

# Federalism: India's Power Unleashed

The logo for the Indian Management Association (IMA) is a red square with the letters 'IMA' in white, serif font. The square is framed by two thin white horizontal lines, one above and one below.

**Extract**

**IMA India**

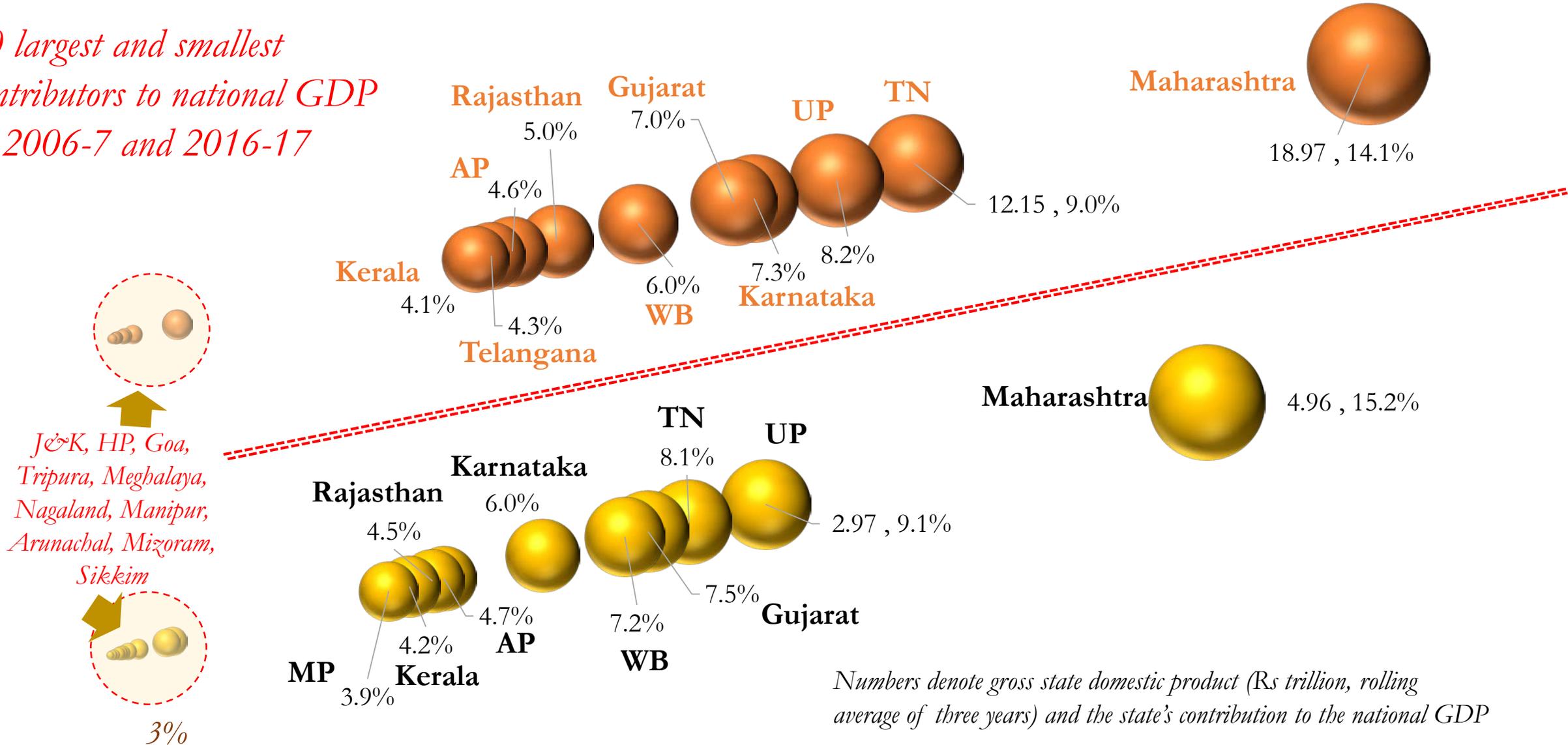
**January 2018**

*Lens 1: Income and expenditure*

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# 10 states account for 70% of national GDP: this share has not changed in the past ten years

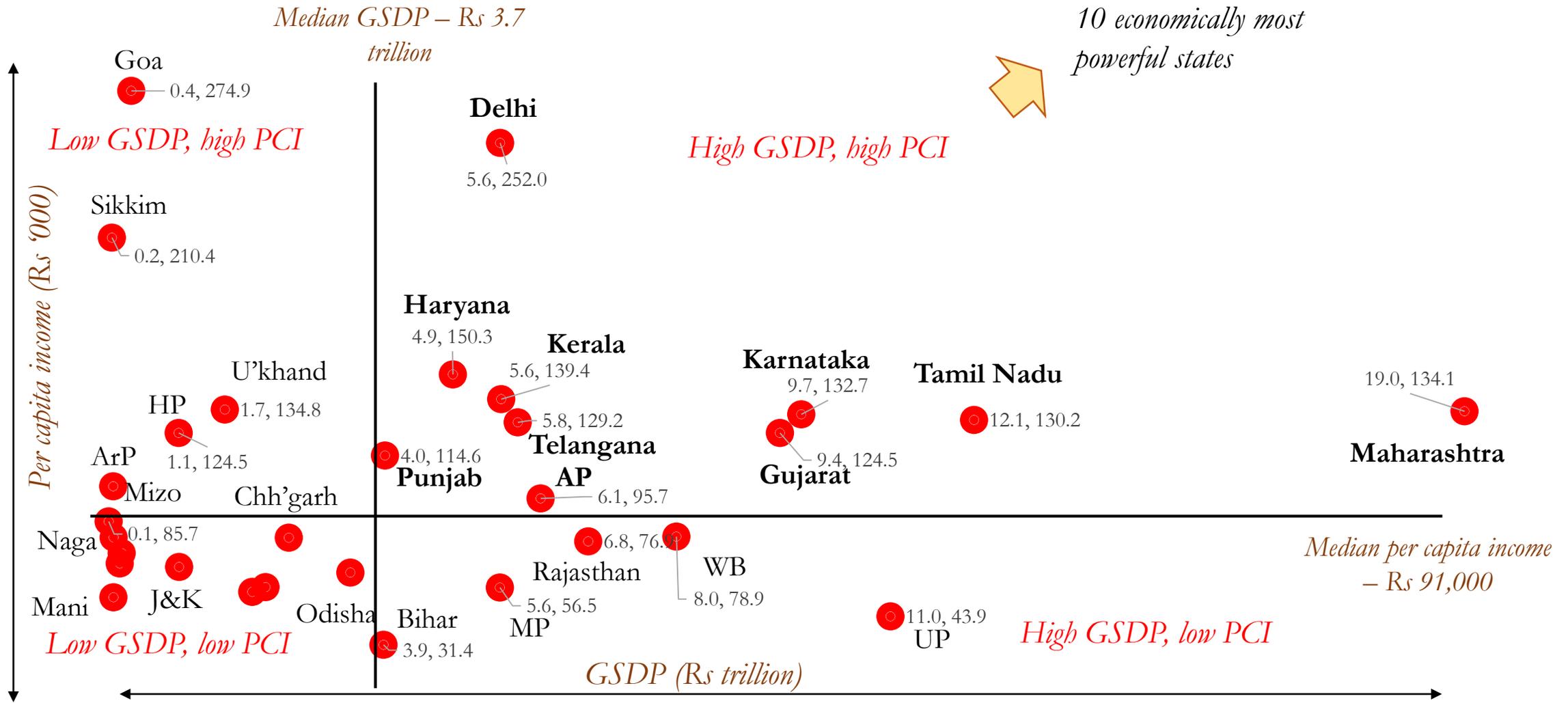
10 largest and smallest contributors to national GDP in 2006-7 and 2016-17



Numbers denote gross state domestic product (Rs trillion, rolling average of three years) and the state's contribution to the national GDP

