

## **The Impact of Political Instability on Economic Growth: A Comparative Study Between Gujarat and Bihar From 2010-2020**

Prisha Rajgarhia

Step By Step School Noida

DOI: 10.46609/IJSSER.2024.v09i09.042 URL: <https://doi.org/10.46609/IJSSER.2024.v09i09.042>

Received: 18 September 2024 / Accepted: 28 September 2024 / Published: 3 October 2024

### **ABSTRACT**

*This research paper investigates the impact of political stability on economic growth by comparing the two Indian states of Gujarat and Bihar from 2010 to 2020. The state of Gujarat is renowned for its advanced infrastructure and business-friendly policies, which have led it to become a major economic hub for India. Conversely Bihar has faced frequent government changes and widespread corruption, hampering its economic development. This study examines the governance models and consequent economic outcomes of both states. The research findings indicate how consistent governance in Gujarat has fostered investment and sustained economic development, while political instability in Bihar has deteriorated economic development. Additionally, international examples such as Singapore's stable political environment and Venezuela's monetary instability were also investigated to provide a broader context for understanding the relationship between political stability and economic growth.*

**Keywords:** Economic growth, Governance model, Political instability, Political stability

### **1. Introduction**

Gujarat, under the governance of the Bharatiya Janata Party (BJP), is often lauded for its robust economic growth, effective infrastructure development, and favourable business environment. Conversely, Bihar's political landscape presents a stark contrast characterised by frequent changes in government and coalition politics. The state's economic progress has been marred by rampant corruption, inadequate infrastructure, and significant migration of skilled labour. This research paper aims to explore the intricate relationship between political stability and economic performance in two Indian states, Gujarat and Bihar, from 2010 to 2020. By examining reports, articles, and policy analyses, the paper provides a comprehensive overview of the governance models and economic trajectories of Gujarat and Bihar. Additionally, international examples, such as the stable political environment of Singapore and the instability of Venezuela, offer a

broader context to understand the implications of political stability on economic growth. This comparative analysis will bring to light the successes and failures of each state's governance while also shedding light on the broader implications for policy-making and economic development, by defining the correlation between economic growth and political stability.

## **2. Literature Review**

The literature review aims to synthesise existing research on political instability and economic performance in Gujarat and Bihar, allowing us to examine the relationship between political instability and economic growth in more depth. The IRJMSH Vol 6 Issue 1 'Relevance of the Governance Model of Gujarat in the Development of India' (Vohra, 2015) critiques Gujarat's governance model, suggesting that while Gujarat's economic growth is notable, it may come at the cost of social justice and democratic values. It highlights how Gujarat's Human Development Index (HDI), once above the national average, declined in the 2000s to match the national average despite economic growth. The report also suggests that economic development is paired with right-wing politics, creating friction unease among religious and economic minorities. On the flip side, Bihar's governance model is critiqued in the report by World Bank, 'Bihar: Towards a Development Strategy' (World Bank, 2005). Revealing how rampant corruption and inconsistent political regimes have resulted in inadequate infrastructure and significant migration of skilled labour, deterring investment. An article from the India Brand Equity Foundation (IBEF, 2023) highlights Gujarat's economic achievements, emphasising the state's strong infrastructure, industrial policies, and business-friendly environment that have bolstered growth. In the 2021 financial year, Gujarat received the highest Foreign Direct Investment (FDI) in India, totalling US\$ 21.89 billion, reflecting investor confidence due to political stability. Initiatives like the development of Mundra as a world-class port city<sup>2</sup> demonstrate long-term planning and stability. Gujarat also established a solar component manufacturing unit, which could only be enabled by predictable policies. Whereas the Economic Survey of Bihar 2021-22 (Government of Bihar, n.d) provides insights into Bihar's notable economic growth. Despite the challenges

---

<sup>1</sup> The Gujarat governance model, particularly during Narendra Modi's tenure as Chief Minister (2001-2014), is noted for its emphasis on economic development, industrialization, and infrastructure growth. Key aspects include investor-friendly policies, public-private partnerships, and the biennial Vibrant Gujarat Summit to attract investments. The state also focused on extensive infrastructure development, including roads, power projects, and ports, and implemented significant agricultural reforms such as irrigation projects to support farmers.

