



# State of the States

An economic analysis of Northern & Central states of  
India

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**PHD Research Bureau**

**PHD Chamber of Commerce and Industry**

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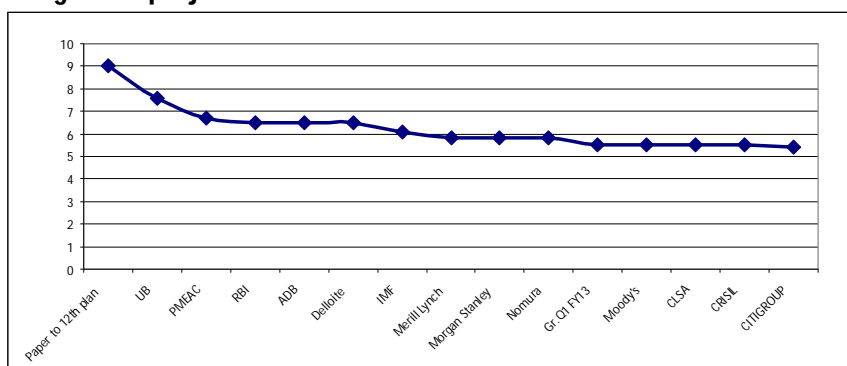
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## An overview of India's current economic situation

With the onset of the sovereign debt crisis in the Euro-Zone, and with the consequent spreading of the contagion across the advanced and now the emerging economies, the risks to India's growth have risen significantly. Although, India's growth remains one of the highest in the world, but a range of factors have weighed it down. It is worrying to note that the economy has slowed more than most other major emerging economies as concerns over governance and policy uncertainty have dampened investments.

Presently, the domestic scenario has witnessed deceleration in almost all the lead economic indicators. The growth of real GDP has been impacted significantly in the recent times. The real GDP growth decelerated to 6.5% during FY 2012 as compared with 8.5% in FY 2011 and 8% in FY 2010 while Q2 FY2013 real GDP growth stood at 5.3%. Recently, many apex bodies have lowered India's growth forecasts on account of the weakening growth prospects. While the Prime Minister's Economic Advisory Council has estimated growth of 6.7%, RBI has revised downward the growth projection for 2012-13 to 6.5%. The credit rating agencies like Moody's and CRISIL have estimated it to be around 5.5%. The recent move by the Fitch to revise India's Outlook to BBB- has further raised concerns amongst investors on the country's growth prospects.

### The growth projections so far...



Source: PHD Research Bureau, compiled from various sources.

The agriculture sector in India is at a crossroads with rising demand for food items and relatively slower supply response in many commodities resulting in frequent spikes in food inflation. The green breakthrough achieved in the 1970s, and 1980s is gradually disappearing. Since 1990, agricultural sector experienced poor performance and has become major cause of concern for food security, rural poverty and unprecedented rise in prices.

The sector's contribution in GDP has been decelerated to around 14% during the recent years from around 18% in the high growth period (FY05-FY08). Further, the growth of agriculture sector has sharply decelerated from 6.6% in FY2011 to 2.8% in FY2012.

Inflation has been a major challenge creating a road block to India's growth story. Average inflation remained steep at 7% during FY2010-12 as compared with 6.4% during FY 2007-09 and 5.5% during 2004-06. Although, in recent months, the inflation has moderated to the much expected level of 7-8% from the 10-11% trajectory, sequential growth pattern indicate that the inflation is going to remain sticky at this level in the coming months.

Retail inflation has also remained sticky at an uncomfortable trajectory over a considerable period of time during the past many years. It is alarming to note that more than 30% of the population of India faces the incidence of double digit retail inflation and more than 50% population faces inflation in the high trajectory of more than all India average of 9.6%.

The investment situation in India is turning from bad to worse. The difficulty of forecasting returns in a highly volatile economic environment, governance concerns, heightened global uncertainty, rising funding costs and structural rigidities have all played a part. Gross domestic capital formation as a percentage of GDP has been stagnating year after year. The ratio stands at 35% in 2011-12 as against 38% in 2007-08.

The slowing of industrial output from an average of 7.8% in FY2011 to 3.8% in FY2012 and 1% during H1 FY 2013 is raising concerns. The manufacturing growth (average) stands at a disappointing 1% while the average growth in capital goods is as low as (-) 11.4% during April-October FY 2013. The consumer goods segment has tracked a modest 4% growth during April-October FY 2013.

