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ASEEMA SINHA

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In July 1991 India's central government initiated economic policy reforms amounting to a quiet economic revolution—or, as noted by a commentator, "reform by stealth."[1] Policy regimes in the industrial, macroeconomic, and trade sectors were transformed slowly but surely.[2] These policy changes have persisted in fits and starts, yet in 2002 there was talk of the onset of the "second generation of reforms." Most notably, economic liberalization transformed central–regional relations unleashing unintended and unplanned decentralization. Since the beginning of economic liberalization and the parallel process of regional representation in national governments (that began in 1996), India's regional states now enjoy considerable political and economic autonomy, but also face intense fiscal pressures on their fragile economies.

Recent scholarship has attempted to map the radical nature of transformations in India's policy regime and in center–state relations.[3] Lawrence Saez has noted that economic liberalization policies in the 1990s prompted a change in federal relations from intergovernmental cooperation toward inter-jurisdictional competition among the states.[4] I have argued that marketization after 1991 was not a simple process of displacement from the public to the private sector or from the state to the price-mediated markets, but also reordered the role of regional states vis-à-vis the center.[5] Rob Jenkins has argued that federalism facilitated the political sustainability of India's reform process displacing opposition to the state level.[6] Lloyd and Susanne Rudolph have characterized the changes in the following way: "A federal market economy is fast replacing a Nehruvian centralized command

Aseema Sinha is Assistant Professor of Political Science at the University of Wisconsin-Madison.

economy in the country's economic imagination and practice."[7] John Echeverri-Gent has analyzed significant "decentering" in the economic relations between regional states and the center.[8] Pradeep Chhibber and Samuel Eldersveld compared the extent of local popular support for economic reform in India and China.[9] Scholars have begun to analyze the diverse ways in which *specific* regional states shape and implement economic reforms.[10]

Despite the valuable insights of this literature, a focus on the post-transition period unwittingly reinforces a form of Indian exceptionalism, one which sees 1991 as a radical break from the past. Yet India's trajectory of economic reform, *unlike* the dual transitions of Eastern Europe where communist institutions were dismantled, has been taking place within the existing structure of institutions. This suggests that we need to analyze the *path and process* of the Indian trajectory of reform, keeping in mind the interaction between the *ancien regime* and new institutions.[11] A focus on changes, only in their own right, fails to pose the question: *How* did strong federalism *reemerge* following decades of centralist economic policy and single-party political dominance in India? This question can only be addressed by directing attention to the historical process through which "increased regional autonomy" has come about. Attention to the path and process of reform must attend to the reform legacies of the *ancien regime* and how they are transformed over time.

Modifying, not rejecting, the important conclusions of the early scholarship on India's economic reforms, I argue that the post-1991 era is marked by both change and continuity in terms of center–state economic relations. I show that the pre-reform era was characterized not by an absence of competition (which could be conceptualized as cooperation with other states and domination by the center), but by a different type of competition among states. In the post-reform era, the nature of competition has changed from vertical competition (where states competed with each other but for centrally determined resources) to horizontal competition (where states compete with each other more directly and for resources from a wider variety of actors). Moreover, this horizontal competition has become more symmetric, unleashing processes of diffusion and "learning by copying" across a larger number of states than before. Yet while the number of competing states has increased, and despite an ostensible convergence of policies and discourses, regional disparities in outcomes and institutions have become worse, not diminished after 1991. Some of this regional variation can be attributed not merely to the unleashing of market forces, but to the pattern of vertical competition and subnational decisionmaking structures institutionalized during the *ancien regime*.[12] Leading states in the reform process (Gujarat and Maharashtra, for example) have utilized their previous linkages and institutional skills developed under the old regime to leverage crucial advantages in the new policy regime.[13] Regional divergence after 1991 can partly be attributed to center–state linkages inherited from the previous policy regime. Even more so, reforms and the structure of coalition governments necessitate, indeed demand, coordination and bargaining with the center as much as bargaining with international actors.[14] I contend, then, that it may be better to conceptualize India's changing policy regime in terms of a change *within* institutions rather than a complete change *of* institutions.[15] This argument captures the idea that actors' preferences and strategies may have changed but they respond to incentives created by existing institutions.

To make this claim is not to argue that there has been little or no change in India vis-à-vis economic policy or center–state relations. India's emergent political economy and center–state dynamics have been radically transformed in the 1990s, as documented by the literature cited above. The contribution of this article, then, is to provide an alternative, orienting framework (and evidence to support that framework) so that we can understand the policy change in India as a combined product of preexisting legacies—institutional, ideational, and interest-based—and recent marketization and decentralization processes. Such an approach, in the social science tradition of historical institutionalism, allows us to integrate an analysis of pre-1991 policy regime into evaluations of the post-1991 changes in a more cohesive, realistic, and nuanced manner.[16]

The approach adopted here suggests that the twin processes of marketization and decentralization underway in India have been influenced by India's dirigiste history. First, and most simply, reforms constantly *shape, not erase*, the institutional context in which actors and groups operate. Second, in any transitional process, existing institutions provide actors with certain *political capacities*, or what can be amplified as "skills, positions, and the material sources attached to them," as well as with "formal and informal ties to other agents" and their "habits and frames."[17] Legacies inherited from the "license-quota raj" affect the strategic choices of reformist and lagging leaders alike. By investigating both pre-transition and post-transition dynamics in India, the focus of the analysis is shifted toward the political and institutional *origins* of the transformative processes encompassed by economic liberalization and decentralization.[18]

To investigate these origins, and the path and process of economic reform, this article looks first at the impact of policy changes on center–state relations, turning then to focus not on the extent of competition but its nature—type, scope, and extent of policy diffusion—during both the pre-transition and post-transition periods. I then highlight the various ways in which the dirigiste state continues to shape subnational liberalization patterns in India. The conclusion ties the various elements of the argument together.

Policy and Political Changes after 1991 and their Effects on Center–State Relations

It is important to map the formal policy structure that governed individual states' roles in economic development and center–state relations during the dirigiste period (1955 to 1990) as well the nature of changes that led to increased regional policy autonomy in the post-1991 period. Before 1991, industry and anything related to industrialization were under the center's supervision and through a detailed licensing framework it regulated investment by private firms.[19] Central government approval was required for all large private sector projects as well as for foreign investment proposals. An elaborate regulatory structure concentrated power into the hands of such central agencies as Director General of Foreign Trade, Import and Export Control Board, and the various licensing committees of the Ministry of Industry. Not only public sector allocations, but also actual site locations for new industrial undertakings to respective states were decided in the various central ministries and the Planning Commission. The control of these diverse policy instruments in the hands of the central government affected the distribution and generation of investment directly. As Table 1 shows, the Indian economy in 1978 was dominated by the public sector, with 80% of all investment, while foreign investment as a share of total investment was extremely low at around 0.6%. In contrast, in 1998 the public sector constituted approximately 40% of the total investment, with foreign investment approximately 16% of the total.

TABLE 1
OWNERSHIP DISTRIBUTION IN INVESTMENT (%), 1978 AND 1998

Ownership	1978	1998
Public Sector (a + b)	**80.4**	**42.3**
(a) Central	62.5	22.0
(b) State	17.9	20.3
Joint Sector	4.5	10.4
Private Sector (c + d + e)	**15.1**	**47.3**
(c) Domestic Private Sector	11.6	29.8
(d) Foreign Private	0.6	16.8
(e) Cooperative	2.9	0.64
Total Investment	100.0	100.0

Source: Centre for Monitoring the Indian Economy, *Shape of Things to Come*, 1980, Vol. I; and CMIE, *Survey of Investment Projects: Overview*, June 1998.

The fiscal structure was as centralized, although less discretionary than the industrial regulatory structure. The vertical reliance of the states on the center to meet the gap between revenues and expenditures led to subnational dependence on central transfers. The Finance and Planning Commissions, both central institutions, allocated revenues and budgetary support to the various states and sought to plug the vertical asymmetry between revenues and expenditures pervasive at the subnational level. Since some of these transfers were made through a "gap filling" mechanism, the states had an incentive to overspend (leading to high fiscal deficits), and then request increased transfers from the center. Moreover, the central government could periodically reschedule or write off central loans to states, leading to perverse incentives to transfer the burden from the state taxpayers to the national taxpayers (referred to as free riding in the federalism literature). Political dimensions of the system—the provision of President's Rule and a one-party dominant system—tended to confirm the appearance of a dirgiste and centralized federation.[20]

India in the 1990s experienced de facto, not de jure, decentralization of its policy regime.[21] Beginning in 1991, economic reforms abolished many central regulations regarding licensing, locational control, and trade. Central licensing was abolished except for a short list of industries. Procedural simplification and a change in the location policy followed. Factories could be established beyond twenty-five kilometers from the major cities. The abolition of licensing meant that the discretionary and supervisory role of the central government in setting up industries was withdrawn. The liberalization measures abolished all existing registration schemes, including de-licensed registration, exempted industries registration, and registration with the Director General of Technical Development. The only requirement which remained was the signing of a memorandum with the Secretariat of Industrial Assistance, referred to as the Industrial Entrepreneur Memorandum. Small-scale industries continued to register with the concerned state governments.

With respect to the foreign sector, both foreign direct investment (FDI) and foreign technology agreements were radically reformed. Within specified parameters, the government allowed automatic approval to technology agreements related to "high priority industries" and allowed freedom for firm-level negotiations. In 2000, FDI was permitted thorough this automatic route for all industries except a small "negative list." In addition, the time frame for communicating government decisions on FDI proposals was reduced from six weeks to four. In terms of foreign investment, the government has continued to liberalize. By 2002, 100% equity was permitted in many sectors which, till then, had been under a restrictive FDI regime: advertising, tea plantations, telecom, urban infrastructure, and housing projects. Between 2000 and 2002, 26% foreign equity was permitted in print media and the insurance sector, despite strong resistance by Bharatiya Janata Party (BJP) members.[22] These reforms, in combination, apart from freeing industrialists, freed the provincial states to approach the private sector—both foreign and domestic—directly in search of investment.