<sup>2</sup> Mundra's development into a world-class port city began in 1998 with the establishment of the Mundra Port by the Adani Group. Initially a small coastal town in Gujarat, India, Mundra now hosts India's largest commercial port. Strategic investments, including extensive dredging, modern cargo terminals, and advanced logistics, transformed it into a deep-water, all-weather port. Special economic zones (SEZs) attracted numerous industries, making Mundra a key trade hub.

posed by the COVID-19 pandemic, Bihar's government effectively utilised fiscal resources, leading to a 2.5% growth in GSDP, outperforming the national average. The state's investments in infrastructure, industrial policy reforms, and social development programs underscore the role of stable governance in driving economic progress. A comprehensive report by Deloitte on Gujarat's economic policies (Deloitte, 2013) delves into the mechanisms through which political stability in Gujarat has attracted domestic and international investments. It highlights stable governance with pro-business policies, effective use of Public-Private Partnerships (PPPs), and investor-friendly governance, including the implementation of innovation and entrepreneurship policies. Similarly, an article from Story Brunch (Story Brunch, 2023) details the impact of political instability on Bihar's economic environment, highlighting issues such as corruption, poor infrastructure, and the exodus of talent. The frequent changes in government have led to inconsistent and poorly implemented economic policies, discouraging long-term investments in the state. For example, due to the lack of opportunities and poor living conditions driven by unstable political regimes, there has been a significant migration of skilled labour and educated individuals from Bihar to other regions.

### **3. Understanding the relationship between Political stability and Economic Growth using international examples**

The study examining the relationship between Gujarat and Bihar will be limited to a time period of 2010 to 2020. owing to Gujarat's post 2009 economic growth largely attributed to the result of policies and reforms implemented during Narendra Modi's tenure (2001-2014), maintained by subsequent governments. The political stability during this decade allowed for consistent policy implementation, making it an ideal period to study the impact of political stability on economic performance. Contrarily, Bihar continued to face challenges related to political instability, particularly with shifts in alliances and governance styles during the same decade despite the chief minister of Bihar, Nitish Kumar's efforts to improve governance and stimulate economic growth. Another important aspect of comparing the impact of political stability and instability on regional economic growth and investment, is defining the criteria for both political stability and economic growth. Political stability can be outlined by consistent governance, consistency in policy, low levels of political violence, strong institutions, and high public trust in government (Ake, 1975). Consistent governance allows for the implementation of long-term policies, reducing uncertainty for investors and fostering economic growth. Conversely, political instability is highlighted by frequent changes in government, policy uncertainty, high levels of political violence, weak institutions, and low public trust in government (Huntington, 1965). These factors lead to an unpredictable environment that deters investment and hinders economic growth. Economic growth, on the other hand, is measured through sustained increases in GDP, growth in per capita income, industrialisation and high employment rates (Munichiello, 2024).

These criteria provide a clear framework to assess and compare economic outcomes influenced by political stability and instability.

To broaden the field of research, let's look at some international examples before examining Gujarat and Bihar. Countries like Singapore have demonstrated how stable political environments can lead to robust economic performance. Perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism, are measured by the World Bank's Political Stability and Absence of Violence/Terrorism rank/ Based on officially accepted sources, the World Bank's collection of development indicators reported Singapore's percentile rank as 97.17% in 2022 ("Singapore - Political Stability and Absence Of Violence/Terrorism: Percentile Rank - 2024 Data 2025 Forecast 1996-2022 Historical"). Which reveals that the likelihood of political instability and/or politically motivated violence is close to less than 3% (Trading economics, 2024). As a result, Singapore's strategic governance and regulatory efficiency have transformed it into a global financial hub, significantly boosting its GDP growth (World Bank, 2019).