The growth in services sector has been vibrant over the past many years, contributing sizably to India's steady growth story. However the recent slowdown in the sector from around 10% in FY 2010 to 9.4% in FY 2011 to 8.8% in FY 2012 (6.8 % in H1 FY2013) is a cause of concern. India's exports growth has dropped from around 40% in FY2011 to around 20% in FY2012 and to -5.9% April-November FY 2013. The CAD has significantly widened from 2.7% of GDP during FY 2011 to 4.2% of GDP during FY 2012 and 3.9% of GDP in Q1 FY 2013.

The rising global risk aversion has reduced the flow of capital. The FDI investments have been impacted significantly which is indicated from the sharp de-growth in FDI equity inflows by (-) 44% during April-September FY2013 as compared to a robust growth of 64% during FY 2012. The portfolio investments also, in terms of FIIs have shown a volatile trend causing instability in the domestic stock markets.

Going ahead, our economy needs bold measures which may boost the investment environment to trigger growth. The recent reforms unveiled by the government, in the form of FDI in retail, insurance, aviation, power exchanges and broadcasting, etc are encouraging and have positively impacted investment sentiment; however, it needs to be translated into effective implementation to convert sentiment into concrete investment decisions which would in turn help kick start industry growth momentum and overall growth of the economy.

## Role of states critical to achieve inclusive growth

Indian economic development has been scripted by the development of the grass roots: the states. Since national development is an aggregation, the failure in one state undermines the success in others, in turn retarding the overall growth of the total.

The role of the states in shaping the economic environment of India has been immense, despite globalization and liberalization of the Indian economy. Though the states are quite diverse in terms of area, population or governance, they are operating under similar policy environment and hence endowed with almost equal opportunity to grow and prosper. Although, traditionally most of the states' economies were largely dependent on agriculture, the recent expansion of the service sector and consequent robust economic growth in the states is indeed a major development. In comparison to the industrial sector which has flourished in only a few states, the service sector has contributed to massive employment generation in most of the states. However, high dependency on agriculture remains a challenge as a large proportion of the population in these states draws its livelihood from the sector.

So, at this juncture, when the Indian economy is impacted by structural grass root level problems, the role of states is expected to be increasingly more critical in sustaining the overall development of the country and in overcoming the several problems which are challenging its growth, like easing the supply side constraints in the economy, upskilling the labour force, increasing manufacturing competitiveness and achieving fiscal consolidation. States also play a pivotal role in implementing social welfare schemes and ensuring that the benefits percolate to the grassroots-levels. Going ahead, the state policies should be focusing on diversifying the beneficiaries of these programmes and ensuring inclusive growth in the country.

## States promising diverse potentials

The PHD Chamber of Commerce & Industry is an apex regional Chamber dedicated to catalyzing the process of socio economic development in the Northern and Central states of India. The Northern and Central states namely, Bihar, Chhattisgarh, Delhi, Haryana, HP, J&K, MP, Punjab, Rajasthan, UP and Uttarakhand, are agrarian economies well known as 'the food basket of India' with a gradual shift to high-tech industries and service sectors. Currently they constitute about 36% of India's total GSDP <sup>[1]</sup>and have huge potential to grow further.

States like Delhi boast of world class infrastructure while the rapidly growing new states of Uttarakhand and Chhattisgarh have a promising future in tourism and industry sectors. Punjab and Haryana, which comprise the 'wheat basket of India', have shown high potential growth in the cropping intensity. Himalayan states of J&K and HP have exhibited immense potential in terms of alternate energy generation, while Rajasthan and UP are making efforts to boost the agri-business and the industrial development in Bihar is on the move.

### 1. Bihar

The state is a treasure house of opportunities with immense potential arising out of the rich mineral reserves and a large base of immensely talented rural human resource. The state provides for a perfect mix of the traditional with the modern, making it an ideal platform for pilgrimage as well as rural tourism. Agriculture is one of the most important areas of the economy of Bihar and the state boasts of huge potential in terms of agri-business and agro- based industries. Although, this area has room for further development, the state government is highly focused on the exports of fruits and processed fruit products. The key industries of the state are

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<sup>[1]</sup> India's GSDP has been computed by summing all the Indian states' GSDP

mineral based industries, leather, textile and food-processing. The economy of Bihar witnessed a turnaround as the growth scaled a healthy path during the recent years. Bihar has been making conscious efforts for rapid development of physical & social infrastructure in the state and to attract private sector participation in the same.

