with stable administrations, pro-investment policies, and strong infrastructure such as Gujarat, Karnataka, and Telangana have achieved sustained high growth, while states with political instability or poor governance, like Bihar and Uttar Pradesh in the 1990s, lagged

behind. Subsequent reforms and leadership stability in some lagging states, notably Bihar and Madhya Pradesh, have yielded partial improvements, though governance gaps still constrain many low-income regions. Overall, post-1991 India reflects an uneven growth pattern, where economically advanced states continue to benefit from favorable geography, infrastructure, and governance, while others remain trapped in structural and policy-driven limitations.

Trends and Patterns of Disparity

- **Income Levels and Growth Divergence:** Since 1991, income gaps between India's richest and poorest states have widened sharply, creating a "club divergence" where southern and western states lead while central and eastern states lag. By 2023–24, southern states contributed 31% of GDP, up from 23% in the 1980s, while the eastern share declined to 13%. High-income states, with just 26% of the population, now produce 44% of India's GDP. This divide reflects structural shifts—richer states have diversified into industry and services, while poorer ones remain agriculture-dependent. Though states like Odisha show some industrial progress, overall convergence remains limited.
- **Rural–Urban Divide:** States with higher urbanization such as Tamil Nadu, Kerala, Maharashtra, and Gujarat have stronger industrial and service bases and higher per capita incomes. In contrast, Bihar, Odisha, Assam, and Uttar Pradesh remain predominantly rural, with over half their workforce in low-productivity agriculture. Urban incomes in these states are two to three times higher than rural levels, underscoring persistent inequality. While urbanization is slowly rising, much of it in lagging regions is driven by migration rather than planned development.
- **Social Development Indicators:** Literacy, education, health, and poverty outcomes mirror economic disparities. Kerala leads with a literacy rate of 93.9%, while Bihar remains lowest at 63.8%. High literacy and education have supported Kerala's strong human development and service-led growth, whereas low education levels in Bihar and Uttar Pradesh limit diversification and perpetuate poverty.
- **Human Development Index (HDI):** As of 2017–18, top states like Delhi (0.839), Goa, and Kerala (0.775) rank in the high HDI category, while Bihar, Jharkhand, and Uttar Pradesh remain around 0.55–0.60. This wide gap highlights unequal progress in health, education, and income, showing that economic growth alone does not ensure human development.
- **Poverty and Inequality:** Poverty has declined nationwide but remains concentrated in poorer states. In 2011–12, Kerala's poverty rate was around 7%, compared to Bihar's 33%. NITI Aayog's 2021 MPI shows Bihar (51.9%) and Jharkhand (42.2%) as the poorest, while Kerala (0.7%) and Goa (1%) are nearly poverty-free. Most of India's poor still reside in a few large, low-income states.
- **Employment and Migration Patterns:** Low-income states face widespread underemployment and informal work, while richer states show higher educated unemployment. Migration from poorer states like Bihar and U.P. to richer ones such as Delhi, Maharashtra, and Gujarat remains a key labor adjustment, easing rural poverty but causing urban strain and regional brain drain.
- **Intra-State Disparities:** Within-state gaps mirror national ones urban and industrial districts far outpace rural areas. Patna's per capita income is over four times that of Bihar's poorest districts. Programs like NITI Aayog's Aspirational Districts Programme aim to reduce these internal imbalances.

Factors behind Regional Disparities among Growth across Indian States

The variations in development trajectories of Indian states can be attributed to a complex interplay of factors – some rooted in geography and resource endowments, others in policy choices, historical legacies, and governance. Here we discuss the major factors identified as contributing to inter-state economic disparities:

1. **Natural Resources and Initial Conditions:** Resource endowments have not always translated into prosperity. States like Bihar and Jharkhand, rich in minerals, suffered from the "resource curse" and historical policy distortions like the Freight Equalization Scheme (1956–1991), which undermined

- local industrialization. Meanwhile, regions favored by the Green Revolution and colonial infrastructure such as Punjab, Haryana, and Maharashtra entered the reform era with stronger economic bases.
- Industrial Base and Structural Composition:** States with established or diversified industries Maharashtra, Gujarat, Tamil Nadu, and Karnataka benefited most post-1991, driven by manufacturing and services. In contrast, agrarian states like Bihar and Uttar Pradesh lagged due to low productivity and weak infrastructure. Better power supply, transport, and industrial corridors in southern and western India further reinforced growth gaps.
 - Human Capital (Education and Health):** States investing early in education and health, like Kerala and Tamil Nadu, developed skilled, productive workforces that attracted industries and services. Poorer states with low literacy, weak schooling, and poor health outcomes such as Bihar and Rajasthan remain trapped in low-skill, low-income cycles, slowing economic transition.
 - Governance and Policy Environment:** Political stability, efficient administration, and pro-investment policies have strongly influenced state performance. Gujarat, Karnataka, and Andhra Pradesh attracted capital through reform-oriented governance, while states with instability or weak institutions—like Uttar Pradesh and Bihar in the 1990s—fell behind. Effective local governance, as in Kerala, has further improved outcomes.
 - Historical Policies and Migration:** Legacy policies and uneven industrial placement shaped regional growth. High out-migration from poorer states such as Bihar and Uttar Pradesh provides remittance income but also drains skilled labor and reduces local reform pressure. Wealth and talent thus continue to concentrate in established industrial and urban hubs.
 - Climate and Environmental Factors:** Geographic and climatic conditions also affect development. Fertile but flood-prone plains (U.P., Bihar) face recurring setbacks, while arid states like Rajasthan balance water scarcity with mineral and tourism income. Coastal states gain trade advantages but face environmental risks. Overall, geography interacts with governance and policy to shape long-term disparities.