Conversely, political instability can severely hinder economic growth by increasing uncertainty, delaying investment, and disrupting economic activities. One such example is Venezuela. Venezuela's political instability, marked by frequent government changes and policy reversals, has led to hyperinflation and a collapse in economic activity, as outlined in the graph below. (IMF, 2021). The article by Council on Foreign relations (Global conflict tracker, 2024) explains that Venezuela's political instability and problems like hyperinflation and shortages were marked by economic mismanagement, corruption, and heavy reliance on oil. What was notable is that fraudulent elections and international sanctions severely worsened the crisis, causing millions to flee the country. The turmoil resulted in widespread poverty and a collapsed economy, showing that political instability can severely damage economic growth.

#### **4. The relationship between Political stability and Economic Growth in the case of Gujarat**

In 1960, the state of Bombay was divided along linguistic lines to create Gujarat. The Indian National Congress held power in the Gujarat Legislative Assembly from 1960 to 1995, with other political parties holding partial control during the 1970s and 1990s. Since 1998, the Bharatiya Janata Party has ruled the state ("Politics of Gujarat"). The Bharatiya Janata Party (BJP) maintained a strong electoral hold in Gujarat throughout 2010-2020, winning consecutive state assembly elections in 2012 and 2017. There was a continuity in policy frameworks aimed at economic development, infrastructure enhancement, and social welfare programs under successive BJP governments led by Narendra Modi and later Vijay Rupani (Chief minister of Gujarat). The state government focused on improving administrative efficiency, implementing initiatives like e-governance, which streamlined processes and reduced bureaucratic hurdles.

Gujarat also continued to attract domestic and international investment due to its stable political environment and proactive industrial policies, such as the Vibrant Gujarat Summit which became a global platform for investment promotion. Most importantly, despite leadership changes from Narendra Modi as Chief Minister to his successors like Anandiben Patel and Vijay Rupani, there was minimal disruption in governance and policy continuity (Prasad, 2021).

During the 2010 - 2020 decade, Gujarat has experienced robust economic growth. Its manufacturing sector is a major contributor. The state has benefited from substantial investments and the expansion of key industries such as chemicals, pharmaceuticals, and automobiles. The National Manufacturing Policy and the Production Linked Incentive (PLI) scheme aimed at increasing the manufacturing share in GDP, contributed to this growth. By focusing on digital transformation and process automation, Gujarat also enhanced its manufacturing efficiency, making it a competitive hub in India and globally ("Manufacturing Industries in India & its Growth" IBEF, n/d). Agriculture also contributed significantly to Gujarat's economy. Despite being a drought-prone state, Gujarat improved its irrigation infrastructure, increasing its gross irrigated area from 3.3 million hectares in 2000-01 to 6 million hectares in 2014-15. This improvement supported higher agricultural productivity and diversification into cash crops like cotton and groundnut. The state's strategic investment in rural infrastructure, including irrigation, power, and roads, furthered agricultural growth (Gulati et al. #) Lastly, the services sector in Gujarat, particularly in finance, IT, and tourism, also saw considerable growth. The state government implemented policies to attract investments and promote business-friendly environments, which led to the expansion of service industries. These policies included tax incentives, streamlined regulations, and the development of infrastructure to support service-based businesses.

If political stability in the state led to these economic developments, we must look at policies and government intervention that took place in Gujarat from 2010 - 2020. For example, the Gujarat Industrial Policy 2015, aimed at creating a conducive environment for industries by offering incentives for investments in infrastructure, technology, and innovation. In doing so, it emphasised the development of industrial clusters and parks to promote sector-specific growth (Government of Gujarat, n.d). Gujarat, during this period, also implemented reforms to streamline business regulations, making it easier to start and operate businesses. This included simplifying procedures for land acquisition, reducing bureaucratic red tape, and enhancing transparency ("Gujarat Industrial Policy" 2020). The Production Linked Incentive (PLI) Scheme, launched nationally in 2020, also helped Gujarat boost its manufacturing sector, especially in pharmaceuticals and electronics, by offering financial incentives tied to production outcomes (Invest India). Agricultural policies include Krishi Mahotsav. This initiative involved agricultural fairs to disseminate knowledge on modern farming techniques, improving productivity and