These changes in the regulatory framework contributed to unintended decentralization in power and authority as a dual process unfolded. First, the abolition of central regulations made the preexisting state-level regulatory machinery—the "inspector raj"—more salient and visible for investors. Even during the license-quota raj period, subnational states were responsible for the provision of land, power, and other infrastructural facilities in addition to regulating environmental and labor standards. These regulatory functions remained indispensable even *after* liberalization. Second, re-regulation of liberalization by many state-level officials enhanced provincial roles in investment policy. Many states saw in liberalization policies an opportunity to reassert their own regional agenda and extract further regional autonomy in development policy. Thus, states such as West Bengal, Andhra Pradesh, Tamil Nadu, and Madhya Pradesh sought to re-regulate economic reform for their regionally specific ends. This led to a commonly noted transformation in subnational roles:

> Most of us who have been dealing with the corridors of power in Delhi for the past 10 years, probably now feel that the visits to Udyog Bhavan [Industry Ministry] have declined dramatically, may have even disappeared . . . But unfortunately the visits and the interaction required with the state governments and the district authorities has in fact gone up dramatically. This is something very funny and I think academicians need to study why this is happening. *Why is deregulation at the center leading to increased regulation at the State [level]*?[23]

This increase of subnational authority was accompanied by more onerous demands on the regional states. Decentralization of authority led to decentralization of expenditures without the corresponding decentralization in revenue sharing mechanisms.[24] This made the fiscal health of most states much more precarious. Revenue deficit of all states as a percentage of the state domestic product (SDP) increased from –0.53% in 1993–94 to –3.57% in 1999–2000, while gross fiscal deficit as a percentage of GSDP increased from –2.80 to –5.78 in the same period. The outstanding debt of the regional states had simultaneously gone up.[25] Regional investment hunger was compounded by declining central transfers, creating the potential for enhanced regional disparities in welfare outputs across states. An increase in regional divergence in growth patterns or investment levels seemed to confirm expectations of rising regional inequities. Liberalization saw an increase in growth rate disparities across states. Bihar's state domestic product growth rate in the 1990s was 2.7% per year, while Gujarat's was 9.6% annually—more than 3.5 times greater.[26] The data on investment "proposed" shows that a few regional states continue to capture a disproportionately large share of proposals, with a definite regional pattern. Maharashtra and Gujarat alone received a quarter of all investment proposals from 1991 to 2000. Bihar received a mere 0.9% of total investment proposals, or only 430 proposals over the same years.

These formal and informal changes in India's policy regime were accompanied by significant political decentralization in the party system, electoral system, and the structure of coalition governments.[27] The party system in India has undergone a significant change from a one-party dominant system, what has been termed the "Congress-system," to a multi-party regionalized system.[28] This realignment was evident in the late 1980s with the decline of the Congress party and the rise of "backward caste" based and regional parties. Moreover, minority or coalition governments have ruled India since the late 1980s. The 1989 national general elections generated a minority government, with V. P. Singh's Janata Dal supported by the Left and the Congress party from the outside. In 1991, another minority government came into power, led by the Congress party. The elections of May 1996 led to the subsequent coming to power of the United Front, a coalition of thirteen parties, many of which were regional,[29] and the swearing in of a prime minister, Deve Gowda, a regional leader prominent in Karnataka. Subsequently, with the fall of the United Front ministry in 1998, national elections generated another hung parliament and a seventeen-party coalition government led by the BJP, one including many regional parties, took power in April 1998. The 1999 government was yet again a coalition government with regional parties as partners. The maturing of electoral politics in many states—the stabilization of two-party systems within states, separation of national and state-level electoral logics, institutionalization of single-state parties, and the necessity of pre-electoral alliances between national and single state parties—unwittingly contributed to subnational policy autonomy.

The "increased assertiveness" of political institutions such as the Supreme Court, the President, and the Election Commission have also magnified what John Echeverri-Gent, in a recent assessment, called the "decentering" of India's polity.[30] In a path-breaking judgment that set the tone for a new center–state compact, the Supreme Court in 1994 ruled against a misuse of the provision that allows the center to impose President's Rule in states (Article 356). The unanimous judgment by the nine-judge constitutional bench delivered on March 11, 1994 held that any proclamation under Article 356 is subject to judicial review. The Supreme Court thus rejected the contention of the central government that imposition of President's Rule requires no justification, ruling that Article 74(2) does not bar the Court from summoning the material that formed the basis of the cabinet advice to the President in initiating dismissal of a state government.[31] This ruling changed center–regional relations significantly, giving the federal compact a new institutional force.

From a political economy perspective, these economic, fiscal, and political changes unleashed a new logic of collective action in India's "federal market economy."[32] In the 1980s, Jyoti Basu, N. T. Rama Rao and other opposition chief ministers tried to build a coalition of opposition party states—of "Non-Congress CMs"—challenging the hegemony of the dominant party and what they termed "the centralized state." They mobilized their citizens against the center, and held conclaves and conferences to discuss the coming together of such forces.[33] But in the late 1990s, after Chandrababu Naidu replaced his father-in-law (following an ugly succession battle), as the chief minister of Andhra Pradesh, he tried to organize a different kind of coalition, the coalition of "performing and reforming states."[34] Naidu's aggressive lobbying succeeded in modifying the rules of the Eleventh Finance Commission, which inserted a system of rewards (carrots and sticks) for states that had better institutional and fiscal indicators.[35]

This transformation is emblematic of all that has changed in India's political economy. Yet Naidu's challenge stopped short of urging a fundamental reevaluation of India's fiscal system or challenging the authority of the central state. He was content to receive a higher share of Finance Commission awards for Andhra Pradesh. Moreover, he continued to bargain for important favors from the center for his state, whether for increased food allotments,[36] or better access to Microsoft founder Bill Gates. His challenge "on behalf of all states" seemed muted, if not undermined, by such self-interested and particularistic behavior. There was no all-out challenge to the central state, and central revenue capacity continues to hold in India.[37]

How may we understand these complex patterns of increasing authority, new challenges, and yet system-enforcing behavior on the part of subnational elites at the regional level? These sudden transformations in states' roles, and center–periphery relations in what had been regarded as a centralized policy regime, deserve further scrutiny. Analytical attention to the policy parameters, nature of competition, the nature of vertical relations (between states and the center and international organizations), and the pattern of subnational liberalization strategies in both the pre-1991 and post-1991 era are necessary to understand the coexistence of these contradictory trends.

Vertical and Horizontal Competition before and after Economic Liberalization:

An editorial in *The Hindu* declared in 1996: "Deregulation of industries has now spurred competition among States to attract investment. Siting of major industrial projects like steel plants are no longer guided by political considerations. Market forces and the availability of infrastructure are the key factors."[38] A recent study suggests that competition among states demands "competitiveness," that is, the availability of assets, the provision of educational and industry infrastructure, coordination among different state agencies, and to ensure adequate implementation of policies.[39] Most regional states attempt to present themselves as the ultimate investment destination. One chief minister, soon after coming to power, proclaimed the strong competitive spirit of her state:

> I wish to invite investors to Tamil Nadu—the land of great opportunity, endowed with immense potential. On this significant occasion, I would like to reiterate the commitment of my government to establish a strong and vibrant Tamil Nadu, *as a new growth model among the Indian states*.[40]

Because this enthusiasm for "competition" has become so commonplace—present in states such as Andhra Pradesh, Madhya Pradesh, Gujarat, Maharashtra, Karnataka, West Bengal, and Uttar Pradesh—the widespread perception has resulted among scholars, investors, and journalists that liberalization has inaugurated a new era of competition, until now absent, between regional states, causing a shift of policymaking power to the states. This article modifies this dominant perception. I suggest, in contrast, that states in India have always been competing with each other; what has changed in recent times is the nature of competition. In the pre-liberalization period, the primary mode of regional competition was vertical through the national state; now the primary mode is horizontal competition between the regional states themselves. This horizontal competition is more symmetric as it affects a wider set of states than before and encourages policy diffusion across many states. That changed competition has, nonetheless, affected the federal relationship between the center and states in distinct and significant ways which may be irreversible.

Nature of Competition before 1991: Asymmetric and Vertical

Conventional accounts of hierarchical states or centralized states (such as pre-reform India) expect regional units to implement central directives leading to center–state harmony rather than conflict or competition. Yet states in India were never passive recipients of central command, nor did they cooperate with the center easily. The central regulatory structure—the license-quota-permit raj—shaped, but did not determine, subnational policy instruments. While most states encouraged the public sector, some also encouraged hybrid experiments such as the joint sector (which combined public and private sector), and in an attempt to bypass the central regulations aggressively attracted private investments of "the original sons of the soil" from outside and within India.[41] Most notably, competitive practices proliferated as states sought to match central subsidies, ensure the location of prestigious central public sector firms in their respective states, and transform the "backward area" program toward the advanced areas in their states.[42] Most significantly, central discouragement of private initiative made the subnational encouragement of private initiative even more necessary, thereby stimulating the emergence of subnational developmental states, partly in response to the ineffectiveness of a national developmental state.

Thus, I argue that, under the license-quota raj, competition among states was indirect, vertical, and asymmetric.[43] Given the regulatory licensing regime that allocated both public and private sector "goodies," there was competition between the states for these allocations but the competition was mediated through the central government (vertical). Most competitive strategies were formulated with a view to get crucial resources (economic or political) from the center, whether in the form of location of private sector factories or public sector resources. Some states aimed toward getting central public sector projects in competition with each other (West Bengal and Tamil Nadu for example), while others tried to redirect the central licensing system for locating private sector projects in their regions (Gujarat and Maharashtra, for example). States (but only some) competed directly with each other through provision of competitive incentives (see below), but the large majority of states competed for central public sector resources.

Each and every state (even Bihar, whose share of central government investment was very high: 22.2% in 1971–72, 13.3% in 1983–84) complained of central discrimination. Each tried to get as many centrally allocated public projects as possible. Given the cap on capacity and declining public sector resources, it was intense competition over a small number of significant projects. A statement by the then industry minister, Manubhai Shah, in the Lok Sabha on April 10, 1961 reveals the early onset of vertical competition over central public sector projects:

> I have been assuring throughout the country that, during the third Five-Year Plan period, every State is going to have the establishment

of a major public sector engineering undertaking. I cannot do anything better than that. Therefore I would humbly beseech hon. [honorable] Members [members of parliament] that the atmosphere of "economic divide" in which each one is arguing to get a project for his State should be avoided and we should try to recognize and highlight the national character of these public sector undertakings, whether they are located in Bengal, Punjab, Maharashtra, Gujarat, Madras or Andhra. They are national projects. They are not some regional aspirations to be satisfied and we should not create something like an internal feeling or irritation and bitterness, because some of us have become so much pressurized from all parts of the country. There is from every States, deputation after deputation, representation after representation and misrepresentation after misrepresentation of various types of things. Every time the newspaper says the heavy electrical plant has already been located in some State, another State comes forward and asks whether that is correct. We say, "It is wrong." They say that is likely to be located in their State. Again another friend wants to be contradicted.

...[Y]ou [will] find that every project is sought to be located in a dispersed manner, avoiding those places where already they were lucky due to various reasons to get heavy industrial undertakings in the public sector. I should welcome and request the cooperation of this House [Lok Sabha] in avoiding regional tensions on the location of these public sector undertakings.[44]

Even the Planning Commission, designed as an autonomous organization, was forced to deal with the intense competition among states. Thirteen years after its formation, Nehru acknowledged that the Planning Commission (established in March 1950) was not a supra-executive body vested with supreme autonomy, but rather a mediator. Nehru made the following observation in 1963:

[The] Planning Commission has performed an essential task; without it we could not have progressed...We are a federal structure and *it has served to bring the various states together and have integrated planning*. If it had not been there, the central government could not have done its job because immediately difficulties

> would have arisen that the central government was encroaching on the rights of the States.[45]

These political pressures from the regions had a direct impact on national plans. In the third Five-Year Plan (1961–66), regional dispersal and questions about location were acknowledged to be salient factors in shaping national policy.