## **2. Chhattisgarh**

Over the last five years, the State has shown a decent rate of growth, with a rapidly growing secondary sector and tertiary sector. The primary sector is the backbone of the economy as more than 80% of the population depends on it. Industry is significant part of state's economy. The state is rich in mineral reserves and aids to the flourishing industrial sector. The state has both relatively low fiscal deficit and debt burden. The state has a relatively weak infrastructural base and high BPL population. One third of Chhattisgarh's population is of tribes, mostly in the thickly forested areas in the North and South. The Bastar district is known the world over for its unique and distinctive tribal heritage. Hence, effective rehabilitation and empowerment of the tribal population should be the focus area of the state. The state's policy needs to focus on wildlife tourism as this potential is largely untapped in the state

## **3. Delhi**

Delhi, the capital of India, is the smallest out of all the states considered in this study. Delhi has grown at the fastest pace over the last few years which is mainly contributed by the robust growth in services sector, especially in the recent years. However, the other sectors have failed to exhibit rapid growth. The urban metropolitan of Delhi has a very stagnant primary sector with its growth rate depleting over the years. However, the yield of agriculture is close to the leading states of Punjab and Haryana. The secondary sector also does not reveal very high growth rates. The state boasts of state



of art infrastructure which matches up to the international standards. Delhi boasts of low unemployment rate and very high per-capita income. With falling groundwater level and rising population density, Delhi faces acute water shortage. The crisis of water needs to be addressed and managed urgently so as to sustain the growth rate in the state and ensure socio-economic development of the people.

#### **4. Haryana**

The vibrant economy of Haryana, is one of the most rapidly growing states in the country. The natural resources, policy incentives and infrastructure in the state support investments in sectors such as automobiles and auto-components, IT/ITeS, textiles, agro-based industries, business tourism and commerce. The state has excellent agricultural productivity with its per-capita income being one of the highest in the country. The key strategy of the state to attract investments in various industries has been forming industrial clusters and developing infrastructure. Although the state has done well in terms of power generation, Haryana still faces power crunch on the face of rising demand. This is an area for further development as power is one of the most critical infrastructures to industries.

#### **5. Himachal Pradesh**

The economy of Himachal Pradesh depends considerably on agriculture and thus, fluctuations in farm produce affect the economy in a significant way. Although the sector serves as the livelihood for majority of the state's population, the contribution to GSDP is significantly lower. However, the state has exhibited rapid growth in the tertiary sector especially on account of the flourishing tourism sector which includes the travel, hotels, restaurants and other related trades. The state has a relatively good social sector with high literacy rate. However, HP suffers from a fragile ecosystem and so the infrastructural growth of the state gets hampered, including roads, which in

turn has negative impact on industrial growth and trade. The state, thus, must focus on solutions to these problems. Industries like food processing and other agro industries have huge potential in the state. The government must announce investor friendly policies for these industries to generate employment for local youth and enhance the export basket of India.

## **6. Jammu & Kashmir**

J&K, the northern most state of the country is known world wide for its natural beauty, rich tradition and handicrafts. The economy is predominantly agrarian while a large chunk of the local population is also involved in traditional trades like handicrafts, horticulture and floriculture. But the rate of growth of primary sector has been quiet stagnant over the years. Its performance is impacted by stagnant growth and poor infrastructure and fiscal scenario. J&K needs to work hard to improve its infrastructural base to facilitate its overall development. The availability of safe drinking water to the people is also an area of concern. The state has the lowest cost of doing business among the states considered on account of the various incentives extended by the state government to attract investors in the industries. However, the industrial development of the state has been severely affected by the decline in investors' confidence due to the rampant unrest and violence. The local youth must be trained with technical and vocational skills so as to productively employ them in the mainstream activities. Hence, rapid skill development and capacity building is a much needed step in the government policies, going forward.

## **7. Madhya Pradesh**

The 'Heart of the country', MP's economy largely depends on agriculture, industries and minerals. About 70% of the total work force of the state depends, directly or indirectly, on agriculture. Mines and industries also play important roles in economic

development of the state while the services sector also contributes significantly to the MP economy. Madhya Pradesh is a frontrunner in promoting industrial growth by offering gamut of incentives to promote rapid industrialization. The economic policy of the state mainly focuses on agro food processing, forest based industries, mining, tourism, biotech and IT. The state has a good infrastructure to support rapid industrialization and boasts of a harmonious industrial work culture.

