Polity & Governance · GS - II

The competition among Indian states to attract domestic and foreign investments reflects the growing significance of competitive federalism in India's economic development. Discuss its potential benefits and challenges, with particular reference to industrial investment diversion and regional development.

EXAM YEAR	PAPER	SUBJECT
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MARKS	WORD LIMIT
10	~150 words

Answer Hint

Competitive federalism promotes investment, employment, infrastructure and administrative reforms. However, inter-state competition may trigger subsidy wars, regional inequalities and investment diversion, necessitating cooperative federalism and transparent governance.

Model Answer

The competition among Indian states to attract investments has emerged as an important feature of India's federal economic framework. Tamil Nadu's recent announcement of ₹1.14 lakh crore investment commitments through 112 MoUs under the TVK government highlights this trend. These commitments have an estimated employment potential of 1.32 lakh jobs.

India News+1

Benefits of Competitive Federalism:

1. **Investment promotion:** Encourages states to improve infrastructure, ease of doing business and industrial policies.
2. **Employment generation:** Promotes manufacturing, MSMEs and skill development.
3. **Regional development:** Encourages industrialisation beyond traditional economic centres.
4. **Administrative reforms:** Creates incentives for faster clearances and transparent governance.

Challenges:

1. Excessive tax concessions may cause a subsidy race among states.
2. Industrial investment diversion can create regional economic disparities.
3. Announced MoUs may not translate into actual investments and employment.
4. Competition may undermine inter-state cooperation.

Way Forward: Strengthen GST Council-based coordination, improve logistics infrastructure, ensure transparent investment monitoring and promote balanced regional industrialisation.

Conclusion: Competitive federalism must complement cooperative federalism to ensure inclusive, sustainable and geographically balanced economic growth.

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