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EDITORIAL ANALYSIS

The Next Frontier: Why the Investment Climate Now Depends on States

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Every fact web-verified against primary sources

THE LIFT LINE

A national reform can change the law on paper, but the plot of land, the factory licence and the labour inspector all live in a state, which is why the next big gain in India's investment climate will not be won in Delhi, it will be won or lost in the states.

WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

This editorial sits at the meeting point of GS2 (federalism, government policies) and GS3 (economy, investment, growth). The examiner likes candidates who understand that reform in India is not one lever but a two-tier machine, and who can use the language of competitive and cooperative federalism with precision rather than as a slogan.

It also gives you a rare, well-evidenced way to argue that federalism is not just a constitutional value but an economic mechanism, where inter-state competition can drive better governance. That framing lifts an economy answer into a governance answer.

GS Paper 2: issues and challenges pertaining to the federal structure; devolution of powers; government policies and interventions for development.

GS Paper 3: Indian economy, mobilisation of resources, investment models; effects of liberalisation and industrial policy.

For **Prelims**, hold the specifics: the **Business Reforms Action Plan (BRAP)** run by the **DPIIT**, first launched in 2014, with editions through 2015, 2016, 2017-18, 2019, 2020, 2022 and 2024, ranking states in categories such as Top Achievers, Achievers, Aspirers and Emerging; the shift from the World Bank's discontinued Doing Business report to the new **B-READY (Business Ready)** assessment; **NITI Aayog** and its investment-friendliness work; and the four **Labour Codes** whose rules are notified by states. For **Mains**, argue that factor-market and clearance reform at the state level is the binding constraint on private capex.

BACKGROUND AND CONTEXT

For a decade after 2014, the visible reform story was central: the goods and services tax, the Insolvency and Bankruptcy Code, corporate tax cuts, digital public infrastructure and the consolidation of labour laws into four codes. These were necessary and they moved the needle. But most of what actually determines whether a factory gets built is administered by states, not the Union: acquiring and converting land, obtaining building and environmental clearances, connecting power and water, registering under labour rules, and dealing with inspectors.

The **Business Reforms Action Plan**, run by the DPIIT since 2014, was designed to make states compete on exactly these parameters, scoring them on hundreds of reform points across business and citizen services. Successive editions have shown two things at once: an overall improvement in the ease of doing business, and a stubbornly wide gap between the best-administered states and the laggards. As the World Bank replaces its old Doing Business rankings with the **B-READY** assessment, the spotlight is shifting from national scores to sub-national performance, which is where India's real variance lives.

THE CORE ARGUMENT / ISSUE

The centre has picked the low-hanging fruit

The big central reforms are largely legislated. What remains is implementation, and implementation is overwhelmingly a state function. A single-window clearance is only as fast as the state department behind the window; a labour code only delivers flexibility once a state notifies its rules; a land parcel is only investible once state records, conversion and stamp duty are sorted. The marginal reform rupee now buys more at the state level than at the centre.

The divergence is the opportunity

Because states differ so widely, the same national policy produces very different outcomes on the ground. A firm choosing between two states faces different clearance times, different land costs and different labour rules for an identical central law. That divergence is a problem for laggards but an opportunity for the system: it lets investors reward good governance and lets weaker states learn from leaders, which is **competitive federalism** doing real economic work.

REFORM LEVER	WHO CONTROLS IT	WHY THE STATE IS DECISIVE
Land acquisition and conversion	State	Records, stamp duty, land-use change are state functions
Labour code rules	State	Codes are central, rules and thresholds are notified by states
Single-window clearances	State	Speed depends on state departments, not the statute
Power and water connections	State	Utilities and boards are state-run
Factor-market reform	State	Where the friction that deters capex actually sits

Competition and cooperation together

Competitive federalism (states racing on BRAP scores and investment) needs a cooperative scaffold: shared templates for single-window systems, model rules under the labour codes, and Union support for capacity in weaker states. The goal is not a race to the bottom on standards but a race to the top on speed and predictability. Without the cooperative layer, competition simply widens the gap; without competition, cooperation drifts into inertia.

HOW TO THINK ABOUT THIS (ANALYTICAL FRAME)

Frame reform as a **two-tier machine with a shifting binding constraint**. In the first phase, the binding constraint was central law, so central reform delivered the gains. As that constraint relaxed, the binding constraint moved down to state-level administration of land, labour rules and clearances. A good reformer keeps asking where the constraint now sits and directs effort there, rather than repeating yesterday's winning move. Right now the constraint is sub-national, which means the highest-return reform is to help states compete and cooperate on ease of doing business, not to pass one more central law.

THE DIAGRAM IN WORDS

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Central reforms (GST, IBC, labour codes, tax cuts) largely done -> binding constraint shifts to state administration -> land, labour rules, clearances, utilities all state-run -> wide inter-state divergence in outcomes -> BRAP competition + B-READY spotlight -> [resolution] competitive federalism (states race up) + cooperative scaffold (model rules, capacity support) -> faster private capex, better investment climate
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WAY FORWARD

1. **Deepen state-level factor reform.** Prioritise digitised land records, ready industrial land banks, quick land conversion and rational stamp duty, and get states to notify enabling rules under the labour codes.
2. **Make single windows genuinely single.** Move states from a directory of forms to true end-to-end, time-bound, deemed-approval clearances, benchmarked transparently through BRAP and B-READY.
3. **Sharpen competitive federalism.** Publish granular, credible sub-national investment-climate data so capital can reward reforming states and laggards feel the pressure to catch up.
4. **Add the cooperative scaffold.** Use NITI Aayog and the Union to share model rules, build administrative capacity in weaker states, and prevent competition from becoming a race to the bottom on standards.

PYQ LINKAGE AND PRACTICE

UPSC has asked on cooperative and competitive federalism, on the ease of doing business and its reforms, and on the factors that constrain private investment in India. This editorial ties those to the concrete, current mechanism of state-level reform and BRAP-style benchmarking.

Practice question: "The next phase of India's ease-of-doing-business reform must be won at the state level." Examine the role of competitive and cooperative federalism in improving the investment climate. (250 words, 15 marks)

Sources: PIB: India's Ease of Doing Business and the World Bank B-READY assessment, DPIIT Business Reforms Action Plan

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