RECONFIGURING INDIAN FEDERALISM: THE IMPACT OF LIBERALIZATION, PRIVATIZATION, GLOBALIZATION AND COALITION GOVERNMENT

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ABSTRACT

At the time Constitution of India was drafted, there was a debate pertaining to the structure of India i.e. whether it should adopt a unitary model or a federal model. The framers of the Constitution decided to adopt a middle path and made India a quasi-federal state ensuring a balance between unity and diversity. However, what followed immediately after independence was a system which was completely dominated by Centre. The 1990s were a turning point in this respect. In response to a severe balance of payments crisis, India launched the New Economic Policy of 1991 which marked the beginning of Liberalization, Privatization and Globalization (LPG). The goal of these reforms was to dismantle the command-and-control economy, lessen bureaucratic intervention and integrate India into the global market system. Simultaneously, the decline of single-party dominance at the national level, and the entry of coalition governments in the 1990s resulted in a new equilibrium. The combination of LPG reforms and coalition politics thus altered the nature of Indian federalism. Economic liberalization shifted the federal dynamic from hierarchical control to competitive participation. States were no longer obliged to follow the commands of the Centre, as they used to. Instead, they began to formulate their own industrial policies. The Centre's role changed from that of a commanding planner to that of a regulator.This paper explores how Indian federalism was impacted by the reforms of the 1990s and coalition politics. Together, these two forces transformed the fiscal, administrative and political relations between the Union and the states.

Keywords: Federalism, Liberalization, Privatization, Globalization, Coalition

INTRODUCTION

At the time Constitution of India was drafted, there was a debate pertaining to the structure of India i.e. whether it should adopt a unitary model or a federal model. The framers of the Constitution decided to adopt a middle path and made India a quasi-federal state ensuring a balance between unity and diversity. However, what followed immediately after independence was a system which was completely dominated by Centre. The Centre through mechanisms like Planning Commission, industrial licensing and Centrally Sponsored Schemes exercised complete control over state's development, planning and fiscal transfers. The States on the other hand was reduced to a role of implementation agencies for centrally designed programs ultimately resulting in "hegemonic federalism".

The 1990s were a turning point in this respect. In response to a severe balance of payments crisis, India launched the New Economic Policy of 1991 which marked the beginning of Liberalization, Privatization and Globalization (LPG). The goal of these reforms was to dismantle the command-and-control economy, lessen bureaucratic intervention and integrate India into the global market system. Although they aimed mostly at the economy, these reforms also changed the federal structure of India. Liberalization curtailed centralized economic regulation, privatization reduced the Centre's dominance in production and investment, and globalization expanded the policy space of states, enabling them to attract investment and engage directly with domestic and foreign enterprises.

Simultaneously, the decline of single-party dominance at the national level, and the entry of coalition governments in the 1990s resulted in a new equilibrium. Never before in India's history have regional parties accumulated so much power to influence the decision-making. The frequent need for consensus and power-sharing curtailed unilateral central actions particularly the arbitrary use of Article 356 and encouraged consultation, negotiation, and coordination between the Centre and the states. Coalition politics thus reinforced the decentralizing tendencies of economic reform, promoting a more participatory and balanced federal relationship.

The combination of LPG reforms and coalition politics thus altered the nature of Indian federalism. Economic liberalization shifted the federal dynamic from hierarchical control to competitive participation. States were no longer obliged to follow the commands of the Centre, as they used to. Instead, they began to formulate their own industrial policies. Moreover, they also offered incentives to investors, while working towards building infrastructure to attract capital. The Centre's role changed from that of a commanding planner to that of a regulator. Meanwhile, coalition governments helped in creating a political environment of shared governance, which institutionalized principles of cooperative and competitive federalism.

This paper explores how Indian federalism was impacted by the reforms of the 1990s and coalition politics. Together, these two forces transformed the fiscal, administrative and political relations between the Union and the states. It focuses on key legislative and constitutional change such as the 80th and 101st Amendments, Finance Act 1994 and establishment of NITI Aayog, and argues that together these changes reshaped the hold of political pluralism and economic restructuring on federalism.