## **8. Punjab**

The state well known as the 'wheat basket' has a huge agricultural base and is now well on its way to rapid industrialization through coordinated development of Small, Medium and Large scale industries. The state has excellent rail, road network in rural as well as urban areas and also claims 100% rural electrification. Punjab has a low BPL population and comparatively high literacy rate. Punjab has mix of industries such as agro-based industries (food products, and beverages), leather products, wood products, chemicals and chemical products, rubber and plastic products, non-metallic mineral products, paper products, motor vehicles and manufacturing of transport equipments. The state has emerged as a key hub for textile based industries including yarn, readymade garments and hosiery. The state offers wide range of subsidies, fiscal and policy incentives and excellent infrastructure, to provide conducive milieu to foster investments and development for industries.

## **9. Rajasthan**

Though primarily an agrarian economy, Rajasthan has strong secondary and tertiary sectors. The infrastructure scenario is the area which needs further improvement. The state is also witnessing high rate of unemployment and needs to focus on employment generation. Rajasthan is the most water deficient State in India, owing to its desert conditions. The agricultural yield of the state is quite poor. It is on account of

this that the state produces a chunk of the coarse cereals of the country, lagging behind in the production of several crops. Being an arid state, irrigation facilities and farm technologies must be introduced to step up farm production and increase cropping intensity. Rajasthan is the major attraction of foreign and domestic tourists due to its rich historical and cultural background. The state must continue to boost the sector that provides it with maximum revenue. The land of forts should be revived into a more tourist friendly destination by strengthening of infrastructure with focused efforts by the state government.

## **10. Uttarakhand**

The newly formed state of Uttarakhand, following its inception as an independent state, has been growing at considerably high rates in the last few years. More than three-fourths (78%) of its total population is dependent on mountain agriculture. However, the scope for agricultural policies based on modern input-intensive agriculture is severely constrained in the hilly regions due to various geographical problems. Moreover, the peculiarity of the geography implies that only a few specific sectors have growth potential in these backward areas and the policy framework has to focus on these sectors. Sectors like horticulture have a comparative advantage in the region due to its agro-climatic conditions. The state is also ideal for the development of the tourism sector. However, the chances of success in these specific sectors depend largely on the availability of physical and social infrastructure. Although, the government has to play an anchoring role in infrastructure development, the role of the private sector is critical, sometimes on its own and sometimes in the form of public private partnerships.

## **11. Uttar Pradesh**

UP is also the most populous state in the country. With a decent GSDP growth rate over the recent few years, the primary and secondary sectors contribute to around

27% to the State's GSDP, while the tertiary sector contributes about 45%. The state is strengthening its infrastructure base and making the business environment more conducive to industrial growth. UP is also making all out efforts to rope in foreign and private investors. The debt burden of the state is also reasonably high. UP has very high agricultural yield but has the one of the lowest per-capita income in the country. Despite the Government's best efforts, the State has been under power stress. In fact this is one of the few problems which make the state not very congenial for industrial investment. The government must focus on more streamlined policies for power generation in the state.

## **Summing up**

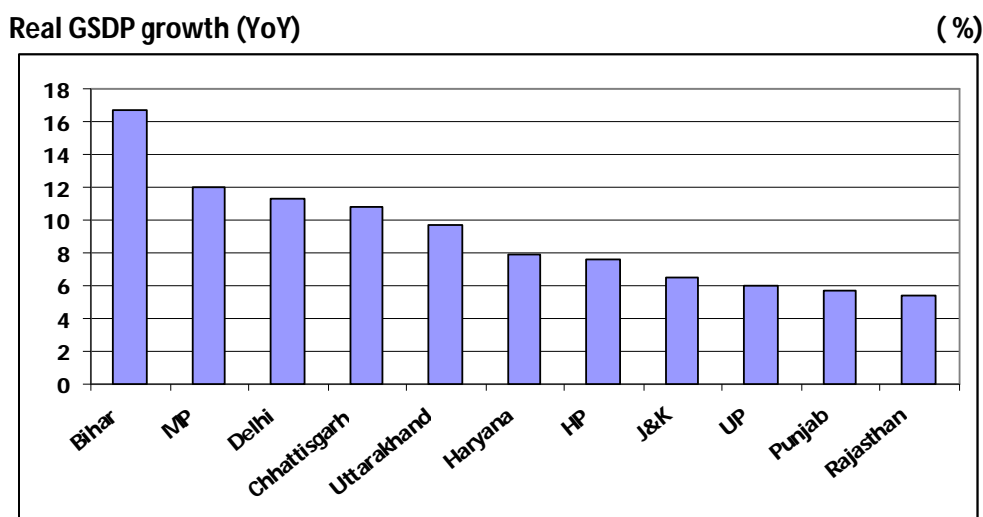
Going forward, since majority of the population in the northern and central states depends on agriculture; these states must work towards improving the yield or productivity of farm sector so as to ensure the sustained livelihood of the people. The region must focus on increased farm infrastructure and stronger supply chain so as to facilitate the growth of the agriculture and allied sectors. The states must lay emphasis on attracting private and foreign investment in manufacturing sector in particular and industries in general to lay the solid foundation to the growth of the country. The process of fiscal consolidation should be a major area of thrust as many of the states have high fiscal deficits and debts which may hamper the implementation of policies in their cases. There is a huge potential to generate alternate energy in the region, which needs to be harnessed at an accelerated pace for meeting the growing energy demand in the times to come.