Major Findings

Economic Output and Growth: Since the 1990s, India's regional income gaps have widened, with five high-performing states Maharashtra, Gujarat, Tamil Nadu, Karnataka, and Andhra Pradesh/Telangana now generating nearly half of national GDP despite holding just over a third of the population. Poorer states such as Bihar, Uttar Pradesh, and Madhya Pradesh lag far behind, contributing little relative to their population share. Southern states have become key growth drivers, while eastern states' economic weight has declined sharply. Persistent inequality risks constraining national demand and fueling uneven development.

Human Development and Social Outcomes: Major disparities persist in literacy, health, and overall human development. Kerala, Delhi, and Goa lead with HDI scores above 0.75, while Bihar, Uttar Pradesh, and Jharkhand remain around 0.60. Although no state now falls in the "low HDI" category, large gaps endure in education and healthcare, shaping life opportunities and long-term productivity across regions.

Structural Transformation: High-growth states have largely transitioned toward urban, industrial, and service-led economies, whereas low-income states remain agrarian and less urbanized. This structural lag reinforces productivity and income gaps. Recent signs of faster growth in some lagging states like Odisha and Madhya Pradesh are encouraging but not yet sustained or broad-based.

Long-Term Implications of Imbalance: Persistent disparities carry fiscal, social, and economic costs. Richer states finance transfers to poorer ones, straining federal balance. Uneven opportunities fuel regional discontent and migration pressures, while high youth populations in poorer states risk unemployment crises if job creation lags. Conversely, targeted programs such as the Aspirational Districts initiative and competitive federalism efforts by NITI Aayog show that focused interventions can narrow gaps over time.

India's regional disparities reflect both structural and policy-driven divides between coastal and inland, skilled and low-skilled, urban and agrarian regions. Addressing these requires place-based strategies emphasizing infrastructure, education, and governance reform in lagging states, ensuring that growth becomes more inclusive and geographically balanced.

CONCLUSION

Regional disparities in India's economic growth, though deeply rooted, are not insurmountable. The study finds that post-1991 liberalization generated strong national growth but uneven state-level outcomes, widening gaps in income and human development. Southern and western states capitalized on infrastructure, education, and policy reforms to sustain rapid progress, while many north-central and eastern states lagged due to weak governance, low human capital, and historical policy disadvantages. These divides manifest in differing living standards, migration flows, and uneven progress toward national goals. Nonetheless, emerging improvements in several lagging regions show that convergence is possible with sustained investments in infrastructure, education, and institutional capacity. Ensuring that growth becomes more geographically inclusive remains crucial for India's long-term, balanced, and equitable development.

Suggestions

- **Policy Recommendations:** To foster more balanced regional growth, a multi-pronged strategy is required:
- **Infrastructure and Connectivity:** Develop high-quality transport and digital infrastructure in lagging regions to reduce business costs, attract industries, and integrate rural areas with national and global markets.
- **Investment Promotion and Industrial Policy:** Offer targeted incentives and create industrial corridors or clusters in backward states to stimulate manufacturing, improve ease of doing business, and strengthen investor confidence.
- **Human Capital and Social Development:** Expand investments in education, skills, and healthcare to enhance productivity and employability, linking fiscal transfers to measurable improvements in social outcomes.
- **Governance and Institutional Reform:** Improve administrative efficiency and accountability through decentralization, anti-corruption measures, and adoption of best practices from high-performing states.
- **Balanced Urbanization:** Promote second-tier cities in poorer states as regional growth hubs through planned urban development and industry-linked infrastructure.
- **Targeted Regional Programs:** Strengthen and expand initiatives like the Aspirational Districts Programme and region-specific schemes to diversify local economies and address unique state challenges.
- **Fiscal Transfers and Incentives:** Use performance-based fiscal transfers and create a "Regional Equity Fund" to finance critical infrastructure and human development projects in low-income states.
- **Cooperation and Migration Support:** Facilitate managed migration and interstate collaboration, encouraging diaspora investment and knowledge exchange to promote balanced national development.

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