> Industry has tended to concentrate in the States of Bombay and Bengal. Irrigation had developed mainly in Madras, Uttar Pradesh and Punjab. This was the result of the operation of free enterprise and provincial autonomy. So long as the government of India did not embark upon a planned economy, there was no particular feeling of injustice and bitterness. Now the position has been reversed. There is a strong feeling that somehow or other industries should be set up in all States, that irrigation should be developed irrespective of cost and social services should be brought to the common level.[46]

How did the regional states ensure that they did not lose out in this process? A senior Indian Administrative Service (IAS) officer in Tamil Nadu noted: "We would first try to ensure that a particular project should be the responsibility of the public sector, and then senior Congress leaders in the party would try to persuade the powers-that-be that it should be allotted to Tamil Nadu."[47] Other states sought to influence the system by identifying poorer districts within their states rather than encouraging cross-state allocation of resources. In 1971, the central government initiated a new capital investment subsidy scheme. Under this scheme, new or expanding units in selected "backward districts" (identified by the regional governments) were entitled to a subsidy of 10% of their total fixed-capital investment. Such schemes as the industrial estate program started by states in the 1950s received central approval and enhanced prestige in the 1970s.[48] Such central schemes unleashed competitive pressures on regional states to offer incentives. An evaluation report on the "backward area development" noted: "In addition to central incentive schemes [for backward area development], a wide range of incentives/facilities were being offered by the State governments, *appearing to vie with each other*, to attract the industrial units."[49] Thus, somewhat counterintuitively, central control over economic policy stimulated intense competition among regional states.[50] The government of Gujarat admitted this recently: "The 'license-regime' imposed certain limitations in the [our] approach and this resulted in each State competing with other States in the country for attracting more investment to that state."[51] Thus, vertical competition, not a lack of competition, characterized the policy process of a federal market economy before liberalization.

Policy and Institutional Diffusion in the Pre-Reform Era

This vertical competition expressed itself at the regional level through the use of incentives and infrastructural policies; these were widely used by subnational states much before liberalization. Numerous state-level incentives existed during 1960–90: (a) land, power, and water at a concessional rate; (b) sales tax refund schemes/sales tax loans; (c) exemption from octroi;[52] (d) subsidization of feasibility studies; (e) supply of scarce raw material; (f) price preferences; and (g) supply of finance on concessional terms. A few states also crafted demand-side policies aimed at development of land, infant sectors, and attempted to increase the size of the market in their regions. Some regional states (Gujarat and Maharashtra) also attempted to create new entrepreneurs through the Entrepreneurial Development Program, contributing to the growth of indigenous subnational entrepreneurs. Tables 2 to 4 map out subnational policies across three sample states for the period 1970–90. Further research would need to map out state-level incentives for other states.[53]

Policy innovation—that is, the creation of new institutions—may be induced by policy competition. In a federal system, one would expect a high diffusion of new institutions, that is, the adoption of similar policies and institutions by many regional states in quick succession. Before 1991, institutional innovation and diffusion was rare, but not completely absent. A brief comparative historical analysis of promotional, umbrella-like industry organizations, termed "single-window" agencies since they include numerous industry departments and give multiple clearances under one roof, may be useful.[54] Such organizations were rarely established in the license-raj period. Gujarat and Maharashtra were rare exceptions. Gujarat's organization, iNDEXTb (Industrial Extension Bureau) established in 1978 was the first to institutionalize the idea that all governmental departments

TABLE 2
SUPPLY-SIDE AND DEMAND-SIDE POLICIES OF GUJARAT, 1970–90

	Supply Side	Demand Side
Gujarat	**Fiscal Concessions** **Tax Incentives** (1) Sales tax exemption for the first 5–7 years on the purchase of raw materials, etc. (2) Sales tax deferment for 12 years (3) Interest-free sales tax loan **Subsidies** (1) Added cash subsidy of 5% to the 15% central subsidy: a total subsidy of 20% of the fixed-capital investment for small industries in notified backward districts (2) Another 15% cash subsidy for large- and medium-scale industry (3) Special subsidies for GIDC estates **Finance** (1) Incentives for preparing a feasibility report equivalent to 80% of the cost of the report (2) Term loan facility (3) Working capital loans	**Development of Land** (1) Acquisition of land for the development of industrial estates. By 1982, 80% of Gujarat was eligible for "special" incentives by one criterion or another. (2) Development of infrastructure like roads, sheds, provision of water, power, etc. **Thrust/Pioneer Industry Development** (1) Development of electronic estates with special subsidies (2) Special incentives to engineering industries (3) Pioneer industries get special subsidies **Development of Local Markets** (1) Sales tax exemption for the first 5–7 years if the raw materials, consumables, packing, and processing materials used for manufacturing are purchased from within the state (2) Sales tax exemption on finished goods produced in Gujarat. **Development of Local Entrepreneurs**[1] (1) Training for new entrepreneurs under the EDP (Entrepreneur Development Program)

[1] This program did create new entrepreneurs and encouraged the creation of new sectoral advantages. Many scholars have noted a similar phenomenon in the development of East Asian tigers and dragons.
Source: Drawn from iNDEXTb, *Gujarat's New Package of Financial Incentives, 1977–1982* (Ahmedabad: iNDEXTb, 1977); iNDEXTb, *Gujarat Presents a Winning Combination: Attractive Incentives* + a Congenial Industrial Environment 1982–1987 (Ahmedabad: iNDEXTb, 1982); iNDEXTb, *Gujarat Like Nowhere Else in India*, 1986–1991 (Ahmedabad: iNDEXTb, 1986).

concerned with industry should interact with the investor under one roof. Mahrashtra's Udoyg Mitra (Industry's Friend), a similar organization, was established in 1979. In 1984 West Bengal created a promotional wing within West Bengal Industrial Development Corporation, Shilpa Bandhu (Industry/Artisan's Friend), based on the single-window idea, but that department did not function effectively until it was revived and restructured substantially in 1994 under the new economic policy initiated by the state government. Tamil Nadu had no similar

TABLE 3
SUPPLY-SIDE AND DEMAND-SIDE POLICIES OF WEST BENGAL, 1970–90

	Supply Side	Demand Side
West Bengal	**Fiscal Concessions** (1) Sales tax concessions and sales tax loans based on location (2) Entry tax relief **Subsidies** (1) 15% of fixed capital investment (2) 75% of the cost of the feasibility study is available as unsecured loan (3) Interest-free loan (4) Subsidy on purchase and installation of captive power- generating sets (5) Power subsidy of 30% rebate on electric power tariff for five years (6) Employment subsidy for three years for the employment of additional workers **Finance** (1) State contribution towards the cost of feasibility and project report (2) Term loan from WBIDC (3) Underwriting of shares (4) Working capital loans (5) Developmental loan to meet stamp duty paid or development charges incurred or transport charges or electricity charges	**Development of Land** (1) Acquisition of land either for specific units or for developing growth centers (2) Housing scheme for new industrial units (3) Subsidy towards acquisition of sheds in estates (4) Subsidy towards rents on land **Thrust/Pioneer Industry Development** (1) Special incentives for electronics and pharmaceutical units **Special Policy for Small-Scale and Cottage Industry** (1) A separate policy document announced in 1977

Source: Drawn from Commerce and Industries Department, *The West Bengal Incentive Scheme, 1971* (Alipore: Government of West Bengal Press, 1971); Government of West Bengal, *Industrial Policy*, 1978 (Alipore: Government of West Bengal Press, 1971); Commerce and Industries Department, *West Bengal's Incentives and Opportunities for New Industries in West Bengal*, 1984 (Alipore: Government of West Bengal Press, 1984); The Directorate, *Guidelines for Cottage and Small-Scale industries* (Calcutta: Cottage and Small Scale Industries Department, GoWB, 1977); PHD [Punjab, Haryana, and Delhi] Chamber, *State-level Incentives* (New Delhi: PHD Chamber, 1985); Indian Investment Center, *West Bengal: Potential for Industrial Investment* (New Delhi: Indian Investment Center, 1972).

agency or department until 1992, when Guidance, an investment promotion agency of the state government, was formed.

Innovation and institutional diffusion vis-à-vis the industrial estate program was, like FDI distribution, asymmetric and limited largely to western India. In 1962 Gujarat copied verbatim the Maharashtra industrial estate law of 1960—so much so that some spelling mistakes were replicated! West Bengal's industrial corporation was registered under the companies act in 1967 and governed many different industrial development programs.[55] In terms of the Entrepreneurial Development

TABLE 4
SUPPLY-SIDE AND DEMAND-SIDE POLICIES OF TAMIL NADU, 1970–90

	Supply Side	Demand Side
Tamil Nadu	**Fiscal Concessions** **Tax Incentives** (1) Sales tax waiver for backward areas (2) Sales tax deferral **Subsidies** (1) Capital subsidy (2) Power tariff concessions **Finance** (1) Incentives for preparing a feasibility report (2) Term loan facility (3) Working capital loans (4) Concessional finance from financial institution and 20% deduction in income for industrial units in certain districts (5) Interest-free sales tax loan	**Development of Land** (1) Developed land with infrastructure facilities available to industries for outright purchase, on installment basis, as long-term lease, or as industrial estates **Other Infrastructural Facilities** (1) In industrial estates, up to 400 gallons of water a day supplied free of cost (2) Power tariff: new units using HT power charged a concessional tariff for 5 years **Thrust/ Pioneer Industry Development** (1) Certain industries (petrochemicals, automobiles, bicycles, ceramics, etc.) designated as industries encouraged by the state (2) Special investment subsidy for electronics, leather etc. **Development of Local entrepreneurs** (1) Financial assistance up to 100% is given to technocrats for the purchase of machinery and work sheds.

Source: PHD (Punjab, Haryana, and Delhi) Chamber of Commerce and Industry, *Incentives to Industry: An Inter-State Comparison* (New Delhi: PHD Chamber of Commerce and Industry, 1985); Government of Tamil Nadu, *Incentives* (Madras: Government of Tamil Nadu, 1989); Guidance, *Incentives of Tamil Nadu* (Government of Tamil Nadu, 1994).