## State performance in select socio-economic areas

An economic analysis of Northern and Central States of India has been undertaken with the help of data available from authentic government sources, namely Central Statistical Office, Ministry of Statistics & Programme Implementation, to understand the relative performance of states across various parameters. The economic indicators selected for the analysis have been chosen on the basis of uniformity in data availability for all states.

### 1. Highest economic growth

Bihar has posted highest real economic growth of 16.71% in FY2012 across the states covered under PHD command area.

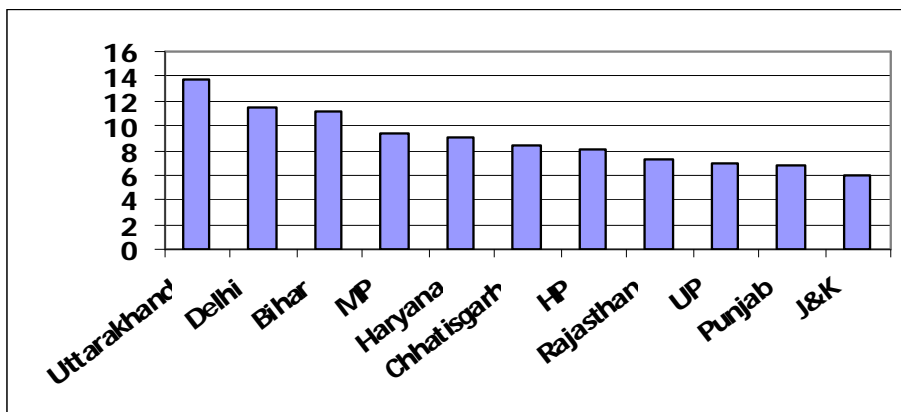


Source: PHD Research Bureau, compiled from CSO, Govt. of India  
 Note: Data pertains to FY2012

## 2. Stability in economic growth

Uttarakhand has performed well with stable economic growth during the last five years (FY2008-FY2012). The GSDP of the state has grown by 13.66% (average).

**Real GSDP growth (YOY) (%)**



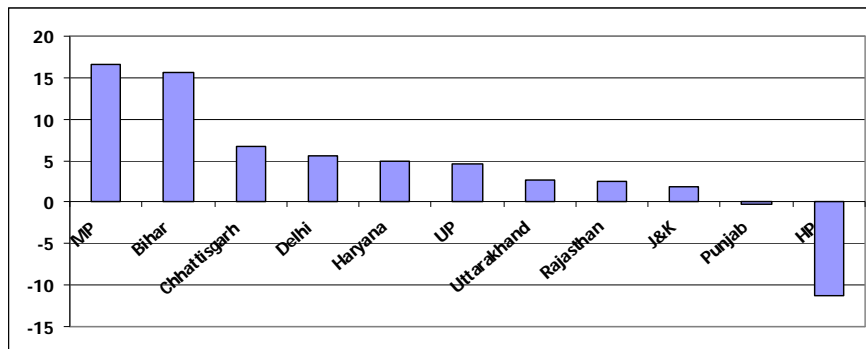
Source: PHD Research Bureau, compiled from CSO, Govt. of India

Note: Data pertains to the average of FY2008, FY2009, FY2010, FY2011 and FY2012

## 3. Agriculture Growth

Madhya Pradesh has emerged as the state having highest agriculture growth of 16.57% during FY2012 amongst all the states under PHD Chamber command area. The state also ranks top at all India level.