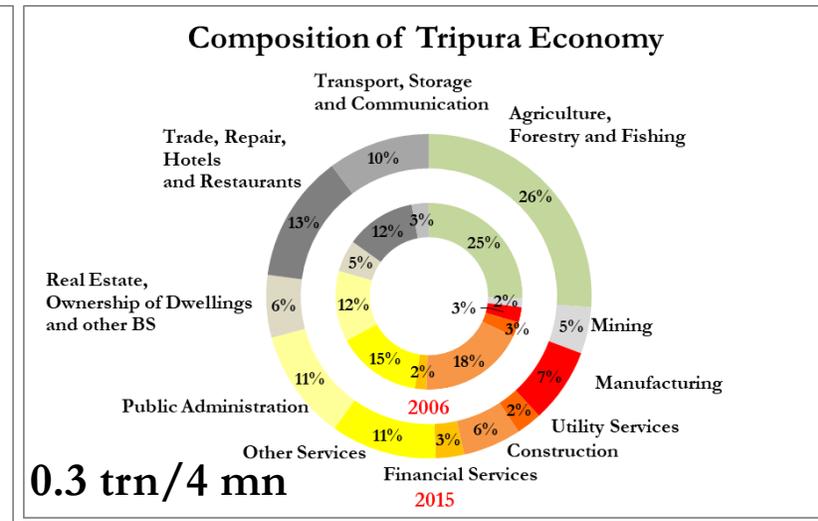
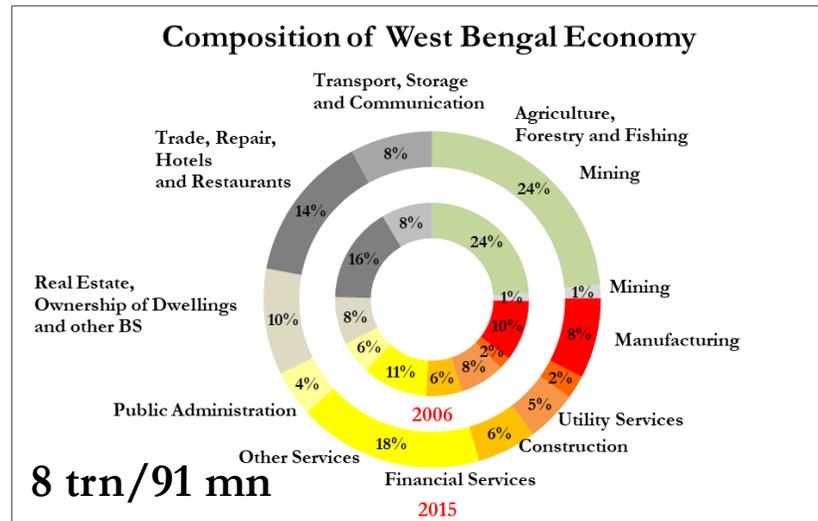
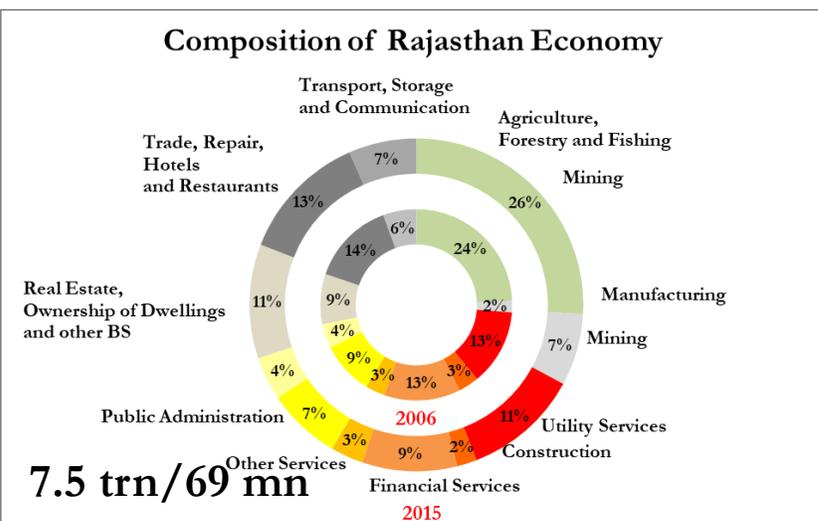
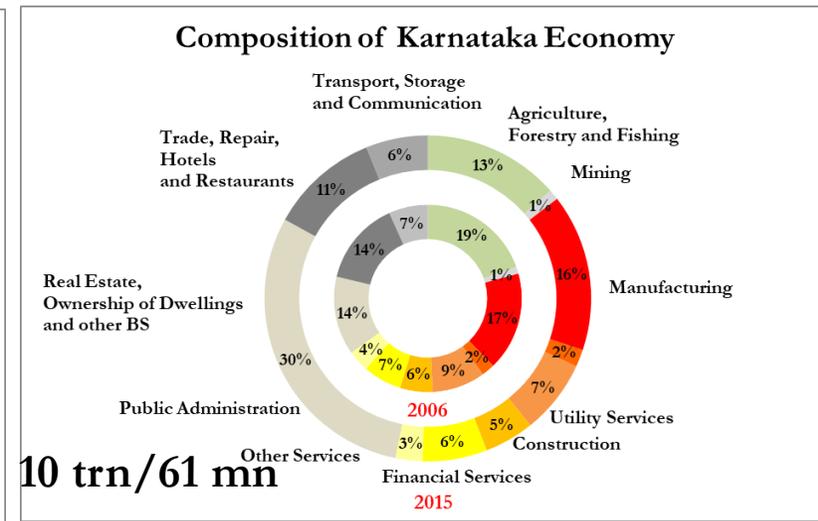
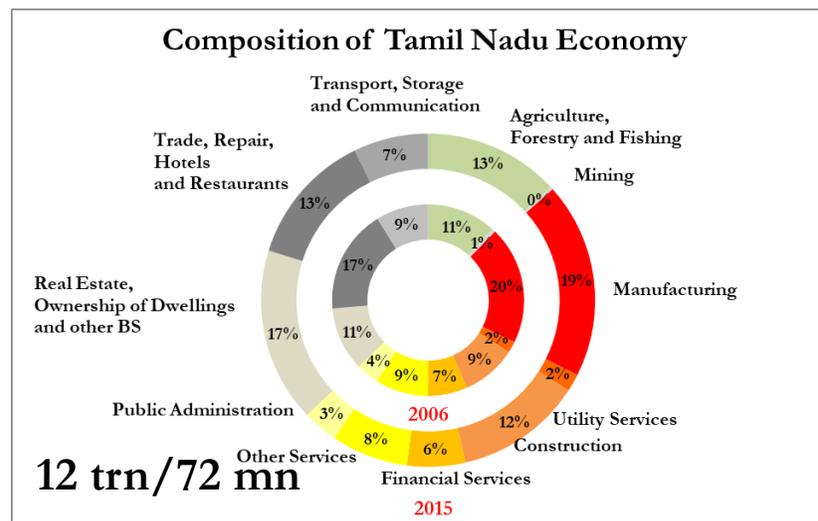
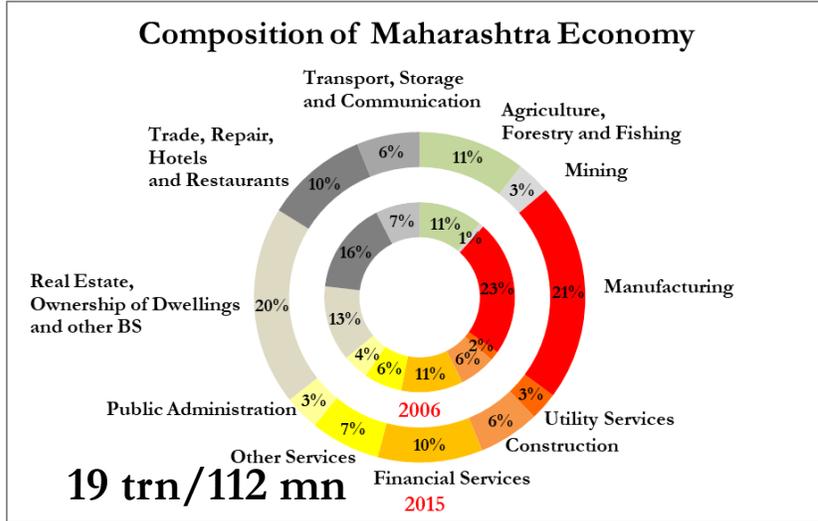
# Size of a state's economy is more a function of its population than affluence

The major contributing states to the national GDP are often low in levels of affluence

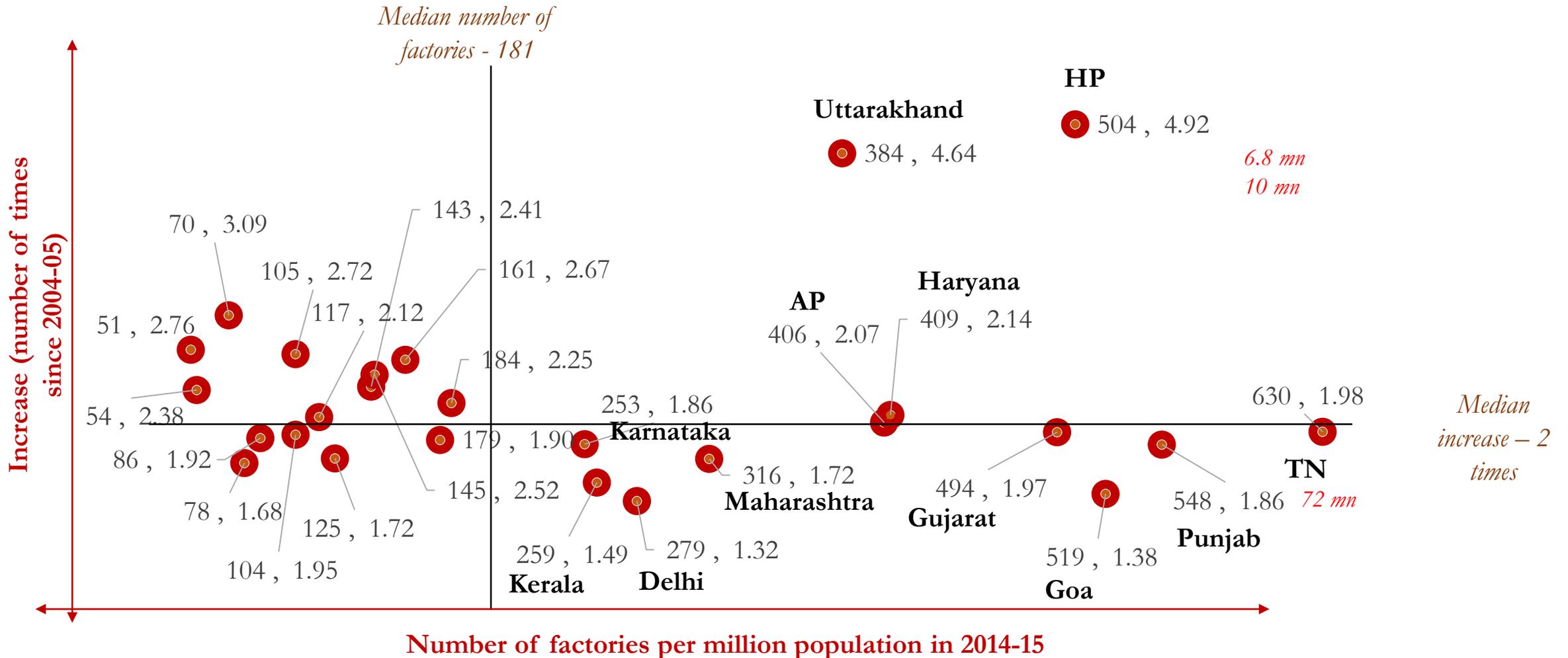


The two numbers denote GSDP (Rs trillion) and per capita NSDP (Rs thousand)

# Common traits: Leading states have a much smaller share of Agri-GDP and a higher share of manufacturing-GDP compared to the laggard states



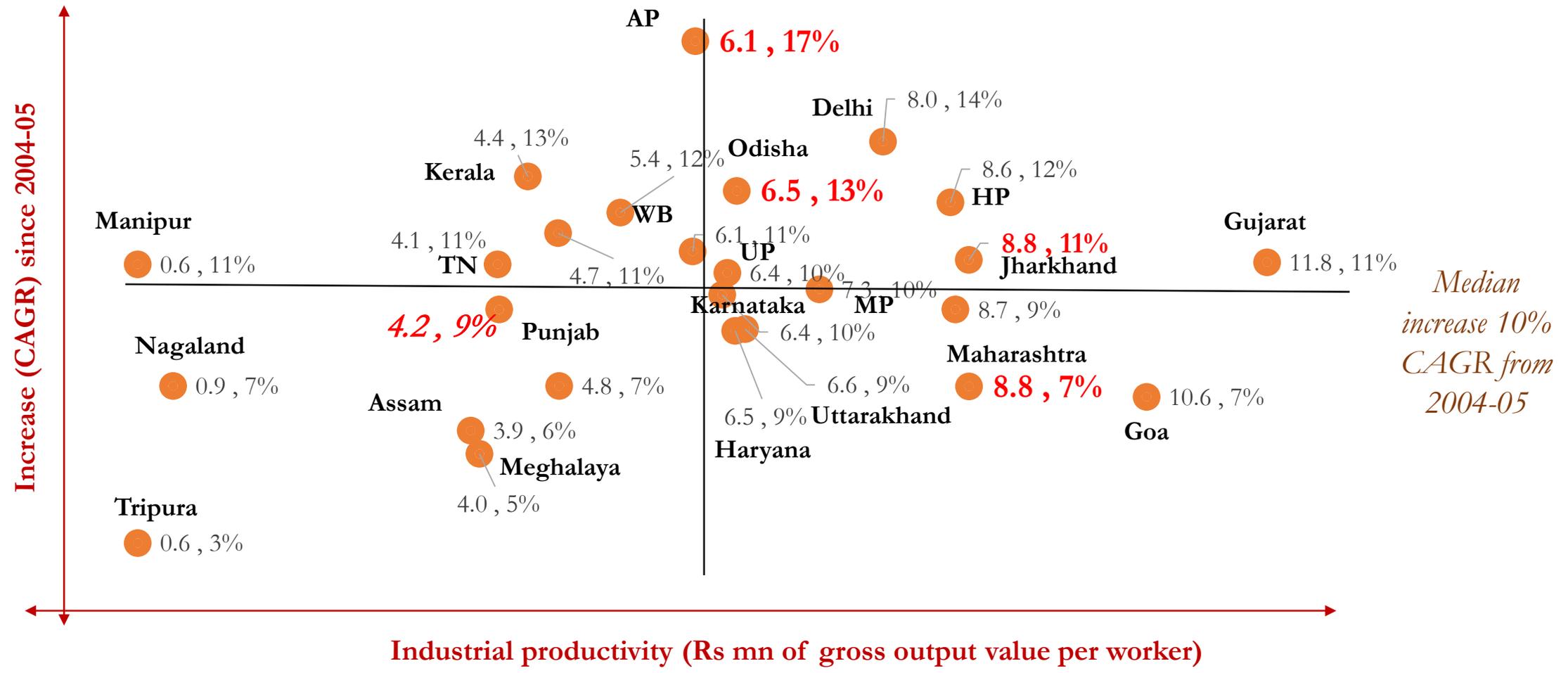
# States have followed different trajectories for the manufacturing sector