Program, a program that aimed to create new entrepreneurs, Gujarat was the frontrunner, and it was Maharashtra that copied the program with considerable lag.[56]

We can assess the extent of policy diffusion during the license-raj era by measuring the lag with which new policies or new institutions were copied by other regional states. During the license raj, certain regions were consistent leaders or laggards in policy innovation. I consider here four possible domains of institutional diffusion—an investor promotion service, an industrial estate law, an Entrepreneurship Development Program for new investors, and a joint-sector program.[57] In each domain I give scores to states: (a) a score of 50 for having that service or law before 1991 (thus, Gujarat, West Bengal, and Maharashtra get 50 for having an investor promotion service, while Tamil Nadu

TABLE 5
MEASURING INSTITUTIONAL DIFFUSION AND INNOVATION DURING 1960–90

States	Gujarat	Maharashtra	West Bengal	Tamil Nadu
Investor Promotion Service	100	90	70	0
Industrial Estate Law	90	100	80	80
EDI	100	70	0	0
Joint Sector Program	100	70	70	90[a]
Average Diffusion Score across the Four Domains	97.5	82.5	55.0	42.5

[a] These scores for Tamil Nadu arise as a result of its attempt to replicate the joint sector as developed in Gujarat, as in the experience of SPIC (Southern Petrochemical Industries Corporation).

Sources: Author's estimates drawn from annual reports, memorandums, and interviews.

gets 0); (b) a score of 50 for the time lag with which the service was copied by other states (for the investor promotional service, Gujarat gets 50 because it was the first to start the service, and Maharashtra gets 40 because it started the service one year after Gujarat (in 1979); West Bengal started a similar service in 1985 and hence gets 20, and Tamil Nadu gets 0). The total adds up to 100. Table 5 illustrates the extent of institutional diffusion across four states in four different policy domains during the license-raj era.

States did copy from other states but policy diffusion was more visible in western India compared to other parts of the country. Institutional diffusion across states in the pre-transition era was regionally uneven and extended to only few states. The real difference between pre-transition and post-transition dynamics lies in the *nature of competition*. Policy changes in 1991 did accelerate horizontal competition—more direct and symmetric—among most states. This horizontal competition expresses itself through extensive policy and discursive diffusion, a concern for ranks and numbers, a new media politics, and new transregional interactions and alliances, all of which were not witnessed during the license-raj era.

Horizontal Competition after Liberalization

Since 1991, the industrialized states like Gujarat and Maharashtra have had to work very hard to retain their positions as the number one and number two investment destination states. The competition has become much wider and symmetric with Andhra Pradesh, West Bengal, Orissa, Delhi, Karnataka, Goa, Mizoram, Bihar, and Uttar Pradesh among others, trying their best to become attractive sites for investment.[58] Despite this effort, Gujarat and Maharashtra continue to attract a large share of investment. *Business Today*, a business magazine, conducted regular perceptual surveys of states in 1996, 1998, 2000, and 2003. The results showed that while the top ranks continue to be occupied by Gujarat and Maharashtra, the middle range experienced far more volatility. Andhra Pradesh's rank shot up from twenty-second to fifth between 1995 and 1997, and to second in 2003, while West Bengal moved from twenty-fourth (1996) to tenth (1998) and back to eleventh (2003). Orissa moved from the twentieth to the fifteenth place in 1998. The *Business Today* study concludes in voluntarist euphoria: "States that want to attract investment, will attract investment."[59]

Converging Policy Discourses

While the actual picture at the ground level is more complex than the *Business Today* surveys suggest, it is nonetheless true that many regional states—most notably those that were previously opposed to any private sector reforms—have declared new pro-liberalization policies. Policy discourses, if not policy outputs, are strikingly similar across states. One of the most notable examples of change in policy direction is the experience of the West Bengal government ruled since 1977 by a social democratic party: the Communist Party of India (Marxist), or CPI(M). After pursuing and emphasizing a public sector and a partisan confrontation strategy until 1994, West Bengal's political leaders, members of the CPI(M), began to embrace the central policy of liberalization. So much so that in answer to the question "Is the CPI (M) blocking reforms?" P. Chidambaram (then finance minister and member of the Congress party) answered, "Not after Jyoti Basu's speech at the CII [Confederation of Indian Industry] function in Calcutta. I will quote what they have done in West Bengal to get support for [central] reforms."[60]

An industrial policy was announced on September 23, 1994 by the West Bengal government, which affirmed that the state government "welcomed" private investment, foreign investment, and technology. The statement noted, "While the state government considers the government and the public sector as an important vehicle for ensuring social justice and balanced growth, it recognizes the importance and key role of the private sector in providing accelerated growth."[61] Some members from the Centre for Indian Trade Unions, a body associated with the CPI (M), concluded that the economic policy of the Left Front government was "essentially the same as that of the Prime Minister, Mr. P. V. Narasimha Rao."[62] They pointed out that "the new policy is an open door invitation to foreign capital and technology, both from NRIs [non-resident Indians] and multinational companies. In the drug sector, no limitation has been imposed on the participation of foreign capital. This is also the stance of the Union government."[63]

Tamil Nadu announced liberalization policies quite early, in 1991.[64] Jayalalitha Jayaram, the then chief minister (and the leader of the All India Anna Dravida Munnetra Kazhagam, or AIADMK), recognized presciently that while the first stage of the center's new economic policy—delicensing and deregulation—was the easier one, the second stage of liberalization, which she characterized as "the creation of the right conditions to foster rapid growth, required a greater role for State governments."[65] Continuing the industrial policy of the AIADMK, the Dravida Munnetra Kazhagam (DMK) government (the AIADMK's main competitor) announced an industrial policy in 1996 intended to "enhance the competitiveness of the state and also to speed up the pace of industrialization."[66] Through a liberal and extensive package of incentives that included capital subsidies and sales tax concessions, the state intended to compete with other regional states like Gujarat and Maharashtra. The Industry Minister of Tamil Nadu put it thus: "We are initiating far-reaching structural reforms to lead the industry in the State away from a regulatory and protective regime to a free market-oriented competitive and globalized environment."[67]

Other regional state leaders—many of them sworn socialists—whose popular base came not from the private sector but from popular groups also jumped on the bandwagon of liberalization, declaring their commitment toward making their regions "industry friendly" states. "Our socialism is not merely based on equality, it is based on prosperity as well," said Mulayan Singh Yadav, the avowed socialist chief minister of Uttar Pradesh, while trying to dispel apprehensions of potential investors at the annual meeting of the Confederation of Indian Industry in April 1994.[68] The Uttar Pradesh chief minister Mayawati declared on May 14, 1997 that her government was "giving top priority to restoration of law and order in the state for providing an industry-friendly environment."[69]

Kerala has traditionally pursued extensive redistributive policies. As a result, it boasts of enviable physical quality of life indicators much talked about in the international arena.[70] In 1991, Kerala's government announced an industrial policy that recognized that "under the charged atmosphere of liberalization and opening up, the state has to re-orient its approach to revitalize the industrial sector."[71] In contrast to the laborite pro-strike culture of the state, a circular from the Home department, Government of Kerala, declared that all restrictive practices, including *gherao* (picketing) and *dharna* (strike) inside the factory, harassment of mangers and their families and exortion of any kind . . . will be treated as criminal offences.[72] Clearly, many anti-reform regimes were forced to change policy discourse, if not actual practices, in favor of liberalization.

Chandrababu Naidu, the chief minister of Andhra Pradesh, heads a regional political party (the Telugu Desam Party, or TDP) that has had a strong welfarist and redistributive orientation ever since its birth. In 1995, Naidu took over power in the state and began to reshape the policy and ideology of the government. Soon after taking power, distinguishing himself from his predecessor, N. T. Rama Rao, he expressed a strong commitment in favor of liberalization, and the market ideology that underlies it. As Kennedy notes: "His public discourse has become explicitly supportive of not only markets, but global economic integration in general, as a means to achieve growth and social development."[73] "Vision 2020," a comprehensive document prepared by the government of Andhra Pradesh and the international consultants, McKinsey and Company, is distinguished by its pro-market orientation and talks explicitly about "deregulation" to ensure a friendly environment for private enterprise.[74] It extols the benefits of privatization of public sector units. Most crucially, it publicizes its support for the World Bank and advertises its acceptance of conditionalities, a politically risky strategy. Naidu explicitly celebrates interaction with the West, specifically the United States. Many other states, in similar ways, declared their support for the new policy agenda of the central government. While actual implementation does vary across states, some convergence in policy discourse is clearly evident among many regional states in India, a sign of horizontal competition in post-reform India.

The Politics of Numbers and Rankings

One interesting way in which horizontal competition has expressed itself is a fight over numbers and statistics. In the race to attract investors, most states want to *appear* to have attracted the highest share of investment. The conflict over statistics in Maharashtra illustrates this powerfully. In August 1996 a sharp conflict arose over numbers when the government of Maharashtra challenged the investment figures brought out by a private organization, the Centre for Monitoring the Indian Economy (CMIE). Their data showed that Maharashtra, with investment figures of "Rs. 936.57 billion," had fallen behind Gujarat's "Rs. 1013 billion," Karnataka's "Rs. 980 billion," and even Orissa's "Rs. 970.7 billion" in terms of "investment proposed." The state industrial directorate "swung into action following the CMIE's findings that send shock waves across Maharashtra."[75] The government claimed that the CMIE had "overlooked" 1,300 large and medium projects, which, if added, would reveal Maharashtra's rank as first in the share of investments. The state government was at pains to point out that the government's claim was based on a recent survey conducted by the state directorate of industries and corroborated by an independent organization. The opposition led by the Congress party cited the negative CMIE report to contend that the state had lost its position as the country's premier industrial center under the Shiv Sena–BJP government because of its "hostile" outlook on new ventures. In response, the state industries secretary wrote to Mahesh Vyas, the director of CMIE, pointing out the information gap in their statistics.[76]

The relative ranking of states by private companies has, further, fuelled horizontal competition among states. Credit rating agencies have in recent years started ranking states, their fiscal health and other developmental projects. In 1998, the Credit Rating Information Services of India Ltd. (CRISIL) gave rankings to irrigation projects in many states. The journal *Quarterly Business Manager* also started ranking states in 1997 in terms of their investment potential, combining fiscal and infrastructure characteristics (but not political aspects).[77] *Business Today* started perception-based surveys of states and cities in 1996, which are conducted every two years and rank states and cities according to different criteria; this also fuelled the horizontal race over numbers and ranks among states.

The competitive politics of numbers has become important because of a demonstration effect. Even if the investment does not come in immediately, declaration of projects has a spillover effect. As a vice president from Mahindra Ford Ltd. said in an interview, "We looked at Gujarat as a possible choice because the state government had recently declared that some auto majors had decided to invest in Gujarat, and GM [General Motors] was already there."[78] This competition over investment numbers and industrial statistics makes data collection much more politically contested than before.[79] Growth rates and investment figures have become part of the politician's doublespeak with the opposition parties using these figures and "accusing" the ruling party of not doing enough to attract investment.[80]

Media Politics: Advertising States and Selling Places

> "My State is keen to do business with you. I hope you gentlemen have brought the checks along."[81]

Media politics has become an important tool of regional entrepreneurs in the liberalization era. Chief ministers, industry ministers, and even bureaucrats consciously seek out the media to advertise their industrial policies and achievements, and explicitly compare themselves with their competitor states. Interviews of regional elites on economic policy have increased exponentially after 1994–95. States and state agencies take out advertisements in the newspapers and magazines. For example, Gujarat Mineral Development Corporation took out a full-page advertisement in the *Economic Times* advertising its achievements and saying that the government will disinvest part of its stake in the company in the future.[82] Similarly, Gujarat Industries Power Company Ltd. did the same on September 11, 1997—as did the West Bengal Industrial Development Corporation in the *Washington Post* and in the *Financial Times*. The State Industrial Corporation of Maharashtra has also taken out full-page ads in many newspapers.