**Agriculture growth (YoY) (%)**



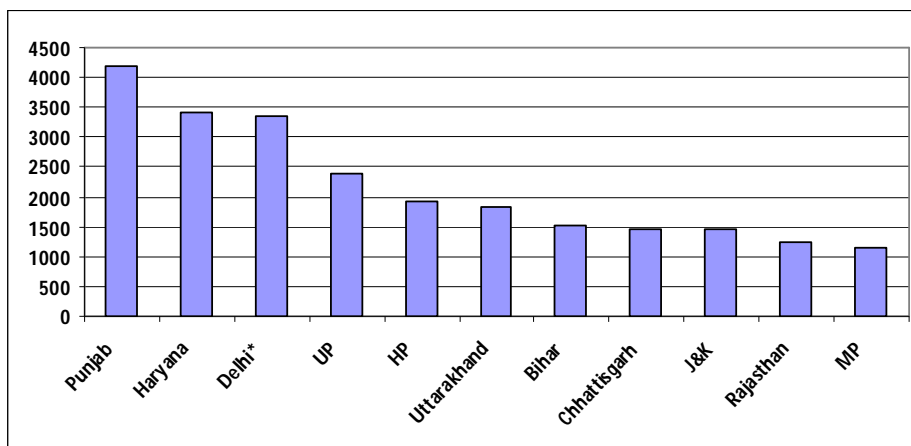
Source: PHD Research Bureau, compiled from CSO, Govt. of India

Note: Data pertains to FY2012

#### 4. Agriculture yield

Punjab turns out to be the state with highest agricultural yield/productivity as compared to other states under PHD Chamber. The yield of the state is also highest at all India level.

**Agriculture yield (Kg per hectare)**

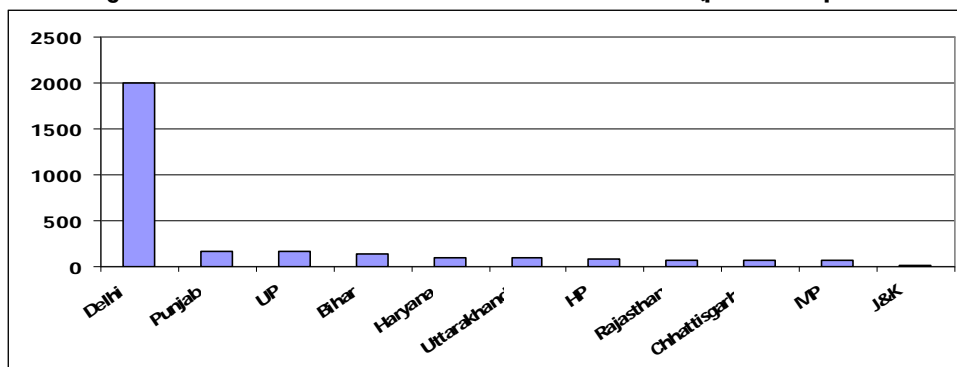


Source: PHD Research Bureau, compiled from Ministry of Agriculture, Govt. of India  
Note: Data pertains to 2010-11, \* Data pertains to 2008-09

#### 5. Infrastructure

Delhi has the best infrastructure in terms of road length among rest of the states under Chamber's purview. The road length of the state stood at 1999.18 per 100 sq km of area as on 31 March 2011.

**Road length (per 100 sq km of area)**

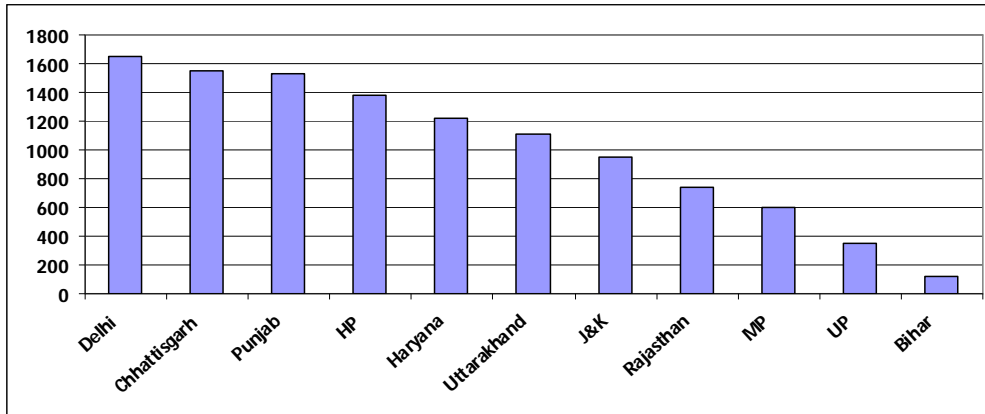


Source: PHD Research Bureau, compiled from Ministry of Road Transport & Highways, Govt. of India  
Note: Data pertains to as on 31<sup>st</sup> March 2011



