



DAILY EDITORIAL ANALYSIS

TOPIC

COMPETITIVE FEDERALISM

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Context

- The recent announcement of **Google's largest AI data centre** outside California being set up in **Andhra Pradesh** triggered **India's transition into a competitive federal economy**, where States actively support global investment through policy, governance, and infrastructure advantages.

About Competitive Federalism

- It refers to a **governance model** where **States compete with each other** to attract investment, improve service delivery, and enhance development outcomes.
- It promotes healthy rivalry among States to outperform each other on key metrics, **unlike cooperative federalism**, which emphasizes collaboration between the Centre and States.

Past Landscapes: Reforms and Gradual Transformation

- **Pre-1991 Landscape:** For decades after Independence, **investment allocation flowed top-down from New Delhi**. States competed not on merit but on **access to central power corridors**. Capital formation was shaped by:
 - ♦ Licensing and quota systems;
 - ♦ Bureaucratic discretion;
 - ♦ Political patronage determining industrial geography;
- **Liberalisation in 1991** dismantled licensing and partially decentralised economic power. However, meaningful competition took time because:
 - ♦ Public enterprises still dominated;
 - ♦ State bureaucracies were slow to modernise;
 - ♦ Investment decisions remained Union Centric;
- By the 2010s, **States became the primary engines of investment mobilisation**, aligning with trends highlighted in **World Bank (2023) and OECD (2021) territorial competitiveness studies**.

Rise of Competitive Federalism

- The **Concept of Competitive Federalism** gained momentum after the formation of **NITI Aayog**, which replaced the **Planning Commission** in 2015.
 - ♦ NITI Aayog's mandate includes fostering competitive federalism through **transparent rankings, performance indices, and policy parameters**.
- **States Competing on Competence:** Today, investment rivalry centres on policy predictability, infrastructure quality, skilled labour pools, streamlined clearances, and governance credibility.
 - ♦ It aligns with **NITI Aayog (2022) and IDFC Institute (2019)** findings showing widening performance divergence among States in business climate metrics.

How States Are Competing?

- **NITI Aayog** has launched several indices to **benchmark State performance**:
 - ♦ School Education Quality Index;
 - ♦ State Health Index;
 - ♦ Composite Water Management Index;
 - ♦ Sustainable Development Goals Index;
 - ♦ India Innovation Index;
 - ♦ Export Competitiveness Index;
- These rankings are based on quantitative, objective criteria, encouraging States to improve governance and service delivery.
 - ♦ Even districts are ranked under the **Aspirational Districts Programme**, creating competition at sub-State levels.

- **Examples of Competitive Federalism:**

- ♦ **Google's AI centre:** Andhra Pradesh vs Tamil Nadu vs Karnataka;
- ♦ **Foxconn's electronics hubs:** bids from Maharashtra, Tamil Nadu, Karnataka;
- ♦ **Vedanta–Foxconn semiconductor venture:** Maharashtra vs Gujarat;
- ♦ **EV manufacturing:** Tamil Nadu vs Telangana;
- These contests indicate India's entry into the **model observed in OECD federations**, as described in **Brookings (2020) and UNESCAP (2022)**.

Benefits of Competitive Federalism

- **Improved Governance and Service Delivery:** States compete to enhance education, health, infrastructure, and digital services.
 - ♦ NITI Aayog's performance indices incentivize reforms and transparency.
- **Investment Attraction:** States pitch themselves to global investors with tailored policies and branding.
- **Policy Innovation:** States experiment with localized solutions—like Telangana's T-Hub for startups or Kerala's health model—which can be scaled nationally.
- **Empowerment and Accountability:** Decentralized competition shifts power closer to citizens, making governments more responsive and accountable.
 - ♦ **According to DPIIT (2024)**, such competition has accelerated policy harmonisation across States.

Risks of Competitive Federalism

- **Widening Regional Inequality:** Wealthier States with better infrastructure and human capital attract more investment, leaving poorer States behind.
 - ♦ It can exacerbate socio-economic divides.
- **Policy Fragmentation:** Excessive competition may lead to inconsistent regulations across States, complicating business operations and national coherence.
- **Fiscal Imbalance:** The Centre retains significant financial power, limiting States' ability to compete effectively.
 - ♦ Demand to shift items from the Concurrent List to the State List reflect this concern.
 - ♦ Excessive subsidies can strain State finances (RBI 2023);
- **Weakening of Cooperative Mechanisms:** Overemphasis on competition can reduce cooperation in centrally coordinated programs — GST Council, disaster management, health surveillance, etc.
- **Short-Termism:** Political cycles may push States toward populist measures for quick wins rather than sustainable development.

Way Forward: India's New Federal Compact

- **From Permission to Persuasion:** In three decades, India has moved from **permission-based investment** to **persuasion-based competition**.
 - ♦ It is possible because **Delhi-driven industrial policy** is shifted to **State-centric investment strategy**.
 - ♦ State leaders now **pitch directly to CEOs** rather than ministries, backed by data and clear value propositions.
- **Why Every State's Win Is a Win for India:** When one State secures a major investment:
 - ♦ Skill ecosystems grow;
 - ♦ Industrial clusters deepen;
 - ♦ Supply chains expand beyond borders;
 - ♦ Overall national competitiveness rises;

- Examples like Andhra Pradesh's EoDB performance, Tamil Nadu's workforce, Gujarat's infrastructure, Punjab's enterprise culture, Uttar Pradesh's scale, Jharkhand's minerals — creates **a federation of opportunities**.

Source: TH

Daily Mains Practice Question

[Q] Discuss how competitive federalism is transforming India's investment landscape. Analyze the role of State-level initiatives, and policy innovation in attracting domestic and foreign investment.

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