Key industrial department officials consciously seek out journalists and cultivate those contacts, for both formal interviews and anonymous stories, when they want to leak information to the press.[83] There is much greater emphasis on conferences, meetings, exhibitions, road shows, and press conferences. States make presentations at conferences, utilizing the latest technology, video-conferencing, and computers. The promotional literature handed out by states is usually crafted by private advertisement agencies tasked with selling the state.

These packages combine cultural motifs, tourist-type attractions, and seemingly "sound" business sense. A sample of the titles of these packages tells its own story: "Invest in Gujarat: The Fastest Growing State in India"; "Gujarat: Prosperity through Institutional Support"; "The Royal Bengal Advantage: West Bengal: Stalk the Opportunities"; "Great Minds think Alike: Madhya Pradesh: Let's Talk Business." States are creating websites; Maharashtra was the first Indian state to put up a site, called MaharashtraAllIndia.com,[84] but most states by now have web pages detailing their policies and main features.[85]

The struggle over perception and image building has become intense, with bureaucrats, politicians and policymakers increasingly conscious about its impact on mobile investors. As an illustration, in 1999, after the Enron controversy, Maharashtra spent a considerable amount of money on a public relations exercise in partnership with the Indian Engineering Trade Fair in New Delhi in a bid to promote itself as a good investment destination. Given the experience of Enron and, more recently, the departure of P&O Ports from Maharashtra (which faced intense local objection), state officials conceded that they had to reverse the *perception* that Maharashtra was either a reluctant or an uncertain host for investment.[86] Almost all states have been compelled to become media conscious and face greater public scrutiny. In response to a critical news article in *The Hindu*, the industry minister of Tamil Nadu felt obliged to give an interview with a careful point-by-point rebuttal. His remarks during this interview on the role of "image building" in the context of liberalization are worth noting. In response to the criticism by *The Hindu* that the state government in Tamil Nadu "is substituting industrial promotion with that of promoting an image for itself," the industry minister of the state said defensively: "In today's liberalized competitive environment States have to compete against each other in attracting investment which has alternate location options. *Aggressive marketing and image building* are therefore in order."[87]

Transborder Regionalism[88]

After 1991, a new type of collective interaction between subnational states and international bodies—foreign firms, multinational corporations, international chambers, and foreign governments—has become widespread. Of course, transnational action of domestic actors is not necessarily new. The Tamil and Syriac Christian investment in Southeast Asia as well as the export of Buddhist ideas in the pre-modern period is well known, as is the export and import of Parsi merchant capital from and to the Middle East. But if one compares the period between 1947 and 1991 with 1991–99, certain differences become apparent.

Before 1991 the transnational interaction with other nation states was "microeconomic" in nature and limited to Indians settled abroad. It proceeded through the private (rather than through collective organizations) actions of those individuals, now called Non-Resident Indians, with the interest and the resources to invest in their respective states.[89] Some states did attempt to influence the individual investment behavior of Indians settled abroad but this was limited by constraints imposed by the central government, lack of resources, and the conceptual inability to think in more ambitious terms. As an illustration, the Gujarat government thought of an "international division" to attract Gujaratis settled abroad to invest in their home state in the 1970s. In early 1977 Gujarat deputed a team to visit the UK, the US, Canada, and West Germany.[90] However, as one official of the Gujarat government admitted in an interview, "Then, this [international] policy did not have much success as there was disillusionment on both sides. Investment was slow and actual projects faced many problems, given the unrealistic expectations on both sides."[91]

However, after 1991 and especially after 1994, transnational relations between subnational states and international actors became frequent and now take place both bilaterally and multilaterally. The regional states play an increasing role in bargaining with international actors to attract foreign direct investment and pursue global integration. Direct attraction of foreign investment by states has contributed to de facto authority to approve foreign investment projects, establish tax rates for foreign investment firms, and establish rules of the game.[92] Thus, state-level actors are shaping foreign economic relations.

In many cases, international organizations deal with state governments directly—at times bypassing the central government. The World Bank negotiated separate structural adjustment packages with Andhra Pradesh, Karnataka, and Uttar Pradesh from 1998 onwards.[93] The World Bank recognized that a reorientation of its strategy might be necessary given the changing federal balance of power. It declared:

> While continuing to support nation-wide programs in health and education, the Bank has reoriented its strategy to focus on reforming states… State-level reforms are not new to the Bank in India. In the past, however, selection of state projects was done largely on project and sector grounds rather than the overall policy stance of the state.[94]

The World Bank has been directly involved in reform of the power sector and financial sector in many states. The World Bank made a loan of US$350 million directly to the government of Orissa for the restructuring of its power sector. Orissa split its state electricity board into three separate bodies for generation and distribution with the aid and advice of the World Bank.

Similarly, private companies evolve separate agreements with states, and are forced to attend to the specific regional contexts and political dynamics in different states. The Enron episode, with the Maharashtra government reviewing and finally renegotiating the Dhabol power project, despite its clearance from the central government, showed that regional states have independent re-regulative power over a domain traditionally under central jurisdiction—foreign investment—and may even bypass the central government.[95] Party competition within Maharashtra, rather than national-level variables, affected Enron directly.

States are becoming part of bilateral state-to-state negotiations, making the relationship a multilateral one. For example, in the negotiations with Russia over a nuclear atomic power project, the Tamil Nadu and Kerala electricity boards showed interest in participating in the equity of the project.[96] Moreover, trilateral agreements between a state government agency, a state government department, and a foreign private firm are very common. On January 21, 1999 the Maharashtra State Electricity Board signed a power purchasing authority with Dodson Linblom Inc., USA, to set up a 12 MW hydel power project in Bhandara District in Maharashtra. This is a trilateral agreement with the state irrigation department, the Maharashtra State Electricity Board, and a US-based private company.

In addition, actions by two subnational entities across borders or between a nation state and a subnational state have become possible. The state of Andhra Pradesh and the state of New Jersey in the United States are to develop a partnership agreement. This followed a meeting between Andhra Pradesh's chief minister, Chandrababu Naidu, and then governor of New Jersey, Christine Todd Whitman, at the World Economic Forum's annual meeting. Naidu said that he hoped to start an exchange program between government officials of both states: "This will allow us to learn from the practices in New Jersey."[97] He hoped to transfer some of the best practices in New Jersey in the areas of industry, services, and infrastructure. In early 1999, Tamil Nadu's chief minister, M. Karunanidhi, met Malaysian Prime Minister Mahathir Mohammed, in Malaysia with the aim of enhancing ties between Malaysia and Tamil Nadu.[98] They both noted the "success in relations between Tamil Nadu and Malaysia amidst the current regional financial and economic slowdown."[99] Moreover, subnational actors now enjoy higher status in international fora, as is evident from the fact that Chandrababu Naidu participated in the 1999 World Economic Forum meeting with the former Indian finance minister, P. Chidambaram, and the president of the Confederation of Indian Industry, Rajesh Shah.[100]

Thus, horizontal competition among states has become direct and somewhat symmetric. It expresses itself in diverse ways, through a concern with statistics and competition in rankings, an intense media competition in order to change the perception of potential investors and international organizations, diffusion of policy discourses, and increased bilateral and direct interaction with other provinces, regions, and international organizations.

What are Legacies of the Leviathan State?

Despite these powerful convergent pressures, liberalization did not start with a clean slate. The institutional legacy of a dirigiste state affected the post-reform possibilities in diverse ways. Briefly, the dirigiste legacy in India provided the institutional structure within which various regional elites had become developmental; this legacy shapes the political capacities for the regional states to pursue liberalization. All Indian states pursue state-led liberalization policies; some pursue them through bureaucratic channels, while others deploy partisan and political routes, shaped by regionally specific memories and coalition patterns.

India's bureaucratized regime—the license-quota-permit raj—has had a major, unintended consequence on post-transition patterns: *all* subnational governments and central regimes continue to rely on state-led strategies of reform; there is no "Washington Consensus"[101] or "neoliberal" route to reforms in India. The pursuit of liberalization policies by subnational leaders in India has a decidedly statist quality; this is true of the leaders (for example, Gujarat) as well as the laggards (for example, Bihar).

More importantly, the specific subnational strategies in this changed scenario draw from provincial strategies followed during the license-raj era. The erstwhile bureaucratic regime stimulated two distinct routes within its structure: A bureaucratic strategy, and a partisan strategy. These distinct strategies of regulating a central dirigiste state are redeployed in re-regulating neoliberalism by the subnational elites. Some states deploy their bureaucratic connections to ensure greater investment to their regions after 1991; those states that lack these skilled bureaucracies use political innovation and partisan influx of new ideas, personnel, and resources to restart the same process. Gujarat, for example, follows a more *bureaucratic route* that relies on intra-bureaucracy lobbying and monitoring, while Tamil Nadu, West Bengal, and Andhra Pradesh pursue a *partisan route* that attempts to deploy their political and party influence at the center for greater economic rewards.

Gujarat: A Model of State-Led Liberalization

Gujarat embodies a state-led model of liberalization that focuses on aggressive attraction and mobilization of investment through consistent and ongoing institutional reform and governmental action on various industrial policy fronts. This strategy of liberalization reflects an intensification of roles performed during the period of dirigiste regulation (1960–90) rather than its withdrawal. Before 1991, Gujarat consistently monitored the central government's output and the licensing system. After 1991, that policy was transformed into careful attraction and monitoring of domestic and foreign private sector investment. As an IAS official in Gujarat said to me:

> We continue to use all our old IAS connections established in Delhi. We have increased the budget of the Gujarat Delhi [promotional office] office and given it more visibility. We continue to meet with bureaucrats in various ministries and monitor the output of the central state. Of course, we don't need to go the central ministries as much but, those contacts prove helpful even when we go to ADB [Asian Development Bank] or the World Bank etc. We built connections in the past and we now use them.[102]

Gujarat continues its practice of monitoring the central government in order to reduce the delays involved in implementing projects. The following memorandum to the central government in 1995 highlights the continued emphasis on a bureaucratic-led strategy:

> Thus the time gap for forwarding [a] copy of applications from Dept. of Industrial development to the State government has increased substantially.
>
> As per the Government of India (GOI) procedure we are to examine these applications on the location aspect and forward the reply to the dept in case the application is not in order. Thus we can start follow up of applications only after a gap of 2 months or more. I therefore request you to expedite the process at the [central] Dept. so that the time gap in forwarding the application to the state government can be reduced to minimum.[103]

Despite the partisan alignment between the ruling party at the center and Gujarat's ruling party (the BJP) after 1998, Gujarat's policymakers pursue bureaucratic rather than party-based mechanisms to influence industrial policy. The private sector recognizes the preeminent role of its state bureaucracy. A survey conducted by BT–Gallup–MBA in 1996 and 1998 noted that Gujarat was ranked first in the eyes of heads of companies on dimensions such as "governmental support, institutional flexibility, and political stability" and second on "policy implementation, administration, and law and order."[104]

Significant internal reform within Gujarat was led and shaped by the industrial bureaucracy directly. The State Finance Commission was set up on October 1992 by the late chief minister of Gujarat, Chimanbhai Patel, to undertake a comprehensive review of the state's finances. The report recommended a substantial restructuring of the state sector and became the forerunner for an Asian Development Bank initiative to support a structural adjustment program for the state. One senior Indian economist with the ADB who had to convince the ADB Board that Gujarat would actually undertake the reforms said in an interview: "There was no doubt that economic reforms would proceed in Gujarat. Bureaucracy in Gujarat is a different ballgame all together."[105] Other leaders in the reform process, most notably Andhra Pradesh and Madhya Pradesh, all use their state institutions to "guide markets" rather than allow market fundamentalism to rule.