Figures depict number of factories in 2014-15 and increase from 2004-05

# Some of the laggard states such as Odisha, Jharkhand and AP have done well in improving their industrial productivity

Median productivity in 2014-15 – Rs 6.2 mn per worker





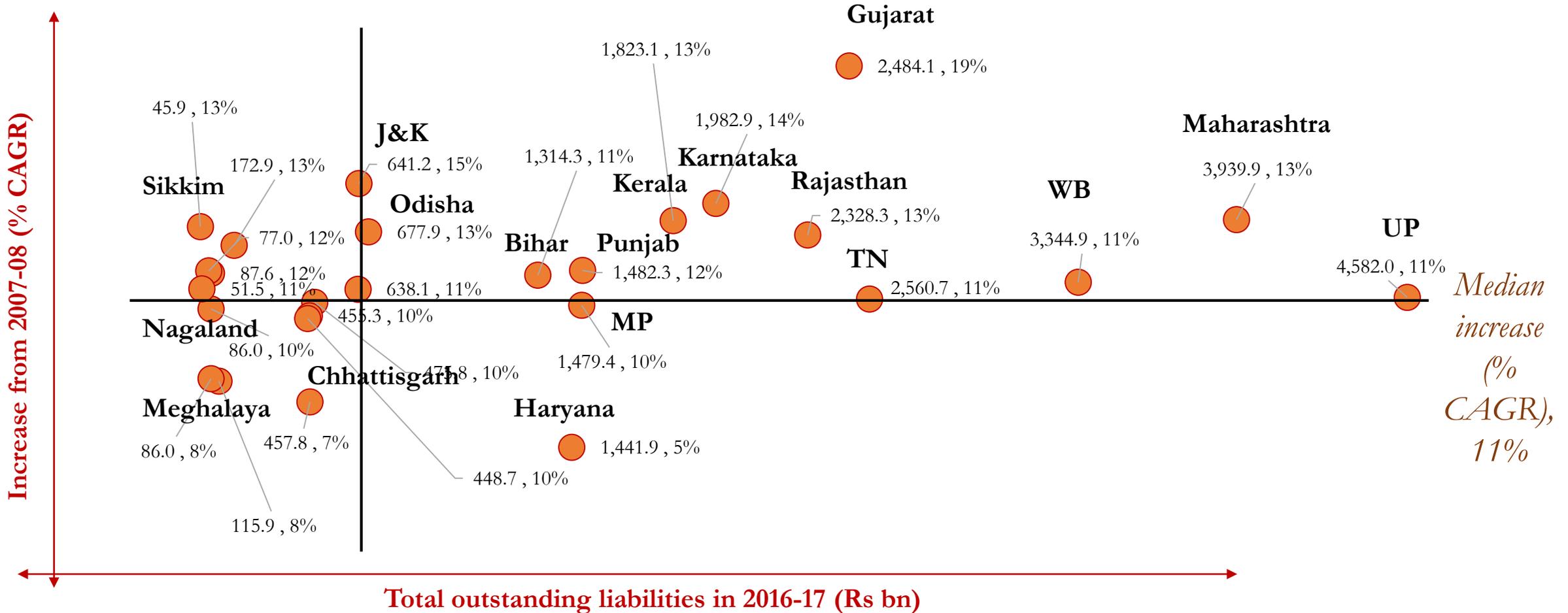


# Fiscal realities: Aiding or impeding growth

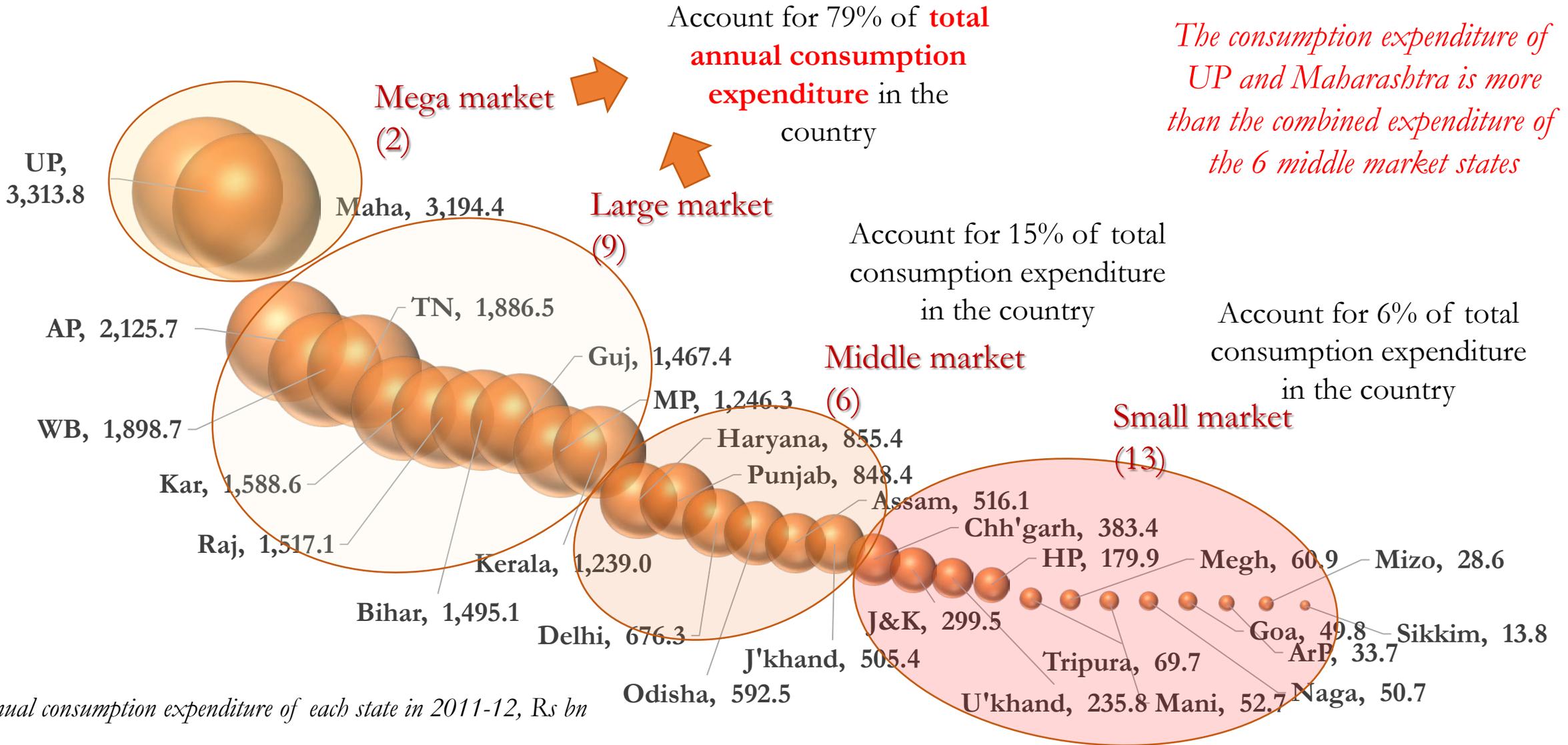


Total outstanding liabilities of state governments in 2016-17 (Rs bn)

Median outstanding, Rs 641 bn

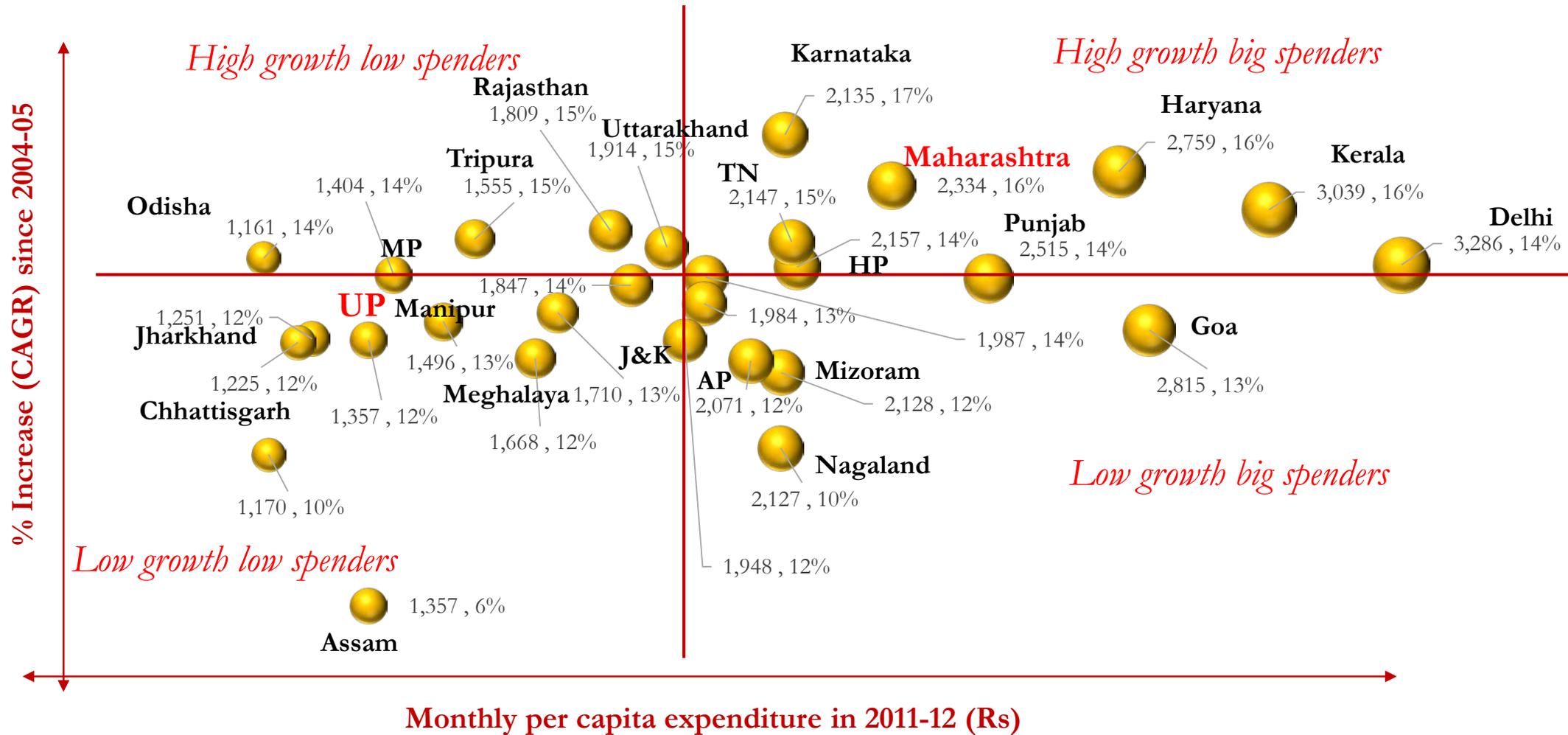


# Huge divergence in consumption market size of states – size and population key drivers



Annual consumption expenditure of each state in 2011-12, Rs bn

# Large markets such as UP are a function of population as per capita expenditure is lower than many middle and small market states



|                | Rajasthan | Uttarakhand | Haryana | Kerala |
|----------------|-----------|-------------|---------|--------|
| Population     | 34%       | 5%          | 13%     | 17%    |
| Cereal         | 34%       | 6%          | 12%     | 19%    |
| Processed food | 44%       | 7%          | 25%     | 53%    |
| Textile        | 45%       | 8%          | 25%     | 31%    |
| Entertainment  | 52%       | 15%         | 42%     | 66%    |
| Personal care  | 46%       | 7%          | 24%     | 29%    |
| White goods    | 51%       | 14%         | 38%     | 65%    |

|                | Bihar | UP   | AP   | Goa |
|----------------|-------|------|------|-----|
| Population     | 52%   | 100% | 42%  | 1%  |
| Cereal         | 66%   | 100% | 58%  | 1%  |
| Processed food | 43%   | 100% | 73%  | 1%  |
| Textile        | 47%   | 100% | 62%  | 1%  |
| Entertainment  | 40%   | 100% | 138% | 4%  |
| Personal care  | 44%   | 100% | 82%  | 2%  |
| White goods    | 34%   | 100% | 77%  | 2%  |