2. PRE 1991 BASELINE: HEGEMONIC PLANNING AND EROSION OF STATE AUTONOMY

Before 1991's economic reform, India was a Federal State i.e. a centrally planned economy in which the Union government was in control of Development, finance and Industrial policy. Though the Constitution of India made provisions for a federal distribution of powers under Articles 245 and 246 read with the Seventh Schedule, as far as the economic system that evolved from the 1950s to the 1980s is concerned, it was quite centralized[1]. Through instruments such as the Planning Commission, Industrial Policy Resolutions and Centrally Sponsored Schemes, the central government dictated not only the direction of national development, but also the extent of the states' involvement therein.

Established in 1950, the Planning Commission acted as the coordinating authority for economic policy and public investment. It was responsible not only for Five Year Plans but also for distribution of plan outlays to the states and fixing targets for growth, employment, infrastructure, etc. The States' own plans were expected to align with the national plan's priorities leaving little space for regional variations or policy innovation. The financial assistance from Centre was mostly discretionary which was given in the form of plan grant, loan, and scheme-based fund. The design of the Indian Constitution vested the Union with significant powers over the states. Moreover, revenue-raising powers rested with the Union while expenditure responsibilities were with the states. This design caused vertical fiscal imbalance. As a result, the states became fiscally dependent on the Centre.

[1] H.M. Seervai, *Constitutional Law of India: A Critical Commentary* (4th edn., Universal Law Publishing, New Delhi, 2012).

The Industrial Development and Regulation Act, 1951 and the Industrial Policy Resolutions of 1956 and 1973 further strengthened central authority by bringing most major industries under Union control through Entry 52 of the Union List. The setting-up of factories, the quantity of goods they could produce, and the entry into a sector were determined by industrial licensing. This took away the states' power to shape their own industrial and employment policies. The Centre's control over capital allocation and centrally sponsored schemes further ensured continued dominance even in areas like agriculture, irrigation and public health, that the constitution reserved for the states.

Scholars described this centralized economic governance as "hegemonic federalism", meaning there was constitutional federalism in form but not in function. Financial and regulatory powers came to be concentrated in Centre. This curtailed the autonomy of State Governments and promoted a culture of dependence. However, by the end of 19080s this centralized approach failed completely. All Public Sector Enterprises were in losses; fiscal deficits of India were skyrocketing and developmental inequalities between different states were increasing. Concentrating all the powers at the end of Centre curbed all state innovations, augmented bureaucratic rigidity and distorted accountability.

Thus, on the eve of the 1991 reforms, India's federal system stood at a crossroads. While the Constitution envisioned cooperative federalism, the actual practice reflected a hierarchical, centrally dominated model. The economic crisis of the early 1990s would, therefore, not only liberalize the economy but also trigger a structural redistribution of power between the Centre and the States setting the stage for the emergence of a more competitive and cooperative federal order.

3. LIBERALISATION'S FEDERAL IDEA: DEREGULATION, DECENTRALISATION,DE-MONOPOLISATION.

The 1991 Industrial Policy reframed the state's role: "from control to help and guidance" and ended licensing for most industries. That choice had an inherently federal character: siting, land, local infrastructure, and clearances: the policy instruments that matter in a market economy live with states and cities. Simultaneously, the Centre's comparative advantage moved to macro-stability, external trade/FDI, inter-state commerce, competition policy, and national platforms[2]. Liberalization therefore implied a shift from a hierarchical plan state to a networked federal economy in which multiple levels co-produce outcomes.

A crucial corollary, emphasized early by policy scholars, was de-monopolization: freeing markets from state monopolies must not deliver citizens to private monopolies. Hence, liberalization required independent regulators, pro-competition rules, and diffusion policies that enable SMEs and new entrants tasks distributed across Union and State levels.