Partisan Strategies of Economic Reform

Some other states—most notably, West Bengal, Tamil Nadu, and Andhra Pradesh—follow a partisan route deploying their political connections in New Delhi and reorganizing the political leadership of industrial policy at the state level. West Bengal's policy of liberalization was jumpstarted by the infusion of a politically important party member—Somnath Chatterjee—at the head of the local industrial promotional organization in 1995. His appointment revived the moribund department within the West Bengal Industrial Development Corporation, the Shilpa Bandhu, and made it the single-point agency of the government. Politics has always been in command in West Bengal, and political initiative continued to be important for West Bengal's strategy of liberalization: more action seems to take place in the chief minister's office than in the disparate bureaucratic organizations governing industry.

Tamil Nadu experienced political instability within the state in the 1990s, but the regional political elite took advantage of a fortuitous political alignment at the center. The ruling regional parties—DMK and AIADMK—were coalition partners of the ruling party at the center at different times in the 1990s. This political connection at the center proved to be crucial for Tamil Nadu's policy of liberalization. The parties bargained for economic policy-related cabinet positions and DMK party member Murasoli Maran became the minister of commerce and industry. This allowed the state government to benefit from increased access to information and interaction with foreign investors. Thus, two distinct routes, one bureaucratic and the other partisan-political, have been adopted by state-level elites toward liberalization in India. Most significantly, these routes derive from historical legacies of regionally specific political strategies pursued by different states during the *ancien regime*—thus institutional memories and political choices adopted by regional elites during the license raj continue to shape their post-liberalization political choices.

Conclusion

Liberalizing states operate in a political-institutional context and are shaped by the historical legacies of institutions, resources, and actor's choices. Yet market reforms trigger new preferences and interests that rival actors interpret and deploy as they struggle over the new policy regime. The existing regulatory regime affects these struggles by redistributing power and economic resources among rival actors. Reforms, moreover, may create new actors or new coalitions that acquire a stake in the results of the struggle. Policy change thus transforms the existing balance of power, but does so shaped by the preexisting institutional context and preexisting linkages, resources, and skills.

This article has argued that a sharp discontinuity does *not* characterize India's emerging trajectory of reforms. Vertical competition, not an absence of competition, was widely prevalent in the pre-1991 period. The abolition of the central rules of regulation did, however, affect the nature of competition between states in significant ways. Before 1991, given the larger framework of the national regulatory state, the states competed for locational decisions to be made in their favor; the competition was about the location of projects in the relevant state and the "backward districts." With the location policy abandoned after 1991, the states now bypass the center and go directly to the business houses and foreign investors. The nature of competition after 1991 has been transformed from a vertical to a horizontal one. This change is significant: even if only some states do better than others in the "race," there is a change in the way *all* states conceive (or can potentially conceive) of their role in shaping economic policymaking.

Thus, economic reforms unleashed significant changes in India's political economy, changing federal authority relations. Both central policymakers and regional incumbents' preferences and interests have changed. Equally significantly, intense horizontal competition and policy diffusion increased the speed and pace of reforms as well as transformed the incentives faced by many regional rulers. Yet, the old regulatory regime continued to shape the path and process of liberalization in important ways. State-guided routes to liberalization, rather than market fundamentalism, proliferate across Indian states. Specific state strategies of liberalization—whether to operate through the hierarchical bureaucracy or deploy partisan-party channels—relied on inherited provincial strategies consistent with political resources easily found in each of the regions.

A historical institutionalist approach can better explain these contradictory processes. Liberalization was accompanied by a radical change in ideological discourse about desirable state purposes (fiscal efficacy versus welfare or better performing states), preferences of regional politicians, and the strategies they employ to achieve their goals. India's economic reforms reordered erstwhile center–state relations, displacing both power and responsibilities to the regional states. However, institutions of the license-quota raj—local institutional capacities and preexisting behavior patterns—shaped these strategies in diverse ways: Change and continuity coexist in post-transition India.

These empirical results urge a reorientation of the theoretical framework with which we view economic transitions. We need to focus analytical and research attention on the *process* of policy change in India and elsewhere. It is historically inaccurate to characterize the role played by regional states in the recent reform experience as a product only of the 1991 policy changes. While key exogenous changes in 1991 changed the policy environment for regional elites, their actions also had deeper historical roots. The legacy of a divided central state continues to offer crucial choice and veto points to regional states under the new policy regime. Somewhat paradoxically, *institutional continuity has been a source of policy change in India's political economy* as political incumbents redeploy their preexisting linkages and political strategies toward radically different goals.

In making this argument, I have focused on the pattern of change in the balance between center and states and in the logic of collective action among states themselves. However, I have also traced the historical continuity provided by erstwhile institutions in shaping interests, strategies, and capacities of key actors. Functional responses to liberalization pressures are in short supply; in contrast, policy change must be understood as a *combined and uneven product* of preexisting institutions, changing preferences, and accommodating strategies. This argument about institutional continuity differs in important respects from those who claim that nothing has changed in India; it provides a balanced and nuanced picture about how changing preferences, change in rules of the game, and exogenous shocks interact with preexisting institutional skills, political capacities, and discursive memories.

NOTES

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1. Rob Jenkins, *Democratic Politics and Economic Reform in India* (Cambridge: Cambridge University Press, 1999), pp. 172–207.
2. Initially, scholarship on economic reforms focused primarily at the national level. For important works in this genre see John Harriss, "The State in Retreat: Why Has India Experienced Such Half-Hearted Liberalization in the 1980s," *IDS Bulletin* Vol. 18, No. 4 (October 1987), pp. 29–36; Atul Kohli, "Politics of Economic Liberalization in India," *World Development* Vol. 17, No. 3 (March 1989), pp. 305–28; Pradeep Agrawal *et al.*, eds., *Economic Restructuring in East Asia and India: Perspectives and Policy Reform* (London: Macmillian, 1995); Richard Cassen and Vijay Joshi, eds., *The Future of Economic Reform* (Oxford University Press, 1995); Amit Bhaduri and Deepak Nayyar, *The Intelligent's Person's Guide to Liberalization* (New Delhi: Penguin, 1996); Vijay Joshi and I. M. D. Little, *India's Economic Reforms, 1991–2001* (Oxford: Clarendon Press, 1996; revised ed.,1999); Isher Ahluwalia and I. M. D. Little, *India's Economic Reforms and Development* (New Delhi: Oxford University Press, 1999); Jeffrey D. Sachs, A. Varshney, and Nirupam Bajpai, eds., *India in the Era of Economic Reforms* (Oxford: Oxford University Press, 1999); Ashutosh Varshney, "Mass Politics or Elite Politics?: India's Economic Reforms in Comparative Perspective," in Sachs *et al.*, eds., *India in the Era of Economic Reforms*, pp. 222–60; Jorgen Pederson, "Explaining Economic Liberalization in India: State and Society Perspectives," *World Development* Vol. 28, No. 2 (February 2000), pp. 265–82; Baldev Raj Nayar, "Political Structure and India's Economic Reforms of the 1990s," *Pacific Affairs* Vol. 71, No. 3 (Fall 1998), pp. 335–58, and *Globalization and Nationalism: the Changing Balance in India's Economic Policy, 1950–2000* (New Delhi: Sage, 2001); Stuart Corbridge and John Harriss, *Reinventing India: Liberalization, Hindu Nationalism, and Popular Democracy* (Cambridge: Polity, 2000); John Degnbol-Martinussen, *Policies, Institutions, and Industrial Development: Coping With Liberalization and International Competition in India* (New Delhi: Sage, 2001); and N. S. S. Narayana, *Economic Policy and State Intervention: Selected papers of T. N. Srinivasan* (New Delhi: Oxford University Press, 2001).
3. Although many scholars argue that slow movement and too little change characterizes India's reforms. See Joshi and Little, *India's Economic Reform*. Pranab Bardhan seems to concur (*The Political Economy of Development in India*, Expanded Edition (Delhi: Oxford University Press, 1998)).
4. Lawrence Saez, *Federalism Without a Center: The Impact of Political and Economic Reform on India's Federal System* (New Delhi: Sage, 2002), p. 135.
5. Aseema Sinha, "From State to Market—via the State Governments: Horizontal Competition after 1991 in India," Paper presented at the Association of Asian Studies, Annual Meeting, Boston, March 11–14, 1999.
6. Jenkins, *Democratic Politics and Economic Reform in India*, pp. 119–71.
7. Lloyd I. Rudolph and Susanne Hoeber Rudolph, "The Iconization of Chandrababu: Sharing Sovereignty in India's Federal Market Economy," *Economic and Political Weekly*, May 5, 2001, p. 1546.
8. John Echeverri-Gent, "Politics in India's Decentered Polity," in Alyssa Ayres and Philip Oldenburg, eds., *India Briefing: Quickening the Pace of Change* (Armonk, NY: M. E. Sharpe, 2002), pp. 19–53. An emergent body of scholarship has begun to look at sub-national interventions and analyze the implications of liberalization for center–state relations. See Myron Weiner, "The Regionalization of Indian Politics and its Implications for Economic Reform," in Sachs *et al.*, eds., *India in the Era of Economic Reforms*, pp. 261–95; Montek Ahluwalia, "The Economic Performance of States in the Post-Reforms Period,"

Economic and Political Weekly Vol. 35, No. 6 (2000); Raja J. Chelliah, "Liberalization, Economic Reforms, and Centre-State Relations," and V. A. Pai Panandiker, "The Political Economy of Centre-State Relations in India," in Ahluwalia and Little, eds., *India's Economic Reforms and Development*, pp. 344–74 and 375–94; Joydeep Mukherjee, "India's Long March to Capitalism," *India Review* Vol. 1, No. 2 (April 2002), pp. 29–60; John Adams, "India's Economic Growth: How Fast? How Wide? How Deep?," *India Review* Vol. 1, No. 2 (April 2002), pp. 1–28; S. Guhan, "Centre and States in the Reform Process," in Richard Cassen and Vijay Joshi, eds., *The Future of Economic Reform* (Oxford University Press, 1995), pp. 71–111; Nirupam Bajpai and Jeffrey D. Sachs, "The Progress of Policy Reform and Variations in Performance at the Sub-National Level in India," *Development Discussion Paper No. 730*, November 1999 (Harvard Institute of International Development, Harvard University, 1999); M. Govinda Rao, "Fiscal Adjustment and the Role of State Governments in India," in Satu Kahkonen and Anthony Lanyi, eds., *Institutions, Incentives and Economic Reforms in India* (New Delhi: Sage, 2000), pp. 194–211; and Laveesh Bhandari and Aarti Khare, "The Geography of Post-1991 Indian Economy," *Global Business Review* Vol. 3, No. 2 (July–December 2002), pp. 321–40.