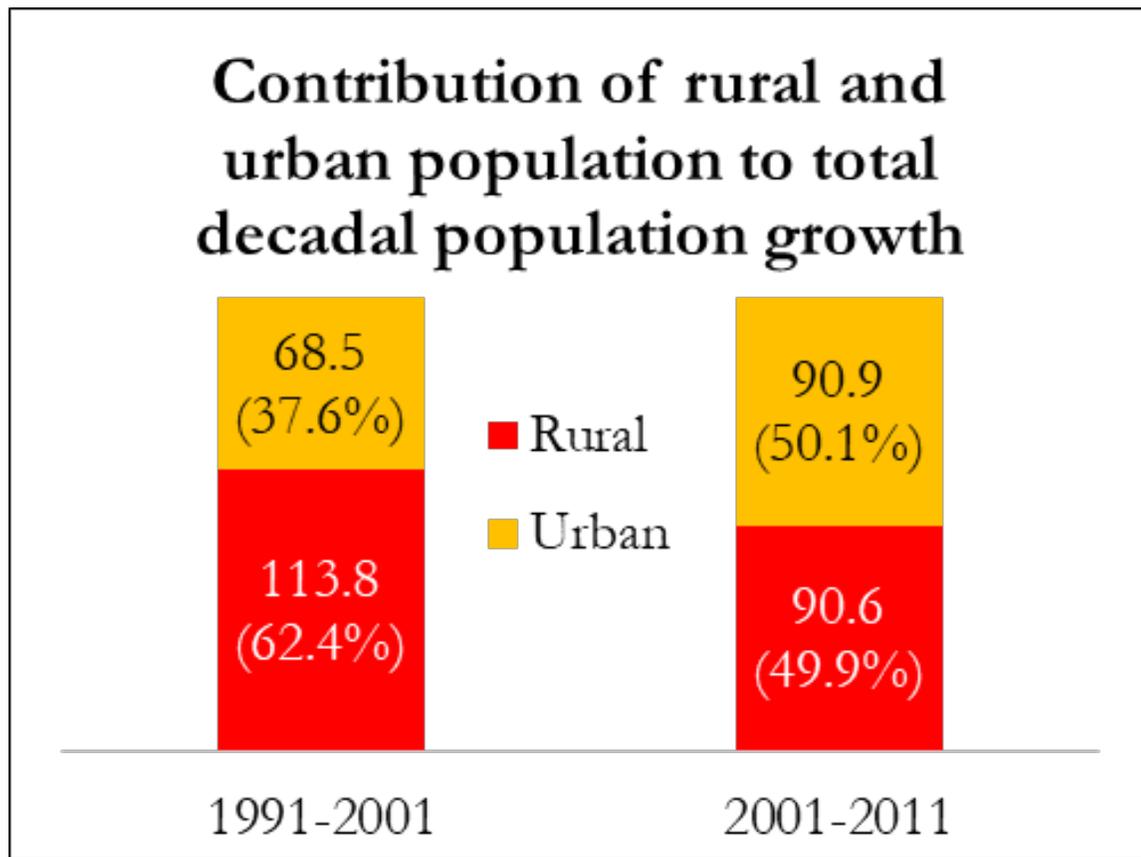
*Large population translates to large market size, but the magnitude varies strikingly according to per capita affluence of the states being compared.*

*For example, although Haryana's population is just over a tenth of that of UP, the state's spend on white goods is more than a third of UP. Similarly, although Andhra Pradesh has less than half the population of UP, its spend on processed food is nearly three-quarters of UP, and spend on entertainment (cinema, theatre, cable TV, etc) is higher.*

*Lens 2: Influencers: demographics & urbanisation*

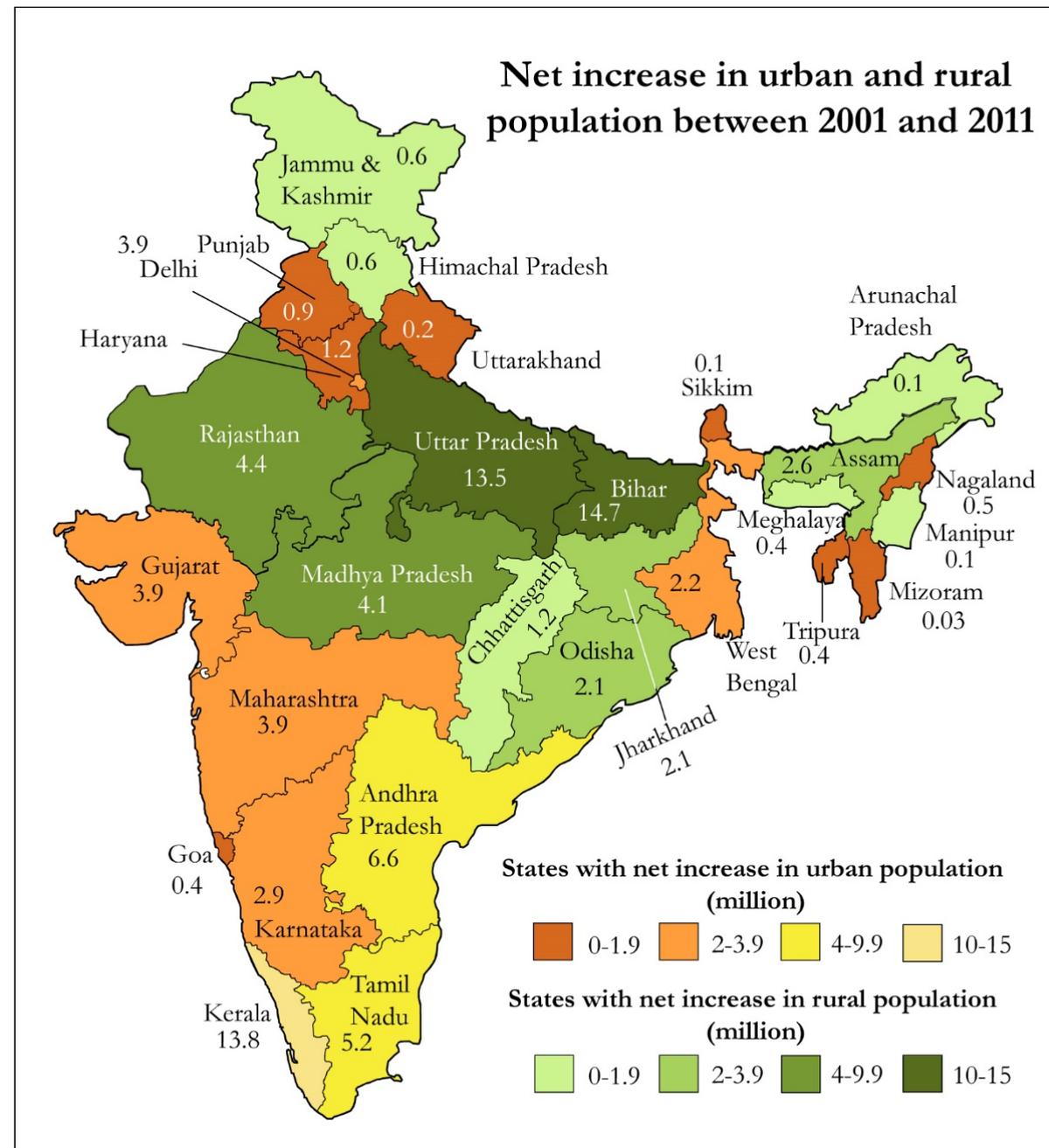
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# More urban population was added in the last decade, reversing a continual past trend



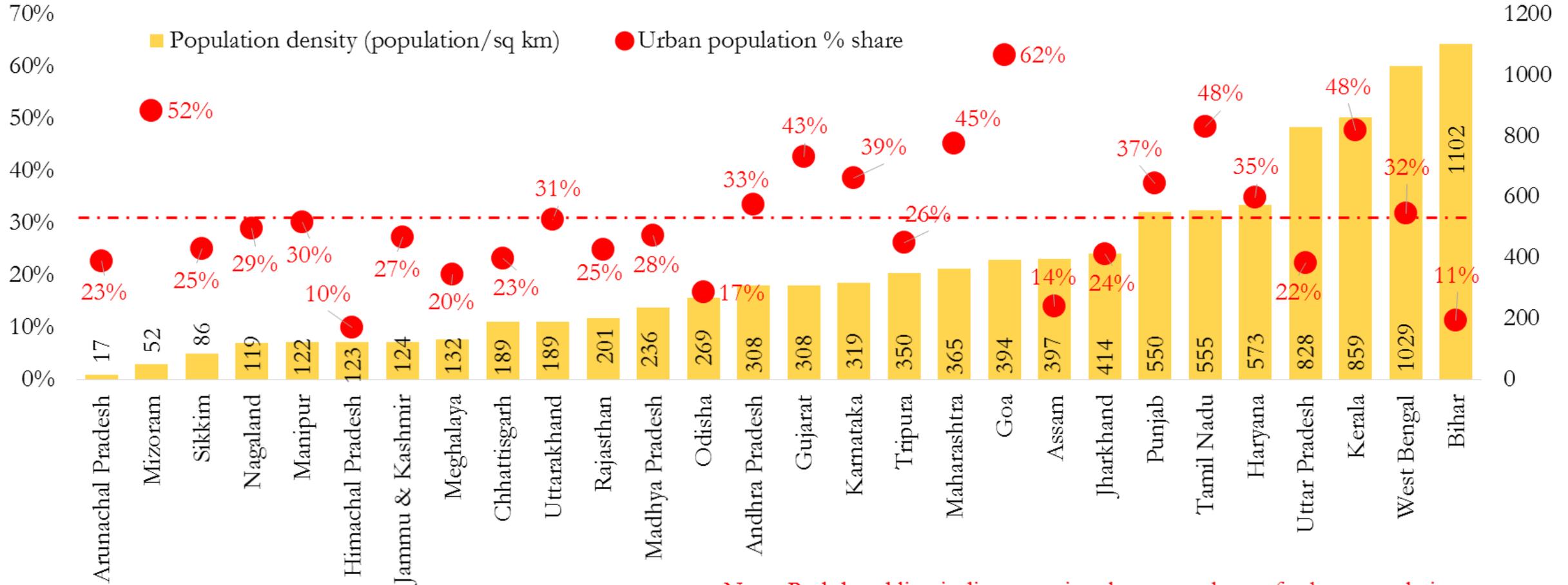
Figures within brackets indicate percentage share of total population increase

Source: Census, IMA analysis



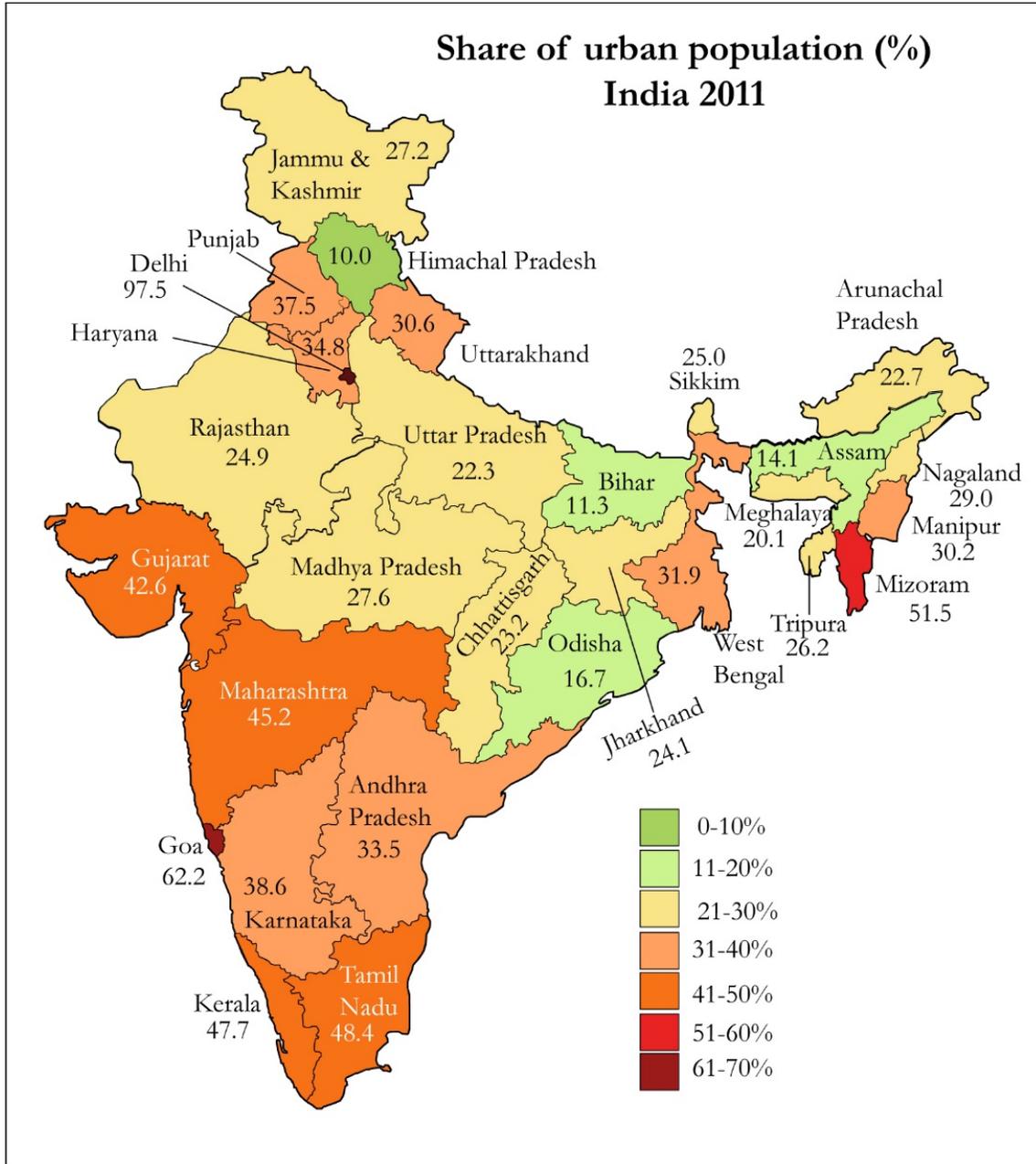
# States vary widely in population and population density