4. FROM STATE CONTROL TO MARKET EFFICIENCY: THE PRIVATISATION TURN IN 1991

Privatization became a key component of India's Liberalization, Privatization, and Globalization (LPG) reforms introduced in 1991, following a severe balance of payments crisis. These changes marked a significant shift from Nehruvian modelling of a state-managed mixed economy to s a market-led approach. Before, India relied on the public sector to promote industrial growth, create jobs, and ensure social welfare through its development strategy. However, by the late 1980s, growing inefficiency, rising fiscal deficits,

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[2] Raja J. Chelliah, *Trends and Issues in Indian Federal Finance* (Allied Publishers, New Delhi, 1981).

and declining productivity revealed the weaknesses of excessive government control.

The 1991 policy defined the role of the government by encouraging competition, efficiency, and private enterprise as engine of growth. The first step of privatization was to reduce the monopoly of Public Sector Enterprises (PSEs) through disinvestment. Additionally, restrictions in certain sectors were eased to allow private and foreign sector participation. Non-strategic industries were selected for phased disinvestment, while strategic sectors like defense, atomic energy, and railways remained under state control. The Finance Act of 1991 institutionalized disinvestment, and the Disinvestment Commission (1996) streamlined the process Regulatory authorities like SEBI and TRAI were established so that competition could be fair and consumers could be protected. Initially perceived as a temporary fiscal measure, privatization gradually took the form of a long-term structural policy to reshape the state-market relationship.

5. IMPACT OF LIBERALISATION AND PRIVATISATION ON INDIAN FEDERALISM

The 1990s era saw India undergoing many political and economic changes in the economy. The New Economic Policy (NEP) was adopted in 1991, which was based on three pillars of liberalization, privatization, and globalization and was completely different as compared to the command-and-control framework that governed Indian development for more than forty years[3]. The NEP not only redefined India's economic approach but also fundamentally changed the nature and character of Indian Federalism. The shift from a centrally planned model to a market-driven economy changed the relationship between the Centre and the States. Now, the States have more policy autonomy, administrative powers and funds for establishing and managing industries in their respective regions. Liberation and privatization together thus reoriented India's federal structure from a hierarchical arrangement dominated by the Centre to a dynamic system of cooperative and competitive federalism.

1. Dismantling Centralized Control and the Rise of State Autonomy

The New Economic Policy introduced in 1991 marked the first step in dismantling Centre's control in economy. It abolished industrial licensing for all industries except of security, defense and environmental safety. States thus were now free to make and adopt independent economic strategies in line with their regional priorities and need without waiting for Centre's approval.

The abolition of industrial licensing opened the era of "devolution of economic power to the states". States now have the power to directly frame their own industrial policy, identify priority sectors and approve industrial projects. They now have the autonomy to establish Special Economic Zones (SEZs) to attract foreign investors, offer incentives to them and to design region specific investment packages. Now States were not mere implementers of Centre's plan, but autonomous economic actors with policy making powers and functions.

In practice, this newfound autonomy encouraged States to experiment with diverse development models. Gujarat focused infrastructure-driven industrialization, Tamil Nadu on automobile and digital governance and investment facilitation. The different paths chosen by different states reflect the emergence of asymmetric federalism wherein States are utilizing their comparative advantages in a liberalized market economy.

At the fiscal level, the decline of centralized control was reinforced by changes in inter-governmental

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[3] NITI Aayog, "Aspirational Districts Programme and Cooperative Federalism" (Official Report, Government of India, New Delhi, 2019).

transfers. The Finance Act of 1994 introduced the service tax, broadening the Centre's revenue base while establishing the principle of shared taxation. It also established the principle of a shared tax base. The 80th Constitutional Amendment (2000) later expanded the divisible pool of central taxes to include all revenues, ensuring a stable and predictable system of devolution under Article 270[4]. This shift curtailed the Centre's discretion and promoted rule-based fiscal federalism, aligning with the spirit of cooperative governance envisaged in the Constitution.

As a result, the authority and accountability were decentralized. The federal relationship was thus redefined as one based not on hierarchical subordination but on functional interdependence, where the national success was dependent on the dynamism of the States.