farmer incomes. It focused on crop diversification and the adoption of new technologies (Gulati et al. #). Another example is Sujalam Sufalam Yojana. Launched to improve irrigation infrastructure, this scheme aimed at conserving water and enhancing water resources through initiatives like check dams, pond deepening, and canal networks, which significantly increased the gross irrigated area (Gulati et al. #). Urban development projects such as the Smart City Mission aimed to improve urban infrastructure, enhance public services, and promote sustainable development through technology-driven solutions. Moreover, Gujarat was a pioneer in promoting solar energy, with policies aimed at increasing solar power capacity, for example the Gujarat Renewable Energy Policy, 2023 aimed to achieve 50% Target Of RE Capacity By 2030 ("Energy and Petrochemicals Department" n.d). The state also established large solar parks and provided incentives for rooftop solar installations, contributing to sustainable economic growth.

In conclusion, Gujarat's ability to create long-lasting policies, impactful reforms and foster investment were a testament to its stable governance. As a result, it is one of India's most developed and economically advanced states.

### **5. The relationship between Political instability and Economic Growth in the case of Bihar**

Bihar faces a multitude of developmental challenges that hinder its economic growth. The state struggles with low economic growth, evidenced by its low per capita income. High poverty and unemployment rates also affect a large portion of its population. Even the implementation of the national rural jobs programme in Bihar was alleged of corruption, unfavourable working conditions, low availability of work, delayed payments. Specifically, the Mahatma Gandhi National Rural Employment Guarantee Scheme involves accusations of fraudulently marking labourers' presence on the National Mobile Monitoring System (NMMS) app, which tracks workers' daily attendance on the site, and adds labourers' names to the muster registers without their consent. The Jan Vikas Shakti Sangathan (JVSS)<sup>3</sup> claimed that payments intended for these labourers were diverted to corrupt officials, including those at all levels of government from blocks to districts. Meanwhile, the education sector is marked by low literacy rates and poor quality of education, (World Bank, 2005). According to an interview conducted by a journalist for Medium Magazine, most of Bihar's education problems are caused by "poor & loosely defined policies, poor planning & execution of government schemes, and socioeconomic conditions in the state" (Alam, 2020). Health challenges are pronounced as well, with high infant and maternal mortality rates and limited access to healthcare services. The George Institute for Global Health India stated that "the introduction of the National Rural

---

<sup>3</sup> JVSS is an organisation that fights for labourer-farmers, the exploited and underprivileged, and it does so mainly by raising awareness of their rights to health care, education, land concerns, rations, pensions, and other benefits, (World Bank, 2005).

Health Mission (NRHM) in 2005 infused resources into the system and spurred some significant changes in primary health care delivery and improvement of important indicators like infant, child and maternal mortality.

But the overall system never developed enough to meet the needs of the growing population.” (Keshri) Additionally, governance and administrative issues, including inefficiency and corruption, further impede effective public service delivery (World Bank, 2005).

Political instability has often been cited as a major factor affecting its economic performance. Frequent changes in government, coalition politics, and governance issues have led to a less favourable investment climate and also led to an economic climate that has deterred investors. This lack of investment has stunted Bihar’s economic development. From 2010 to 2020 specifically, the political climate in Bihar underwent significant changes, characterised by shifting alliances and political strategies. Nitish Kumar, representing the Janata Dal played a pivotal role throughout this decade. Initially, Nitish Kumar's alliance with the Bharatiya Janata Party under the National Democratic Alliance brought significant electoral success. However, in 2015, Kumar shifted his allegiance to form the Mahagathbandhan (Grand Alliance) with the Rashtriya Janata Dal and the Indian National Congress, achieving a landslide victory against the BJP-led NDA. The political landscape experienced another dramatic shift in 2017 when Nitish Kumar returned to the NDA fold, citing corruption charges against his then-alliance partner RJD. This move allowed him to continue his tenure as Chief Minister with the BJP's support. The 2020 Bihar Legislative Assembly elections resulted in the NDA retaining power, although with a reduced majority, securing 125 seats in the 243-member assembly, where the BJP emerged as the dominant partner within the alliance. Throughout this period, the political discourse was marked by debates on development, caste dynamics, and governance. While Nitish Kumar's governance was often praised for infrastructure development and efforts towards social welfare, it also faced criticism for not adequately addressing issues like unemployment and corruption. This indecisiveness led to a continually dynamic political environment in Bihar, which was not favourable to its economic growth (Tewary, 2024).