9. Pradeep Chhibber and Samuel Eldersveld, "Local Elites and Popular Support for Economic Reform in India and China," *Comparative Political Studies* Vol. 33 (April 2000), pp. 350–73.
10. Jenkins, *Democratic Politics, 1999* focuses on Rajasthan, Mahrashtra, Karnataka, and West Bengal; Sinha, *From States to Markets*, 1999, focuses on Gujarat, West Bengal, and Tamil Nadu; Kennedy on Andhra Pradesh and Tamil Nadu (Loraine Kennedy, "Contrasting Responses to Economic Liberalization in Andhra Pradesh and Tamil Nadu," in Rob Jenkins, ed., *Regional Reflections: Comparing Politics Across India's States* (Delhi: Oxford University Press, forthcoming)); and Paul on Karnataka (Samuel Paul, "Do States have an Enabling Environment for Industrial Growth? Some Evidence from Karnataka," *Economic and Political Weekly* Vol. 35, No. 43–44 (2000), pp. 3861–69). Also see the special issue devoted to economic reforms in Andhra Pradesh, *Economic and Political Weekly*, March 22–28/April 4, 2003.
11. Theoretically, Jenkins, *Democratic Politics* arguments would be compatible with this approach.
12. There is no doubt that fiscal pressures on the regional states accompanying the withdrawal of many central state functions are also responsible.
13. The advantages of colonial location have also affected these post-independent patterns. Bombay, Bengal, and Madras presidency areas positively affected the development of states such as Maharashtra, Gujarat, West Bengal, and Tamil Nadu.
14. The central state, in response, has sought to renew its regulatory authority especially in the domain of fiscal regulation. For reasons of space, I will not be able to elaborate on this aspect in this article.
15. This resonates with two different ways of conceptualizing policy or institutional change. One approach focuses on the change of preferences and the other on how institutions provide changing incentives to actors. The first approach, following Riker, may be characterized as "preference-induced equilibrium" or equilibrium of tastes and the other as "structure-induced equilibrium." The latter focuses on "organizational conditions, formal arrangements, institutional practices, and their channeling effects on the revelation and aggregation of individual preferences." See Kenneth A. Shepsle, "Institutional Equilibrium and Equilibrium Institutions," in Herbert Weisberg, ed., *Political Science: The Science of Politics* (New York: Agathon, 1986), p. 52.
16. See John Zysman, "How Institutions Create Historically Rooted Trajectories of Growth," *Industrial and Corporate Change* Vol. 3 (1994), pp. 243–83; Sven Steinmo, Kathleen Thelen, and Frank Longstreth, *Structuring Politics: Historical Institutionalism in Comparative Analysis* (Cambridge: Cambridge University Press, 1992); Ellen M. Immergut, *Health Politics: Interests and Institutions in Western Europe* (Cambridge: Cambridge University Press, 1992); Peter A. Hall and Rosemary Taylor, "Political Science and Three New Institutionalisms," in Karol Soltan, Eric M. Uslaner, and

Virginia Haufler, eds., *Institutions and Social Order* (Ann Arbor: University of Michigan Press, 1998); Kathy Thelen, "Historical Institutionalism in Comparative Politics," *Annual Review of Political Science* Vol. 2 (1999), pp. 369–404; and Evan S. Lieberman, "Causal Inference in Historical Institutional Analysis: A Specification of Periodization Strategies," *Comparative Political Studies* Vol. 34, No. 9 (November 2001), pp. 1011–35.

17. Jon Elster, Claus Offe, and Ulrich K. Preuss, *Institutional Design in Post-Communist Societies* (New York: Cambridge University Press, 1998), p. 26.
18. These arguments resonate with recent findings on post-socialist transitions, which show that despite the structural changes of transitions in post-communist states, the communist institutions and earlier regimes continue to shape the path and process of transition. See Consuelo Cruz and Ann Seleny, "Reform and Counter-reform: The Path to Market in Hungary and Cuba," *Comparative Politics* Vol. 34, No. 2 (January 2002), pp. 211–31; Ann M. Gryzamala-Busse, *Redeeming the Communist Past: The Regeneration of Communist Parties in East-Central Europe* (Cambridge: Cambridge University Press, 2002); and Pauline Jones Luong, *Institutional Change and Political Continuity in Post-Soviet Central Asia: Power, Perceptions, and Pacts* (Cambridge: Cambridge University Press, 2002).
19. The constitution of India demarcates three lists of powers: Center, State, and Concurrent (shared). While industry and industry-related subjects are in the center's list, agriculture, education, and regulation of infrastructure are state subjects.
20. Formal rules of the game must be analyzed in conjunction with actual practices; here the picture is more mixed or at least cyclical. See Paul Brass, "Pluralism, Regionalism, and Decentralizing Tendencies in Contemporary Indian Politics," in A. Jeyaratnam Wilson and D. Dalton, eds., *The States of South Asia: Problems of National Integration: Essays in Honour of W. H. Morris-Jones* (London: C. Hurst & Company, 1982); and Aseema Sinha, *The Regional Roots of Developmental Politics in India: A Divided Leviathan* (Indiana University Press, forthcoming).
21. In contrast to China and some Latin American countries, where decentralization accompanied market reforms as part of the policy design.
22. *Economic Survey*, Ministry of Finance, Government of India, Various Years.
23. Vikas Kasliwal, Director, S. Kumars (private textile company) in proceedings of a conference, "Western Regional Cooperation: A Necessity and Opportunity," November 24–25, 1995, p. 15 (emphasis added).
24. In India, provinces have control over more inelastic taxes, while the central government derives its taxes from elastic sources. This limits the buoyancy of the states' tax-base.
25. The above data are drawn from *Report of the Eleventh Finance Commission* (New Delhi: Government of India, 2000). Data from the Reserve Bank of India is consistent with these results. See Reserve Bank of India, *State Finances: A Study of Budgets of 1999–2000* (New Delhi: RBI, 2000).
26. Ahluwalia, "The Economic Performance of States."
27. See Pradeep Chhibber and Ken Kollman, *The Formation of National Party Systems: Federalism and Party Competition in Britain, Canada, India, and the United States* (New Jersey: Princeton University Press, forthcoming) for a comparative analysis of party system change and decentralization.
28. See Anindya Saha's ongoing dissertation that explains this change, *The Strategic Logic of Institutional Change: Party System Transformation in India*, dissertation in progress, Cornell University.
29. TDP from Andhra Pradesh, TMC from Tamil Nadu, DMK from Tamil Nadu, and AGP from Assam.
30. Echeverri-Gent, "Politics in India's Decentered Polity," p. 31.
31. Article 74 (2) of the Indian Constitution bars an enquiry into the question of whether any or what advice was tendered by the Council of Ministers to the President.
32. Rudolph and Rudolph coin this term in "The Iconization of Chandrababu."
33. At least four national conferences or conclaves were held in the 1980s: at Vijaywada, Srinagar (October 1983), Calcutta (1984), and Delhi (April 25, 1987) where CMs from opposition parties attended and attempted to coordinate their strategy for greater

regional autonomy against a dominant center and a dominant party. These meetings intensified during 1987–89. In 1987 seven CMs participated in the conference held at Delhi. This was followed by more focused meetings in May 1987, September 1987, December 1987, and January 1988. See "Non-Congress (I) Chief Ministers Meeting Today," *The Hindu*, April 25, 1987, p. 9; and "Six Chief Ministers Endorse Joint Front on Agreed Plan," *Hindustan Times*, April 26, 1987, pp. 1, 8.

34. "Naidu to Meet PM, Sinha on Finance Panel Report," *Times of India* (internet edition), August 20, 2000.
35. The central government has created an "Incentive Fund" from which "fiscal performance based grants will be made for those states that achieve a reduction of the revenue deficit" (Government of India, *The States' Fiscal Reforms Facility (2000–01 to 2004–05)*, Ministry of Finance, 2000).
36. "Probe into Indian Food Aid Scam," *Financial Times*, August 23, 2002.
37. In India, central government's tax revenue as a percentage of the GDP increased from 9.0% in 1980 to 10.8% in 1997, while China's tax revenue in 1997 as a percentage of its GDP was as low as 4.9% (World Bank, *World Development Report*, 1999–2000, p. 256).
38. Editorial, *The Hindu*, June 7, 1996.
39. Suresh Babu, "Competition and Competitiveness among States," *Economic and Political Weekly*, March 30, 2002, pp. 1281–84.
40. Chief Minister Jayalalitha quoted in "Tamil Nadu: the Path to Becoming India's Leading State," *Working Papers* (CID, Harvard University, 2002) (emphasis added).
41. For example, Gujarat targeted Gujaratis settled in East Africa, in Calcutta, and in Bombay, encouraging them to invest back in their "home" state.
42. The central "backward area program" identified backward districts in coordination with the relevant state governments; the state governments, in many cases, used that money in more advanced districts of their state.
43. This argument is elaborated in Sinha, *The Regional Roots of Developmental Politics in India*.
44. Manubhai Shah, "Dynamic Phase of Industrial Economy," *Vital Speeches and Documents of the Day* (May 1, 1961), No. XII, pp. 313–14. Capitalization has been standardized in this quote.
45. Cited in Babulal Fadia, *State Politics in India*, Volume I (New Delhi: Radiant Publishers, 1984), p. 129.
46. Cited in A. H. Hanson, *The Process of Planning* (London: Oxford University Press, 1966), p. 313.
47. Interview, Madras, August 1997.
48. Interview with retired IAS official who said "All these policy changes happened in the 1960s and 1970s largely on account of political pressures from the state rather than a policy initiative of the central ministries." Interview, December 1997.
49. Government of India, *Evaluation Report on Concessional Finance and Other Incentives in Industrially Backward Areas* (New Delhi: Planning Commission, 1981), p. ii (emphasis added).
50. One important issue is whether vertical competition in the dirigiste period was zero-sum or positive-sum. The political consequences of such developmental competition are beyond the scope of this paper, but it may be speculated that some of this competition was channeled through the Congress party and thus did not spill into the public domain. Marcus Franda's important study of competition and conflict within the Congress party deserves mention here: Marcus F. Franda, *West Bengal and the Federalizing Process in India* (Princeton, NJ: Princeton University Press, 1968). Competition from opposition-ruled states did become acrimonious as in Tamil Nadu and West Bengal but without challenging the nation-state (except in the late 1940s in Tamil Nadu). Why it was so remains an important puzzle that deserves further examination, but one which I do not address in this article.
51. Government of Gujarat, *Gujarat 2000 A.D and Beyond* (Gandhinagar: Government of Gujarat, 1995), p. 1.
52. A tax levied to goods traveling across a state's borders.