2. Shift from Planned Federalism to Market Federalism

After the introduction of liberalization, the significance of Planning Commission which was the epitome of Central control in economic management started to decline. With the market now the main driver of growth instead of the Five-year plan, the Commission's role as the allocator of funds and resources become obsolete. States which were earlier dependent on Planning Commission's assistance for their development projects were now made to mobilize resources themselves through investment promotion and private sector participation[5].

This transition gave rise to what is termed as "market federalism" i.e. a system where the allocation of funds, resources and pattern of development are determined not by central planning and but by the competitive performance of States in a liberalized economy. With the withdrawal of the Centre from direct control, States assumed greater responsibility for attracting investment, developing infrastructure, and fostering industrial growth[6].

Privatization further complemented this transition The disinvestment of PSUs and the opening of key sectors like civil aviation, telecommunications and power to private and foreign investors redefined the State's role in economic policy making. Although these policies originated at the national level, their successful implementation relied heavily on the leadership and administrative capacity of State governments. The states became important facilitators whose functions like land acquisition, labor regulation and project clearances gave them new forms of administrative power.

Bureaucratic hierarchies within States were also restructured. New institutions like State Industrial Development Corporations (SIDCs), Investment Promotion Boards, Economic Development Authorities became important instruments of policy implementation. The emergence of these institutions in various States brought together bureaucrats, technocrats, and private sector representatives to assist the states in designing the investment strategy. This signified the transformation of a bureaucratic state into a technocratic developmental state[7].

Thus, the economic governance was barely distinguishable from federal governance. The States started to function as semi-autonomous entities in the national and international market. Daniel Elazar calls this non centralization i.e. federalism where power is not divided in a hierarchy but shared and negotiated dynamically.

3. Fiscal Federalism and Decline of Discretionary Transfers

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[4] M.P. Jain, *Indian Constitutional Law* (8th edn., LexisNexis, Gurugram, 2018).

[5] NITI Aayog, "From Planning Commission to NITI Aayog: A Paradigm Shift towards Cooperative Federalism", available at https://www.niti.gov.in (last visited on 10 October 2025).

[6] M.P. Singh, "Federalism, Nationalism and Development in India: An Overview" *(2001) 62(3) Indian Journal of Political Science 401*)

[7] Privatization, Federalism and Governance *available at:* https://www.jstor.org/stable/4414472 (last Visited on October 10, 2025)

Economic reforms also precipitated a fundamental reordering of fiscal relations between the Centre and the States. The centralized model of fiscal transfers, based largely on the recommendations of the Planning Commission and ad hoc grants, gave way to a more predictable, rule-bound structure anchored in the Finance Commission.

The Tenth (1995), Eleventh (2000) and Twelfth (2005) Finance Commissions, after the 90s reforms focused on strengthening fiscal autonomy by increasing the share of States in central taxes and encouraging fiscal discipline through performance-based incentives[8]. The 80th Constitutional Amendment formalized this approach by making all central taxes (other than surcharge and cesses) part of the divisible pool. The Fourteenth Finance Commission (2015) went a step further, enhancing the States' share in central taxes from 32% to 42%, representing a landmark moment in India's fiscal federal evolution[9].

Nevertheless, the reduction of plan-based transfers also had consequences. The Centre's ability to reduce inter-state disparities through redistribution was limited by the cut in non-statutory grants. Also, the increased importance of non-divisible revenues such as cesses and surcharges that had allowed the Union to appropriate a disproportionate share of the fiscal pie was a major issue. Thus, while the constitutional design of devolution became more transparent, the effective fiscal balance remained contested[10] .

The birth of fiscal decentralization was further accompanied by new limitations. States were required to maintain macroeconomic stability under the Fiscal Responsibility and Budget Management (FRBM) Acts, which imposed limits on borrowing and deficits.. While these measures helped uphold fiscal discipline, flexibility became a casualty. Less-developed States that depended excessively on central support were impacted more severely[11].

Consequently, the fiscal aspect of Indian federalism evolved into a hybrid model, one that combined constitutional devolution with market-based responsibility. The Centre ceased to be a direct controller. It now assumed a function of a macroeconomic coordinator. On the other hand, the States are now also required to take on greater responsibility for resource mobilization and expenditure management.