## Urbanisation and population density, 2011



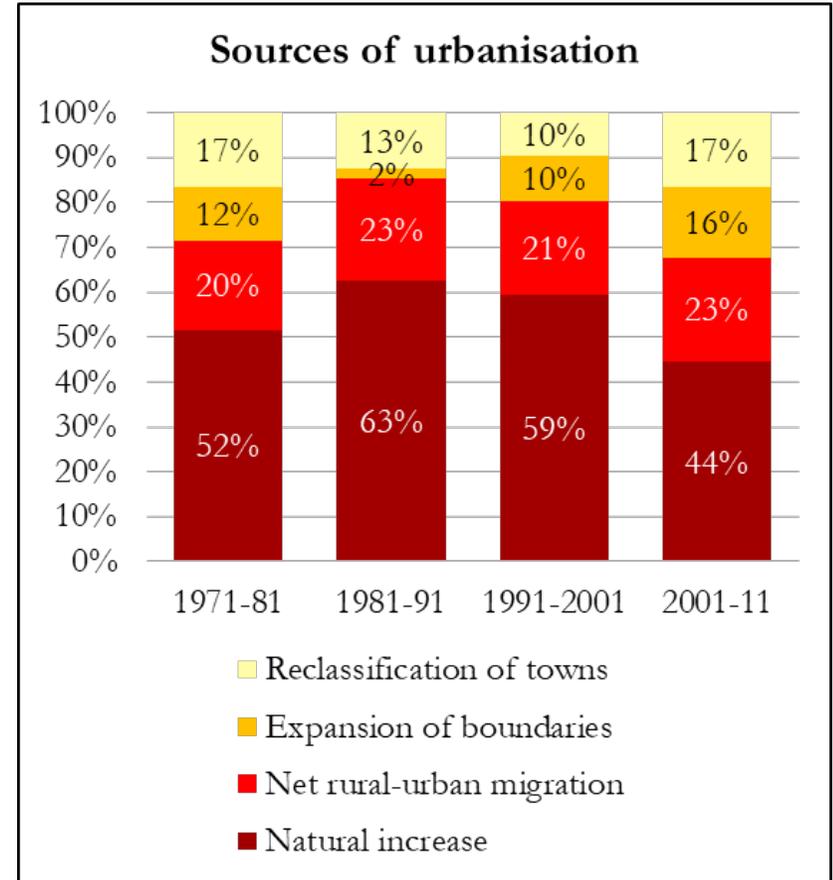
Note: Red dotted line indicates national average share of urban population

# South and West more urbanised



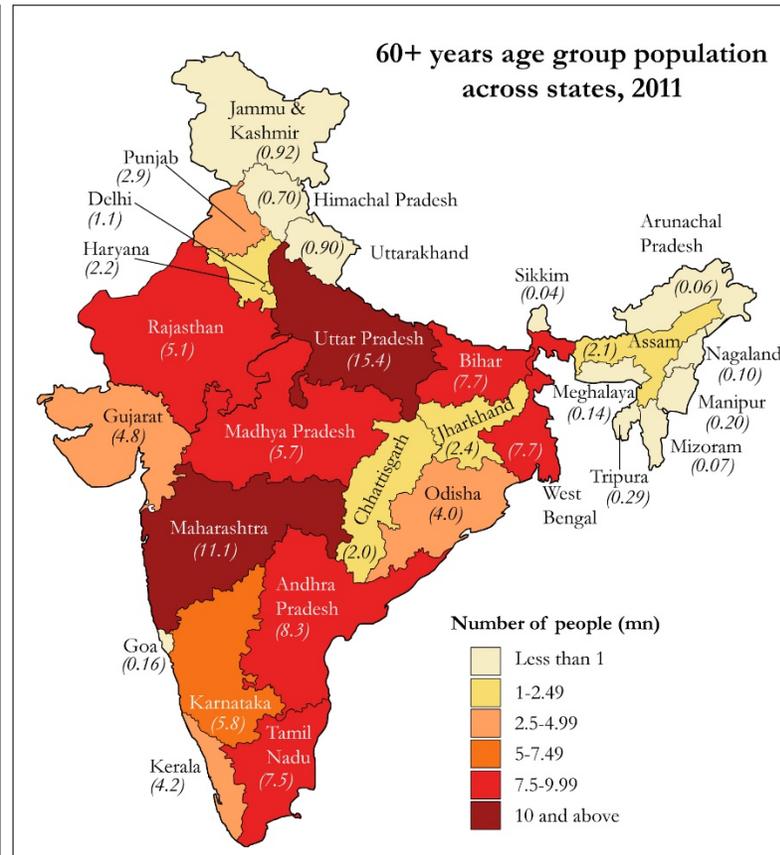
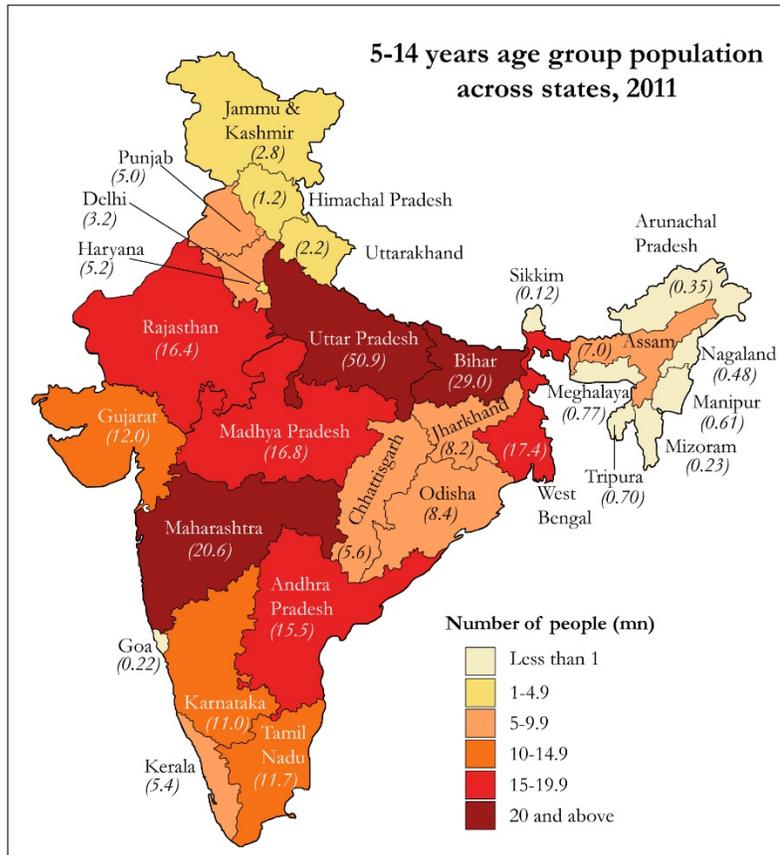
*Urban variations - 34% in Andhra Pradesh to 62% in Goa.*

*Mega cities are in three corridors*

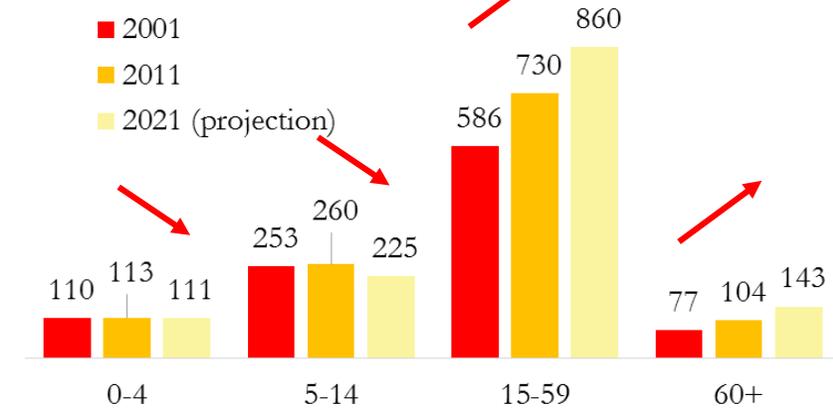


*Migration from rural to urban areas is the second most important contributor, after natural growth, to the increase in urban population.*

# Age dynamics will influence consumption choice



Population by broad age-groups, 2001 & 2011 (mn)



*The age group 5-14 - crucial - will fall but still huge 225 mn*

*15-59 - MASSIVE.*

*Between 2001 and 2011, 172 mn people were added to the age group above 15 years. In 2021, the number will be 259 mn.*