Under the leadership of Nitish Kumar, there were efforts to improve governance and economic conditions. However, despite some improvements, challenges persisted. For example, employment in the construction sector increased, but the overall unemployment rate remained high. By 2022, Bihar had one of the highest unemployment rates in India, at 18.8%, highlighting the lack of industrial development in the state. The state's economy remained heavily reliant on agriculture and allied sectors, which limited opportunities for diversification and growth (Oriol, 2022). Nitish Kumar's long tenure did bring some positive changes. For instance, the number of salaried jobs saw a temporary increase between 2011 and 2018. However, this progress was not sustained, and the state continued to struggle with high levels of poverty and low daily wages,

prompting ongoing outmigration. The economic impact of political decisions was also evident during the COVID-19 pandemic, which exacerbated existing issues such as inadequate healthcare infrastructure and the challenge of accommodating returning migrant workers (Oriol, 2022).

All in all, by weighing the consequences of Nitish Kumar's political indecisiveness during 2010 - 2020, in terms of Bihar's economic impact, it is clear that political instability in Bihar led to slow economic growth and stunted development.

## **6. Conclusion**

The comparison of Gujarat and Bihar between 2010 and 2020 highlights how influence of political stability on economic growth. Gujarat's constant economic growth can be attributed to its flexible policies and investor friendly environment, highlighting the advantages of political stability. The state has become a major economic hub in India owing to these developments. On the other hand, the political unrest in Bihar brought to light the difficulties associated with inconsistent governance. Where long-term economic planning and development were hampered by frequent changes in government, policy reversals, and corruption. Resulting in poor infrastructure and high unemployment rates. The international examples reinforced how this relationship between political stability and economic growth stems beyond Gujarat and Bihar. Ultimately, this study emphasises how important stable governance is to foster economic development. To achieve sustainable economic growth, policymakers must acknowledge the significance of political stability and work to establish a stable political climate.

## **References**

Ake, Claude. "A Definition of Political Stability." *Comparative Politics*, vol. 7, no. 2, 1975. JSTOR, <https://doi.org/10.2307/421552>.

Alam, Shadab. "Nearly failed education system of Bihar: a teacher's take." *Medium*, 8 August 2020, <https://medium.com/@9971427619/nearly-failed-education-system-of-bihar-a-teachers-take-1d8ab42b0794>.

Bihar Government. "Economic Survey 2021-22." Bihar.gov.in, 2021, [https://state.bihar.gov.in/finance/cache/12/01-Mar-22/SHOW\\_DOCS/Press%20Release%20\(English\).pdf](https://state.bihar.gov.in/finance/cache/12/01-Mar-22/SHOW_DOCS/Press%20Release%20(English).pdf).

Deloitte. "Incredible Opportunities Back home." *Deloitte*, Deloitte, December 2013, <https://www2.deloitte.com/content/dam/Deloitte/in/Documents/tax/thoughtpapers/in-tax-oifc-incredible-opportunities-noexp.pdf>.



“Energy and Petrochemicals Department.” Energy and Petrochemicals Department, <https://guj-epd.gujarat.gov.in/Home/GujaratREPolicy>.

Government of Bihar. “ECONOMIC SURVEY 2021-22.” Government of Bihar, [https://state.bihar.gov.in/finance/cache/12/01-Mar-22/SHOW\\_DOCS/Press%20Release%20\(English\).pdf](https://state.bihar.gov.in/finance/cache/12/01-Mar-22/SHOW_DOCS/Press%20Release%20(English).pdf).

Government of Gujarat. “Home - Gujarat Industrial Policy 2015.” Industries Commissionerate, 9 January 2017, <https://ic.gujarat.gov.in/gujarat-industrial-policy-2015.aspx>.