53. A point about data collection on policy outputs is in order here. Usually, policy analysis focuses at the national level and fails to collect policy information at the subnational levels. This followed the oft-repeated assertion that state's role in industrial policy was inconsequential; one of its unintended consequences was to confirm that claim by default. Moreover, regional policymakers have a stake in obfuscating regional-level information as it allows them to continuously claim central discrimination.
54. Single-window agencies are state agencies that include numerous industry departments and give multiple clearances under one roof.
55. Maharashtra Industrial Development Corporation Act, 1960; Gujarat Industrial Development Act, 1962; Memorandum and Articles of Association of WBIDC, 1967.
56. Interviews with state government officials in Bombay and Ahmedabad, March and April 1997.
57. Each of these programs was a regional-level program.
58. See P. Jacob, "First Among Equals," *Business Standard*, March 19, 1997.
59. R. Parthasarathy, "The Best States to Invest In: A Business Today-Gallup-MBA Survey," *Business Today*, 1998, p. 85. Gujarat's rank became fourth in 2003 after widespread riots in 2002; Roshini Jayakar, "Confidence Dip," and "Hottest States for Business: Fourth BT-Gallup Survey," *Business Today*, September 28, 2003.
60. *India Today*, January 11, 1997, p. 77.
61. Government of West Bengal, *Industrial Policy*, 1994.
62. "CITU Critical of LF Government," *The Statesman* (Calcutta edition), September 27, 1994, p. 4.
63. "CITU Critical of LF Government," *The Statesman* (Calcutta edition), September 27, 1994, p. 4.
64. Jayalalitha announced a new initiative in industrial policy on July 4, 1991 almost at the same time as the center. The center's new policies were first announced on July 1 with twin devaluations and industrial policy reforms on July 24, 1991. See "Liberal Industrial Policy in Phases," *The Hindu*, July 2, and "New Industrial Policy To Be Presented in the Parliament Today-CWC(I) Ratifies Government's Economic Policy," *The Hindu*, July 24, 1991.
65. "Help Create Jobs—Chief Minister Tells Industry," *The Hindu*, April 14, 1994, p. 1.
66. *Tamil Nadu Industrial Policy*, 1996 (Chennai: Government of Tamil Nadu, 1996).
67. "Speech to the CII-Southern Committee Meeting," *The Hindu*, August 28, 1996.
68. Quoted in "The Ten Best States for Business," *Business India*, June 6–14, 1994.
69. "Mayawati Promises Industry Friendly U.P.," *The Statesman*, May 14, 1997, p. 11.
70. See Patrick Heller, *The Labor of Development: Workers and Transformation of Capitalism in Kerala, India* (Ithaca: Cornell University Press, 1999).
71. Government of Kerala, *Industrial Policy*, 1991.
72. Circular from the Home department No. 70285/SSA 3/91 cited in R. Venkatesan, *Problems in the Implementation of Economic Reforms at the State Level* (New Delhi: National Council of Applied Economic Research 1994), p. 27.
73. Kennedy, *Contrasting Responses to Liberalization*.
74. Center of Monitoring the Indian Economy (CMIE), *Monthly Review of Investment Projects*, February 1999, p. 100. Also see "Vision 2020," *Industrial Policy of Andhra Pradesh*; and C. Chitti Pantulu, "Naidu to Rope in Management Wizards for Vision 2020," *Financial Express*, June 1, 1997. Many other regional states within India and even the center have come out with their own "Vision 2020" documents, following Andhra Pradesh's example, a strong evidence of policy diffusion. Importantly, the Vision 2020 idea and the exact phrase originated in Malaysia and was the brainchild of Dr. Mahathir Mohamad, then prime minister of Malaysia. I thank Alyssa Ayres for pointing this out. Vision 2020 in Malaysia referred to the fact that Malaysia would aim to be a developed country; 2020 refers to a perfect optometric vision.
75. Pramod Pagedar, "Maharashtra Tops in Investment Despite CMIE—Government," *Economic Times*, August 5, 1996, p, 3.
76. The CMIE stuck to its statistics arguing that it does not include those projects that have been completed, shelved or shifted out of the state as part of ongoing investment and

accordingly Maharashtra's rank was as stated: fourth in 1995–96. See Pagedar, "Maharashtra Tops in Investment"; and Mahesh Vijapurkar, "No Longer the No.1," *The Hindu*, September 2, 1996. Also see Mark Nicholson, "Maharashtra 1996: Other States Catch Up," *Financial Times*, July 11, 1996.

77. Madhav Godbole, "Credit Rating of States: Need for a Fresh Look," *Economic and Political Weekly*, March 14, 1998, pp. 566–68. Also see NPC Research Division, "Competitiveness Ranking of Indian States," *Productivity*, Vol. 35, No. 2 (July–September 1994), pp. 366–68.
78. Interview, Madras, September 1997. After undergoing a name change, what was Mahindra Ford Ltd. is now Ford India.
79. Researchers also need to be aware of this and scrutinize state-level data much more carefully than before.
80. See "Fall in Maharashtra's Growth Performance," *The Hindu*, August 19, 1997. A similar attention to numbers characterizes the competition between Gujarat, Maharashtra, Tamil Nadu, Andhra Pradesh, and Karnataka, the frontrunners in the numbers game.
81. Manohar Joshi, the then chief minister of Maharashtra, greeted the guests in a show, "Advantage Maharashtra," sponsored by the business group Hindujas and the state government on February 22, 1997 in Mumbai. See "Manohar Joshi Takes as the CEO Mantle of Maharashtra Inc," *Economic Times*, February 23, 1997.
82. *Economic Times*, October 2, 1997.
83. I observed regular interaction of journalists from the major newspapers with state agencies during my field research.
84. "Maharashtra Opens Website," *Economic Times*, September 30, 1997.
85. Government websites of few sample states include the following, all of which give details of the state's industrial policy: Maharashtra, www.maharashtra.gov.in; Bihar, bihar.nic.in; West Bengal, www.westbengalgovt.org/site; Uttar Pradesh, www.upindia.org; Madhya Pradesh, www.mpgovt.nic.in. Two new states formed in 2000 have websites with their industrial policies prominently featured: Jharkhand, jharkhand.nic.in; and Chhattisgarh, chhattisgarh.nic.in. Uttaranchal, the third new state, is one of the few without a website.
86. "Maharashtra Government has to be Aggressive," *The Hindu*, (Internet edition), January 14, 1999.
87. "Rapid Industrialization is Tamil Nadu's Goal," *The Hindu*, February 12, 1994. Also see P. Chinnaswamy, "A Saga of Promises," *The Hindu*, February 6, 1994 (emphasis added).
88. The term can be found in Ivo D. Duchacek, Daniel Latouche, and Garth Stevenson, eds., *Perforated Sovereignties and International Relations: Trans-Sovereign Contacts of Subnational Governments* (New York: Greenwood Press, 1988).
89. The inflow of remittances as in the case of Kerala would be one such example.
90. Deepak Raja, "Special Report: Industrialization in Gujarat: Enough of the Road for Financial Incentives?" *Business India* No. 74 (January 5–18, 1981), p. 57.
91. This policy initiative did result in a very important institutional innovation: the formation of iNDEXTb in Gujarat, which was to play a crucial and distinctive role in Gujarat's industrial development.
92. See Ronald Herring and N. Chandra Mohan, "Economic Crisis, Momentary Autonomy, and Policy Reform: Liberalization in India, 1991–1995," in Amita Shastri and A. J. Wilson, eds., *The Post-Colonial States of South Asia: Democracy, Development, and Identity* (London: Curzon Press, 2001).
93. In response, the central government criticized the World Bank for bypassing the central state. Currently, the World Bank tries to keep the central government in the loop; the actual loan is disbursed through the central government.
94. Drawn from "Bolstering State Reform Programs for Faster Growth and Poverty Reduction in India," lnweb18.worldbank.org/sar/sa.nsf/0/82de818e5021ac0e852568e30070682d.
95. The authority of the central government was completely bypassed by both the state government and Enron in negotiations over the Dhabol project. The center was not informed about the cancellation of the Dhabol project. Peeved, a central government official said, "Keeping the Center informed about the fate of the project is a not a matter of courtesy alone; the Center has provided a counter guarantee to the Dhabol power

company covering all payment obligations of the Maharashtra State Electricity Board (MSEB) including termination costs, interest accruals and any likely compensation for cancellation of the contract." See "Centre Concerned," *The Hindu*, September 30, 1995 (international ed.), p. 2.

96. "Tamil Nadu and Kerala Talk to Russia," *Economic Times*, November 22, 1996.
97. "India-Andhra Pradesh, New Jersey Agreement Envisaged," *The Hindu*, January 31, 1999; www.lexis-nexis.com.
98. The existence of a significant Tamil minority in Malaysia, Tamil Nadu's "sons of the soil," also encourages such linkages.
99. Numerous agreements were signed between Malaysian national government and Tamil Nadu at this time. See *FT Asia Intelligence Wire*, January 9, 1999; www.lexis-nexis.com.
100. "India-Andhra Pradesh, New Jersey Agreement Envisaged," *The Hindu*, January 31, 1999. www.lexis-nexis.com
101. John Williamson, "What Washington Means by Policy Reform," in John Williamson, ed., *Latin American Adjustment: How Much has Happened?* (Washington DC: Institute for International Economics, 1990), pp. 5–38.
102. Interview, Gujarat government official, July 25, 2001.
103. The Industry Secretariat in Gujarat complained about the delay at the central level in a confidential memo to the Ministry of Industrial Development, GOI (Internal Memo: IEM/Progress Report, January 13, 1995).
104. *Business Today*, "The Best States to Invest In: A Business Today-Gallup-MBA Survey," June 7–21, 1996, pp. 79–119, and "The Best States to Invest In," December 22, 1997–Janaury 6, 1998, pp. 83–147.
105. Interview with a high-level official of the Asian Development Bank, May 25, 1997.