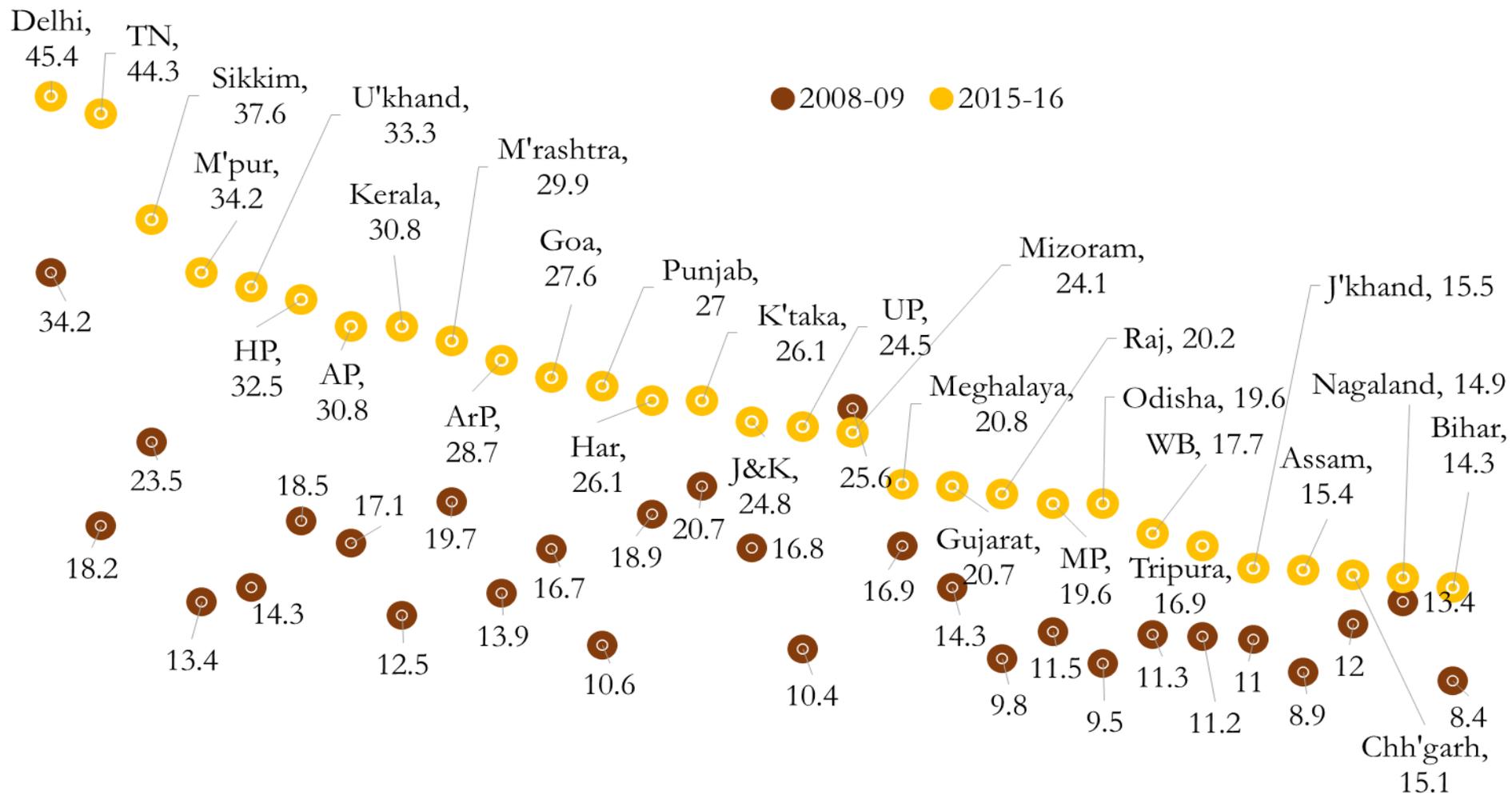
2011 - 2021

- Largest additions to the working age group: *Uttar Pradesh, followed by Bihar, Maharashtra, WB, Rajasthan and AP.*
- Most aged - *Also Uttar Pradesh and Maharashtra followed by AP, WB, Bihar and Tamil Nadu.*

# Increasing education is setting up the stage for new consumption patterns and demand for employment – 2008-09 to 2015-16



Gross enrolment ratio in higher education (18-23 years)



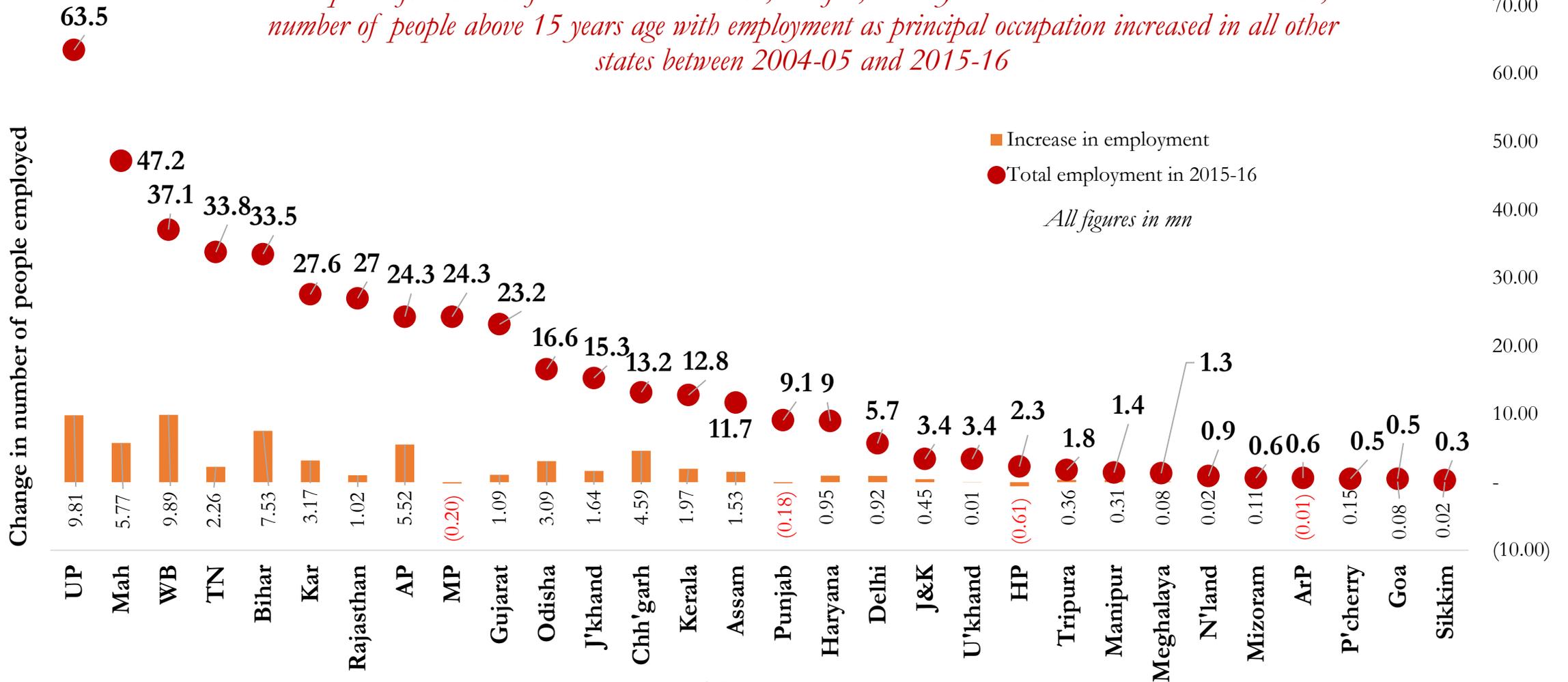
*Except the two north-eastern states of Mizoram and Nagaland, all the states have registered significant improvements in the past half decade in gross enrolment ratio for higher education*

*Lens 3: Employment scenario: fundamental shifts*

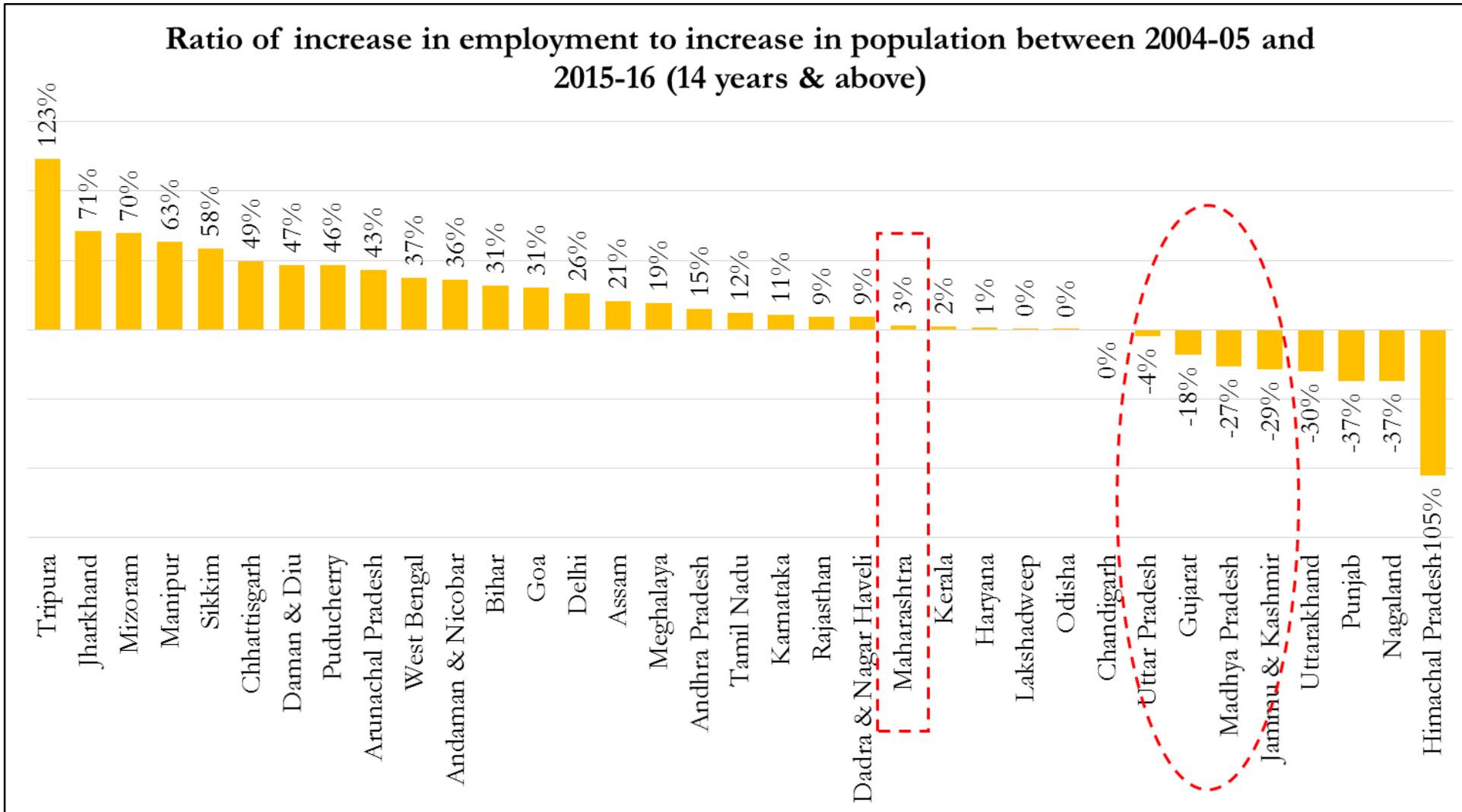
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# 10 states account for 75% employment...

*Except the four states of Arunachal Pradesh, Punjab, Madhya Pradesh and Himachal Pradesh, number of people above 15 years age with employment as principal occupation increased in all other states between 2004-05 and 2015-16*



# Employment not keeping pace with number of people being added to working age population



*Increase in employment was slower in all states (except Tripura) than working age population growth between 2004-05 and 2015-16.*

*Of particular concern, however, is the slow or negative growth in the most populous states in the country, such as Maharashtra, Uttar Pradesh and Madhya Pradesh*

Change in sector-wise employment between 2004-05 and 2015-16 (mn)