“Gujarat Industrial Policy.” MSME Gujarat, 2020, <https://msmec.gujarat.gov.in/uploads/pdf/SpolicysA41YKryli-GN0zIhaQvD57QDUa5S2Uu.pdf>.

Gulati, Ashok, et al. “Performance of Agriculture in Gujarat.” Revitalizing Indian Agriculture and Boosting Farmer Incomes, 2021, 2021. 978-981-15-9334-5.

Huntington, Samuel P. “Political Development and Political Decay.” World Politics, vol. 17, no. 3, 1965.

IMF. “República Bolivariana de Venezuela and the IMF.” International Monetary Fund (IMF), 2021, <https://www.imf.org/en/Countries/VEN>.

India Brand Equity Foundation. “GSDP of Gujarat, Economic Growth Presentation and Reports.” IBEF, October 2023, <https://www.ibef.org/industry/gujarat-presentation>.

Invest India. “Indian PLI Schemes: Promoting Growth and Innovation.” Invest India, 2020, <https://www.investindia.gov.in/production-linked-incentives-schemes-india>.

Keshri, Vikash R. “COVID-19: Why does Bihar’s public healthcare system struggle so?” The George Institute for Global Health, <https://www.georgeinstitute.org.in/profiles/covid-19-why-does-bihars-public-healthcare-system-struggle-so>.

“Manufacturing Industries in India & its Growth.” IBEF, <https://www.ibef.org/industry/manufacturing-sector-india>.

Munichiello, Katrina. “What Is Economic Growth and How Is It Measured?” Investopedia, 2024, <https://www.investopedia.com/terms/e/economicgrowth.asp>.

Oriel, Astha. “How Has Bihar's Economy Performed Under Nitish Kumar Since 2005?” Outlook Business, 13 August 2022, <https://business.outlookindia.com/news/how-has-bihar-s-economy-performed-under-nitish-kumar-since-2005--news-216193>.

Prasad, Nikita. "Gujarat Cabinet: 24 ministers sworn in. Full list here | Today News." Mint, 16 September 2021, <https://www.livemint.com/news/india/gujarat-cabinet-24-ministers-sworn-in-full-list-here-11631783701491.html>.

"Singapore - Political Stability And Absence Of Violence/Terrorism: Percentile Rank - 2024 Data 2025 Forecast 1996-2022 Historical." Trading Economics, 2024, <https://tradingeconomics.com/singapore/political-stability-and-absence-of-violence-terrorism-percentile-rank-wb-data.html>.

Story Brunch. "Bihar's Economic Challenge: Top Reasons Behind its Persistent Poverty." Story Brunch, Story Brunch, November 2023, <https://storybrunch.com/bihars-economic-challenge-top-reasons-behind-its-persistent-poverty/>.

Tewary, Amarnath. "Bihar political crisis | After submitting resignation, Nitish Kumar says relations with RJD has not been good." The Hindu, 28 January 2024, <https://www.thehindu.com/news/national/bihar-political-crisis-nitish-kumar-submits-resignation-from-mahagathbandhan-and-to-join-nda-again/article67785588.ece>.

"Venezuela Crisis | Global Conflict Tracker." Council on Foreign Relations, 2024, <https://www.cfr.org/global-conflict-tracker/conflict/instability-venezuela>.

Vohra, Ishta. "Relevance of governance model of Gujarat in the development of India." IRJMSH, vol. 6, no. 1, 2015, [https://www.academia.edu/19680558/Relevance\\_of\\_governance\\_model\\_of\\_Gujarat\\_in\\_the\\_development\\_of\\_India](https://www.academia.edu/19680558/Relevance_of_governance_model_of_Gujarat_in_the_development_of_India).

World Bank. "Bihar: towards a development strategy." World Bank, 2005, <https://documents1.worldbank.org/curated/en/624671468035374716/pdf/328190IN0Bihar1report11June200501PUBLIC1.pdf>.

World Bank. "Singapore Overview: Development news, research, data." World Bank, <https://www.worldbank.org/en/country/singapore/overview>.