Per Capita Electricity consumption of Delhi stood at 1651.26 KW during 2009-10 highest across the states under PHD Domain area (latest data are available for 2009-10)

**Per Capita Electricity consumption (KWh)**

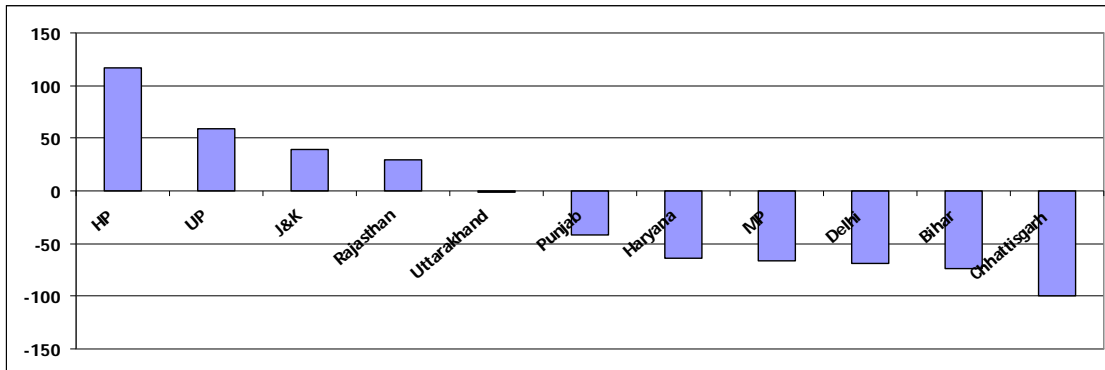


Source: PHD Research Bureau, compiled from Ministry of Power, Government of India  
Note: Data pertains to 2009-10

**6. Industrial investments**

Himachal Pradesh is the most attractive investment destination across the states under domain area of PHD Chamber. Industrial investment intentions in the state grew highest by about 116% during 2011-12.

**Industrial investment intentions growth (YOY) (%)**

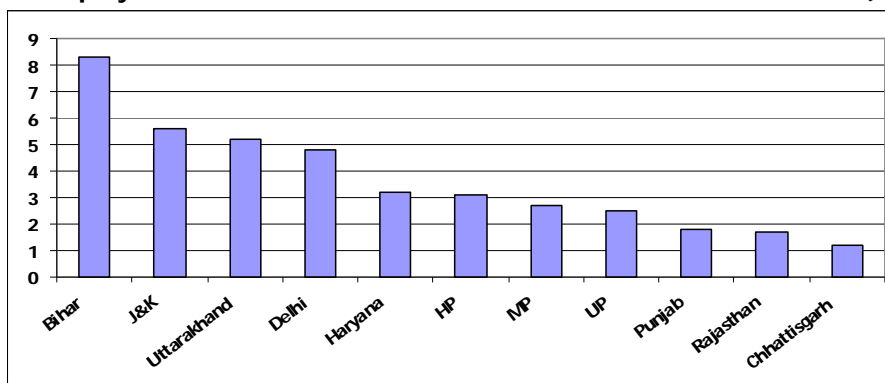


Source: PHD Research Bureau, compiled from Department of Industrial Policy & Promotion, Govt of India  
Government of India, Note: Data pertains to 2011-12

## 7. Unemployment rate

Chattisgarh has the lowest unemployment rate across the states under PHD Chamber domain area, which stands at 1.2% for persons of age 15yrs & above according to usual principal status approach during 2011-12

**Unemployment rate (%)**



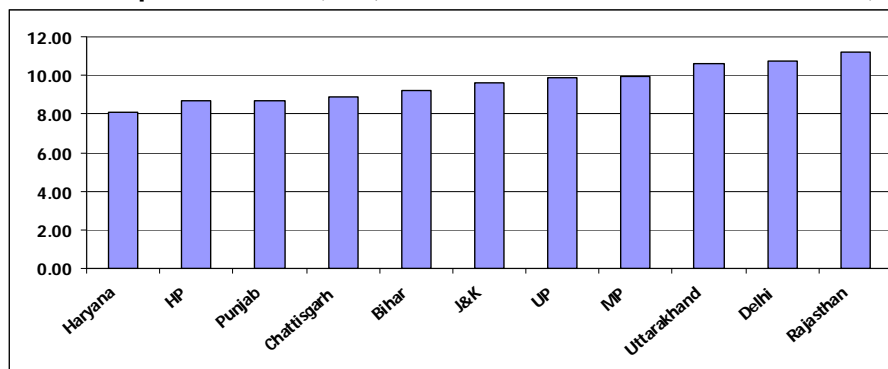
Source: PHD Research Bureau, compiled from Report on Employment & Unemployment 2011-12, Labour Bureau, Government of India