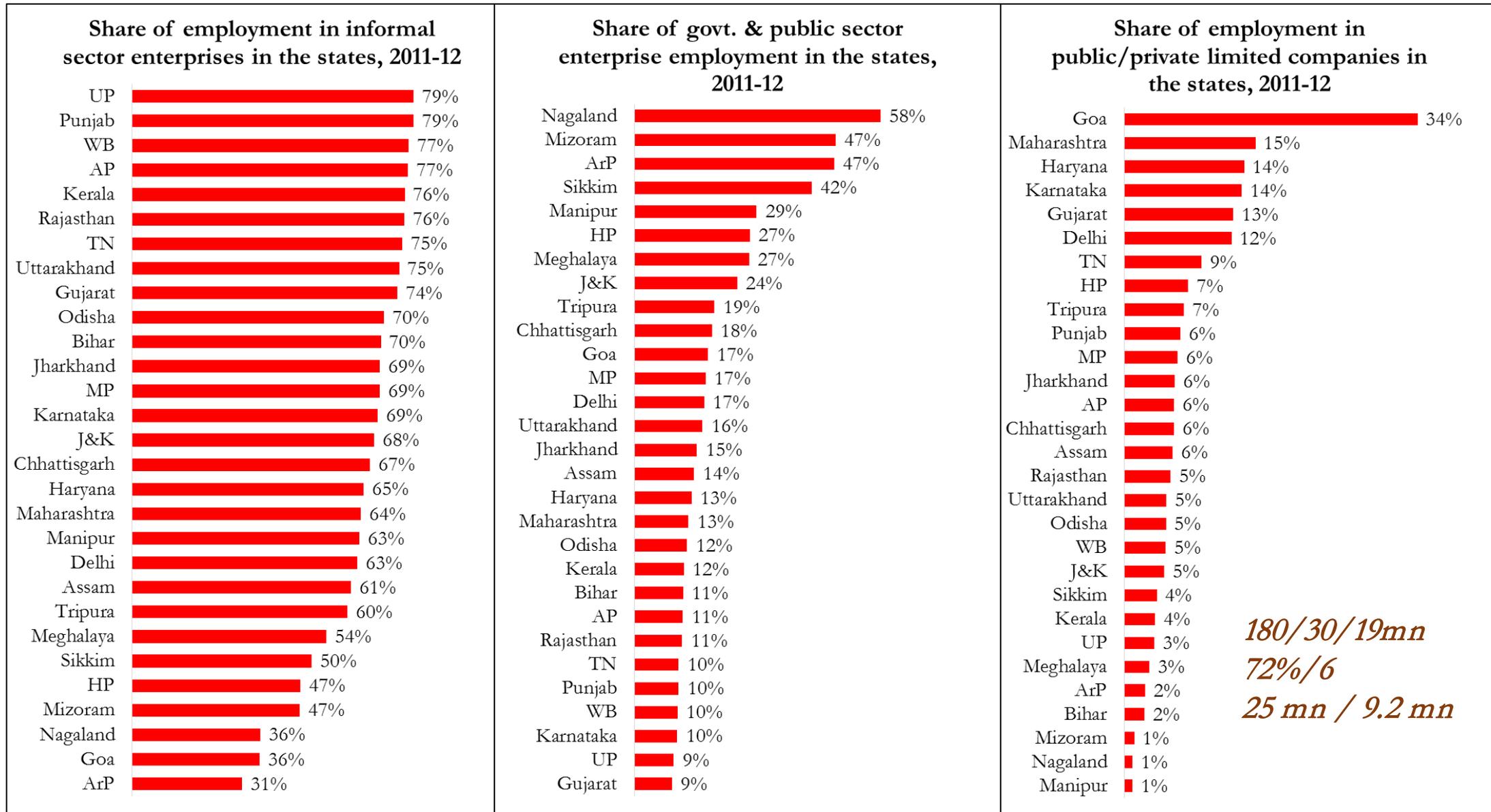
|                   | Agriculture | Manufacturing | Construction | Trade  | Other services |
|-------------------|-------------|---------------|--------------|--------|----------------|
| Uttar Pradesh     | - 10.09     | - 2.88        | 3.79         | 1.19   | 10.43          |
| Madhya Pradesh    | - 7.34      | - 0.85        | 2.56         | - 0.05 | 0.03           |
| Karnataka         | - 4.17      | 0.60          | 0.67         | 0.69   | 1.47           |
| Tamil Nadu        | - 3.19      | - 0.65        | 2.41         | 0.53   | 1.78           |
| Odisha            | - 3.05      | - 0.75        | 1.37         | 0.42   | 1.36           |
| Andhra Pradesh    | - 3.05      | - 1.07        | 1.24         | - 0.37 | 0.35           |
| Rajasthan         | - 2.70      | - 0.20        | 1.64         | 0.96   | 1.61           |
| Gujrat            | - 2.32      | - 0.42        | 0.18         | 0.10   | 0.80           |
| Maharashtra       | - 1.80      | - 2.05        | 0.25         | 0.56   | - 0.26         |
| West Bengal       | - 1.61      | 1.50          | 2.36         | - 0.11 | 1.51           |
| Himachal Pradesh  | - 1.54      | - 0.05        | - 0.03       | 0.05   | 0.47           |
| Kerala            | - 1.22      | - 0.36        | 0.43         | 0.26   | 1.08           |
| Uttarakhand       | - 0.69      | 0.17          | 0.20         | 0.04   | - 0.06         |
| Assam             | - 0.61      | 0.17          | 0.50         | 0.40   | 0.97           |
| Punjab            | - 0.23      | - 0.21        | 0.28         | - 0.18 | 0.31           |
| Haryana           | - 0.17      | - 0.42        | 0.49         | - 0.06 | 0.69           |
| Meghalaya         | - 0.10      | - 0.02        | 0.08         | - 0.00 | 0.05           |
| Goa               | - 0.05      | 0.04          | 0.01         | 0.03   | 0.10           |
| Sikkim            | - 0.04      | 0.00          | 0.05         | 0.01   | 0.03           |
| Tripura           | 0.01        | 0.03          | 0.55         | - 0.01 | - 0.04         |
| Mizoram           | 0.02        | 0.01          | 0.03         | 0.03   | 0.07           |
| Arunachal Pradesh | 0.05        | 0.03          | - 0.01       | 0.04   | 0.03           |
| Manipur           | 0.05        | 0.06          | 0.15         | 0.09   | 0.17           |
| Delhi             | 0.09        | - 0.16        | 0.05         | 0.30   | 0.71           |
| Bihar             | 0.13        | 0.49          | 3.86         | 1.40   | 2.75           |
| Jammu & Kashmir   | 0.16        | - 0.15        | 0.07         | 0.11   | 0.66           |
| Chhattisgarh      | 0.21        | - 0.11        | 0.15         | 0.23   | 0.36           |
| Nagaland          | 0.28        | 0.01          | 0.02         | 0.02   | 0.15           |
| Jharkhand         | 0.95        | - 0.06        | 0.71         | 0.93   | 1.73           |

## Workers moving out of agriculture

*Worryingly, number of workers in the manufacturing sector also declined in 17 states*

Clearly, workers are finding employment in the construction sector or in other miscellaneous services, an overwhelming share of which is in the informal domain

# The Informal Sector: Overwhelming

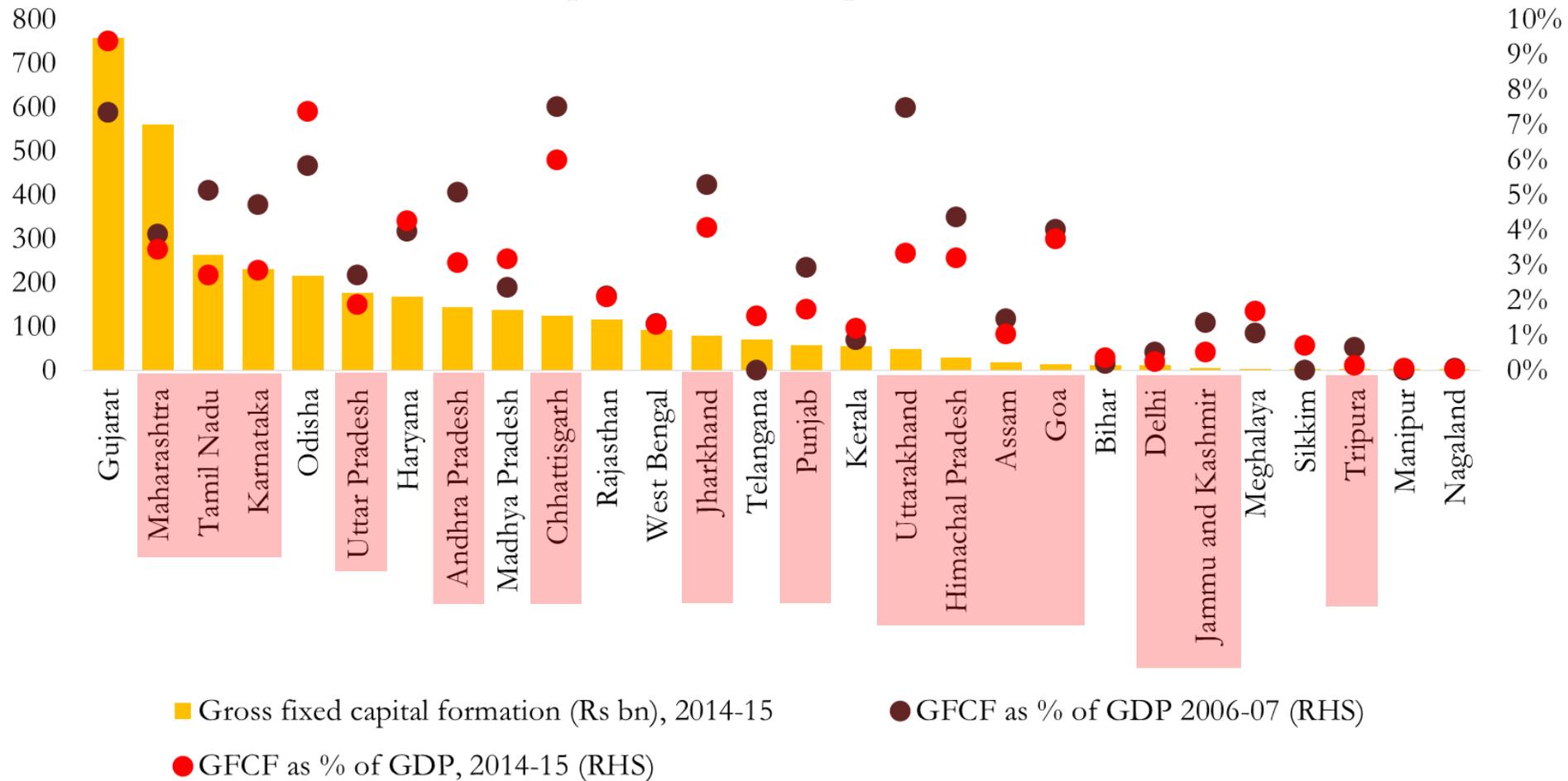


*Lens 4: Investment & infrastructure*

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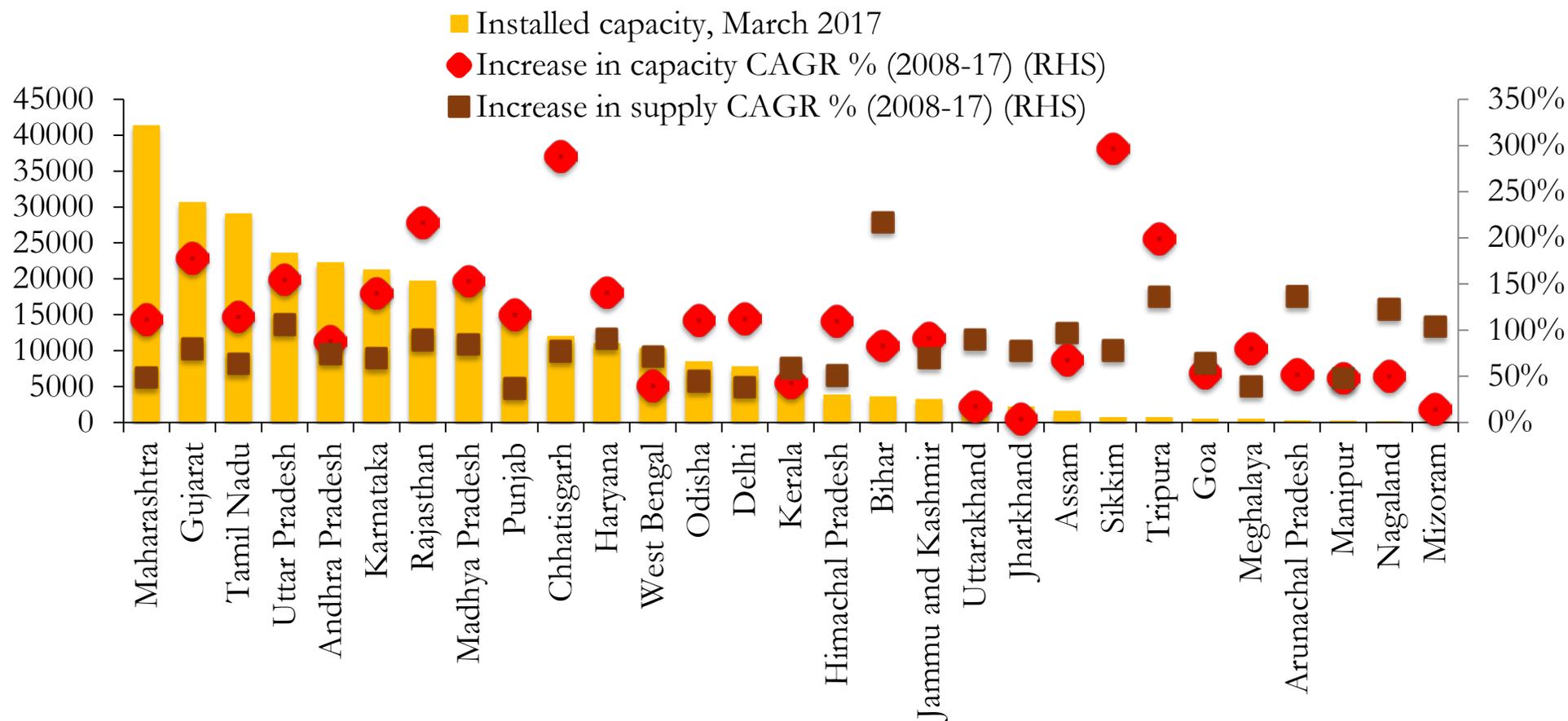
# Capital investments show a worrying decline in most states