4. Rise of Competitive Federalism

One of the most visible political and economic consequences of the liberalization–privatization reforms was the rise of competitive federalism. The abolition of industrial licensing opened new spaces for states to compete in attracting foreign and private investments and thus marked a radical shift from the earlier system, where States depended entirely on the Centre for approval of their plans and financial allocations[12].

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[8] Amal Ray, "New Economic Policy and Indian Federalism" (Indian Institute of Management, Bangalore Working Paper, 1992).

[9] RECALIBRATING FISCAL FEDERALISM AND STATE AUTONOMY IN INDIA: STRENGTHENING CENTRE-STATE RELATIONS AND DEMOCRATIC DECENTRALIZATION IN THE MODI ERA -AN EMPIRICAL ASSESSMENT *available at:* https://www.researchgate.net/publication/393276341_RECALIBRATING_FISCAL_FEDERALISM_AND_STATE AUTONOMY_IN_INDIA_STRENGTHENING_CENTRE STATE_RELATIONS_AND_DEMOCRATIC_DECENTRALIZATION_IN_THE_MODI_ERA AN_EMPIRICAL_ASSESSMENT/citations (last visited on October 10, 2025)

[10] Economic Reforms and Centre-States Relations *available at:* https://www.encyclopedia.com/international/encyclopedias-almanacs-transcripts-and-maps/economic-reforms-and-Centre-states-relations#:~:text=One%20can%20conclude%20that%20liberalization,previously%20prevented%20them%20from% 20using. (last visited on October 10, 2025)

[11] Impact of Privatization on Indian Economy *available at*: https://ijsrst.com/IJSRST2182904 (last Visited on October 10, 2025)

[12] Cooperative and Competitive Federalism *available at:* https://prepp.in/news/e-492-cooperative-and-competitive-federalism-indian-polity-upsc-notes (last Visited on October 10, 2025)

After the introduction of NEP, States started to function as independent economic entities. They set up investment promotion agencies, organized numerous international investors' summits and started offering various tax incentives to attract investments. The "Vibrant Gujarat" Summit in Gujarat, Tamil Nadu's Global Investors' Conclave and the Global Investors' Meet of Karnataka are examples of this new subnational economic diplomacy[13]. Different states thus started competing with each other. The competition however was not only limited to industrial policy but extended to areas like reforms in governance, infrastructure, and regulatory efficiency. To attract foreign investors, States also started focusing on Ease of Doing Business, flexibility of labor laws, and public private partnerships (PPPs). The World Bank's "Ease of Doing Business" index further institutionalized this competitive dynamic.

Though the competition led to many innovations and increased State's efficiency in administration but it also caused many problems. Some States, in order to attract more investment, offered excessive tax concessions, land subsidies and regulatory concessions, etc. which ultimately led to a "race to the bottom"[14]. This not only led to fiscal pressures but also raised concerns regarding environmental degradation and labor rights.
While competition encouraged innovation it also ensured policy accountability. States increasingly benchmarking themselves off of peers has improved service benchmarked their performance against peers, leading to improvements in service delivery, governance, and investment facilitation. The result was a federalism that was more dynamic, differentiated and experimental, with the subnational units acting as laboratories of reform.

However, competition among the states made inequalities worse. Industrialized States with existing infrastructure and administrative capacity continued to garner a higher flow of investment compared to less developed States, particularly in the eastern and northeastern regions. This unevenness underscored the need for a complementary model of cooperative federalism to ensure balanced regional development.

5. Institutional Evolution and the Emergence of Cooperative Federalism

While liberalization and privatization expanded the economic autonomy of the States, they also necessitated institutional mechanisms for coordination between the Centre and the States. This ultimately led to what is now referred to as cooperative federalism i.e. a framework designed to balance competition with collaboration[15]. One of the most important institutional developments in this direction was the replacement of the Planning Commission with the NITI Aayog in 2015. It marked a paradigm shift from a centralized plan allocation to participatory governance. Unlike Planning Commission wherein, the developmental plan and fund allocations were unilaterally imposed on States, Niti Aayog provided platform for policy dialogue, enabling the Centre and the States to design long term development strategies together[16].