Note: Data pertains to 2011-12

## 8. Most stable consumer prices

Haryana is the state with the most stable consumer prices under PHD Domain area. The lowest growth at 8.1% in Consumer Price Index during Jan-Oct 2012 period on the basis of YOY growth in CPI inflation has been registered.

**Consumer price inflation (YOY) (%)**



Source: PHD Research Bureau, compiled from Ministry of Statistics & Programme Implementation, CSO, Note: Data pertains to Jan-Oct 2012 period on the basis of YOY growth

**State performance in select socio-economic areas  
(Northern and Central States of India)**

| Sl No. | State                   | Indicators   | Description   |
|--------|-------------------------|--|---|
| 1      | <b>Bihar</b>            | State with highest economic growth                 | Highest economic GSDP growth <sup>2</sup> (16.71% in FY 2012)   |
| 2.     | <b>Uttarakhand</b>      | State with stability in economic growth            | Highest in economic stability during the last five years (FY2008 to FY2012). GSDP grew by 13.66% (average)  |
| 3      | <b>Madhya Pradesh</b>   | State with highest agricultural growth             | Fastest growth in Agriculture <sup>3</sup> at 16.57% during FY2012  |
| 4      | <b>Punjab</b>           | State with highest agricultural yield/productivity | Highest yield rate 4180 kg per hectare <sup>4</sup> during 2010-11 (latest data are available for 2010-11)  |
| 5      | <b>Delhi</b>            | State with best infrastructural facilities         | Best in Infrastructure in terms of Road length <sup>5</sup> per sq km—stood at 1999.18 per 100 sq km of area as on 31 March 2011 & Per Capita Electricity consumption <sup>6</sup> stood at 1651.26 KW during 2009-10 (latest data are available for 2009-10) |
| 6      | <b>Himachal Pradesh</b> | Most attractive investment destination             | Industrial investment intentions <sup>7</sup> in the state grew by about 116% during 2011-12  |
| 7      | <b>Chhattisgarh</b>     | State with lowest unemployment rate                | Lowest unemployment rate <sup>8</sup> stands at 1.2% for persons of age 15yrs & above according to usual principal status approach during 2011-12   |
| 8      | <b>Haryana</b>          | State with most stable consumer prices             | Lowest growth at 8.1% in Consumer Price Index <sup>9</sup> during Jan-Oct 2012 period on the basis of YOY growth in CPI inflation (Comparable data for CPI inflation according to the new series are available only for Jan-Oct on YOY basis)                 |

Source: PHD Research Bureau, Compiled from various sources (footnotes given).

<sup>2</sup> Ministry of Statistics & Programme Implementation, Central Statistics Office, Government of India

<sup>3</sup> Ministry of Statistics & Programme Implementation, Central Statistics Office, Government of India

<sup>4</sup> Ministry of Agriculture, Government of India

<sup>5</sup> Ministry of Road Transport & Highways, Government of India

<sup>6</sup> Ministry of Power, Government of India

<sup>7</sup> Department of Industrial Policy & Promotion, Government of India

<sup>8</sup> Report on Employment & Unemployment 2011-12, Labour Bureau, Government of India

<sup>9</sup> Ministry of Statistics & Programme Implementation, Central Statistics Office, Government of India

## About the PHD Chamber

**P**HD Chamber is a 107 years old vibrant and proactive representative organization of business and mercantile community of northern and central India, serving their interest for over a century. This apex regional organization plays a active role in India's development and acts as a much needed link between government and industry, serving as a catalyst for rapid economic development and prosperity of the community in the region through promotion of trade, industry and services.



With its base in the National Capital, Delhi, the Chamber has Regional offices in States of Bihar, Chhattisgarh, Haryana, Himachal Pradesh, Jammu & Kashmir, Madhya Pradesh, Punjab, Rajasthan, Uttar Pradesh, Uttarakhand and the Union Territory of Chandigarh.

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