Gross fixed capital formation (Rs bn) in states and as % of state domestic product (current prices)



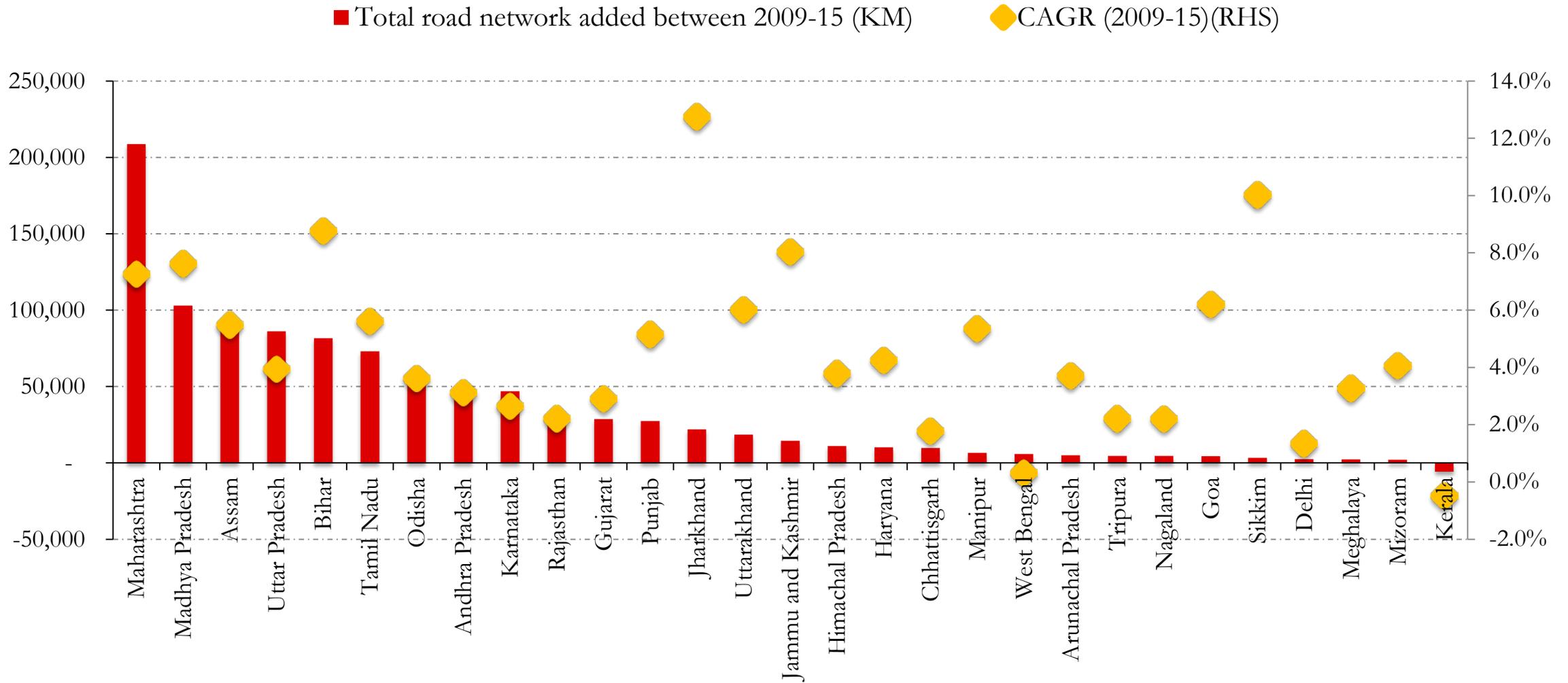
GFCF and GSDP have been calculated as rolling average of three consecutive years

# UP, Rajasthan, MP and Chhattisgarh have registered significant growth in installed capacity for power generation



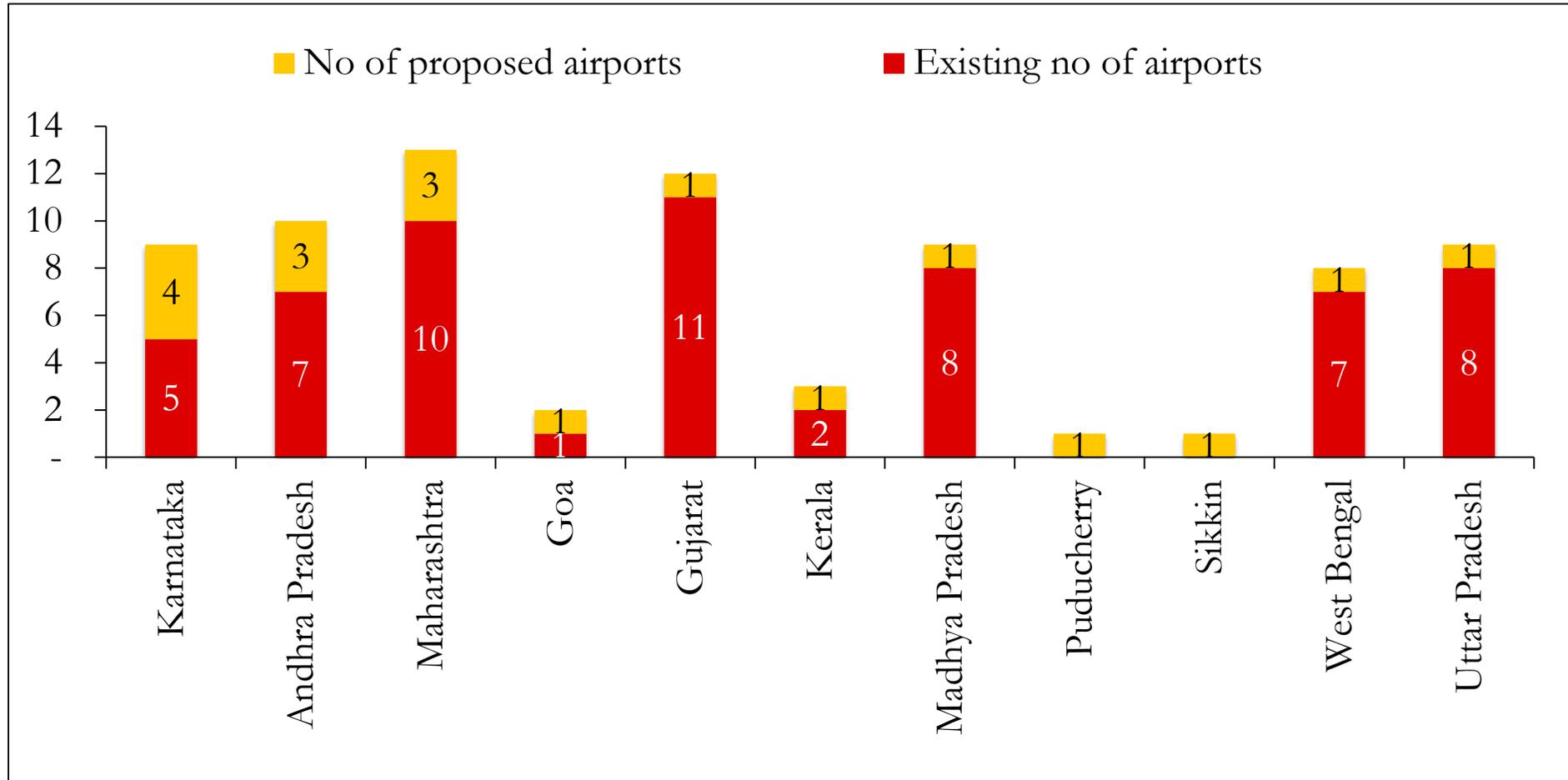
*The laggards are scaling up fast*

# Massive divergence among states in creating road infrastructure



Jharkhand, Bihar, Sikkim – low base, high growth

## A number of states are set to have new airports

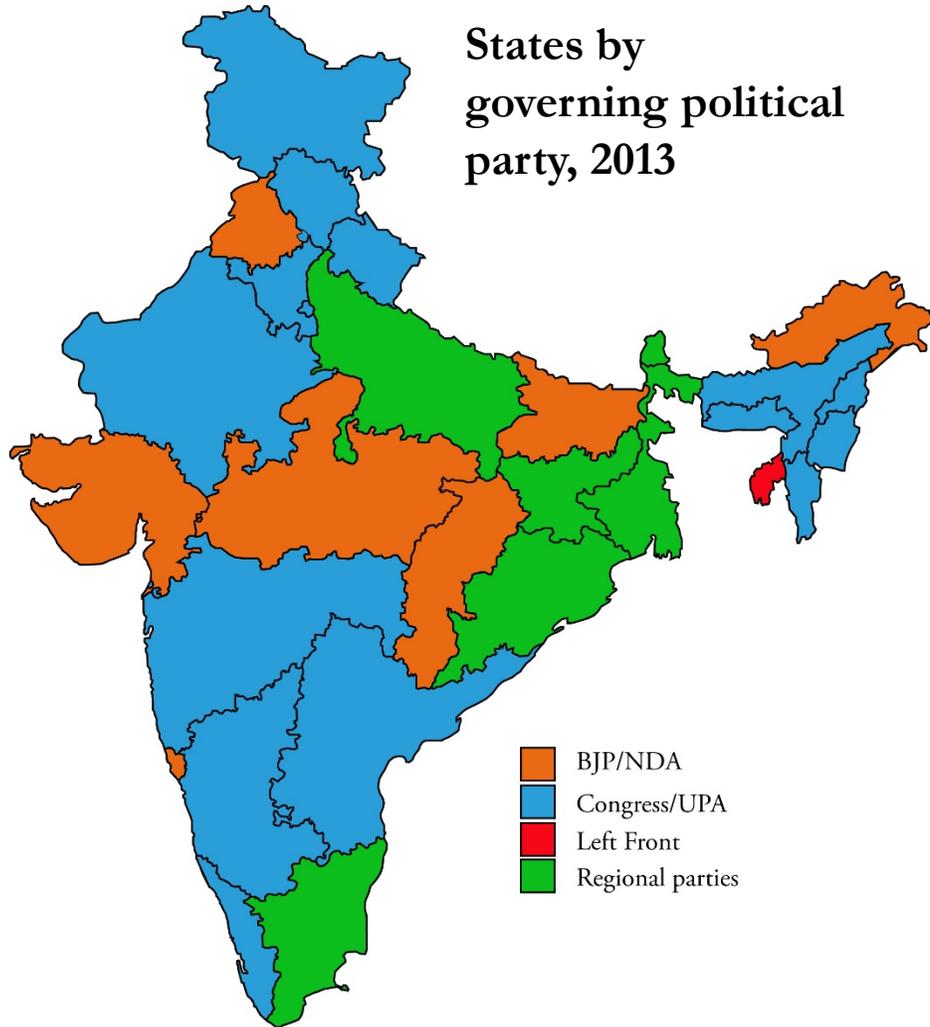


*New politics, new policy direction?*

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# Will political transformation bring in policy transformation?

States by governing political party, 2013



States by governing political party, 2017