The Governing Council of NITI Aayog, comprising the Prime Minister, Chief Ministers, and Lieutenant Governors, embodies the principles of cooperative federalism. It provides a platform for the States to raise their state's developmental concerns, negotiate resources, and align regional priorities with national priorities. The Aayog's initiatives, such as Aspirational Districts Programme, Performance-Based Ranking of States, and Atal Innovation Mission[17], manifests this collaborative approach, emphasizing joint accountability rather than

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[13] B.L. Fadia, *Indian Government and Politics* (Sahitya Bhawan 2020).
[14] Political and Economic Reforms in 1991 *available at*: https://www.drishtiias.com/daily-updates/daily-news-analysis/political-and-economic-reforms-in-1991 (last Visited on October 10, 2025)
[15] M.P. Jain, *Indian Constitutional Law* (8th edn., LexisNexis, Gurugram, 2018)
[16] NITI Aayog, "From Planning Commission to NITI Aayog: A Paradigm Shift towards Cooperative Federalism", available at https://www.niti.gov.in (last visited on 10 October 2025).

[17] NITI Aayog, "Aspirational Districts Programme and Performance-Based Ranking", available at https://www.niti.gov.in/aspirational-districts-programme (last visited on 10 October 2025).

Centralized control.

The introduction of the Goods and Services Tax (GST) through the 101st Constitutional Amendment Act, 2016, further helped in institutionalizing cooperative fiscal federalism. The GST Council, which consists of representatives from both the Centre and the States was made to function on the basis of consensus and collective decision-making[18]. By making indirect taxation across the country uniform, the GST created a common national market while preserving the fiscal voice of the States. This probably is the most effective manifestation of cooperative federalism in post-reform India. It reconciles the twin imperatives of fiscal integration and subnational autonomy.

Nonetheless, the operation of these institutions also points to tensions in Indian federalism. Disagreement over issues such as GST compensation, the differential borrowing limit, and centrally sponsored schemes show that fiscal asymmetries persist. Nonetheless, the occurrence of these debates within the framework of negotiations and consensus building proves that Indian federalism has attained maturity in its structure, which is slowly steering away from unilateral dominance.

6. Political Dimensions and Transformation of Federal Power

Economic liberalization coincided with a major transformation in India's political landscape i.e. the emergence of coalition governments at the Centre. The decline of one-party dominance after 1989, and particularly during the 1990s and 2000s, reinforced the decentralizing tendencies unleashed by the reforms. Coalition politics gave regional parties, which represented distinct linguistic, cultural, and economic interests, a direct voice in national policymaking[19] .

Regional parties like Telugu Desam Party (TDP), Dravida Munnetra Kazhagam (DMK), Shiv Sena and later Trinamool Congress (TMC) and Biju Janata Dal (BJD) participated in central coalitions to influence financial and policy decisions. This realignment of political power strengthened the federal balance, making the Centre more responsive to subnational aspirations[20].

The judiciary also played a significant role in this process. In *S.R. Bommai v. Union of India*[21], the Supreme Court limited the arbitrary use of Article 356 , reinforcing the constitutional boundaries of federal intervention. The judgment essentially curbed the Centre's power to dismiss state governments on political grounds thereby consolidating state autonomy .

Coalition politics and judicial intervention together institutionalized a negotiated federalism, where policy outcomes depended on intergovernmental bargaining rather than unilateral decision-making. The aforementioned model facilitated the implementation of liberalization and privatization policies, requiring coordination between different levels of government.

Thus, the 1990s reforms and the rise of coalitions were mutually reinforcing: economic decentralization enabled political pluralism, while political decentralization facilitated economic reform. The overall result was a multi-centered federal order based on interdependence and mutual accountability.

7. Fiscal and Economic Implications for Federal Balance

[18] *The Constitution of India*, 1950, 101st Amendment Act, 2016; Ministry of Finance, "GST Council – Framework and Functions", available at https://www.gstcouncil.gov.in (last visited on 10 October 2025).

[19] M.P. Singh and Rekha Saxena, *Federalising India in the Age of Liberalization* (Primus Books, New Delhi, 2021).

[20] R. J. Chelliah and T. Sen, *Fiscal Federalism in India: Theory and Practice* (Macmillan, New Delhi, 1996).

[21] (1994) 3 SCC 1

The liberalization and privatization reforms brought a paradigm shift in fiscal policy and intergovernmental finance. The earlier era of planned fiscal federalism exhibited a central predominance with respect to taxation and expenditure. With reforms, fiscal power began to decentralize, though unevenly[22].
First, because discretionary central transfers shrank, the Centre's ability to influence state-level priorities through grants eroded. The importance of non-statutory plan assistance and centrally sponsored schemes which earlier had a big share in state budgets also diminished. In their place, statutory transfers under the Finance Commission acquired greater significance enhancing transparency but reducing flexibility[23]. Secondly, the reforms generated many fiscal asymmetries. While, the liberalizing the economy allowed the Centre to generate more revenue for itself through the customs, excise, and corporate taxes, States' tax base was severely narrowed. Although, the recommendations of the 80th and the subsequent Finance Commissions did increase the States' share in the central taxes, but the advent of cesses and surcharges enabled the Union to keep back a disproportionate share of revenue outside the divisible pool.

Third, the reforms introduced market-based fiscal discipline. States were encouraged to adopt Fiscal Responsibility and Budget Management (FRBM) Acts for macro-economic stability and reduction of deficits[24]. This raises the overall fiscal prudence but restricts the developmental expenditure in poorer States, which have no other resources.

Finally, the shift from public sector investment to private-led growth altered the federal fiscal dynamic. States that possessed superior infrastructure and governance capability such as Maharashtra, Tamil Nadu, and Karnataka attracted a higher level of Foreign and Domestic Investment whereas States like Bihar, Odisha and Assam which have a weak administrative system and infrastructure faced declining private inflows thereby deepening regional disparities.

Thus, while the reforms led to decentralization of fiscal responsibility, they also introduced competitive inequality into the federal framework where the fiscal health of a State increasingly depended on its ability to compete in a liberalized market.

8. Socio-Economic and Administrative Consequences

The reforms of liberalization and privatization not only reshaped the fiscal relations between Centre and States but also redefined the administrative and social dimensions of Indian federalism. The emergence of state level investment bureaucracies which are tasked with facilitating industrial clearances, land acquisition, and infrastructure development created new layers of governance. In some instances, these institutions enhanced efficiency and transparency; in others, they gave rise to local elite networks and opportunities for corruption[25].

Administratively, States began to experiment with governance innovations. The e-Governance Initiative of Andhra Pradesh, single-window clearance system of Karnataka, MIDC of Maharashtra reforms illustrated the capacity of States to implement market-oriented administration. These programs demonstrated the transformation of the Indian State from being a provider to a facilitator of development[26].

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[22] Raja J. Chelliah, *Trends and Issues in Indian Federal Finance* (Allied Publishers, New Delhi, 1981).
[23] K.K. George and I.S. Gulati, "Centre-State Resource Transfers 1951–84: An Appraisal" (1985) *Economic and Political Weekly*.

[24] Raja J. Chelliah, *Trends and Issues in Indian Federal Finance* (Allied Publishers, New Delhi, 1981).
[25] Federalism under Liberalisation *available at:* https://archive.cpiml.org/liberation/year_1996/june/ARTICLE.HTM (last Visited on October 10, 2025)

[26] Economic Liberalisation and Federalism in India *available at:* https://www.taylorfrancis.com/chapters/edit/10.4324/9781482289923-10/economic-liberalization-federalism-lawrence-s%C3%A1ez (last Visited on October 10, 2025)

Socially, the shift toward privatization and market competition brought mixed results. The industrialized States benefitted from job creation and higher incomes while less-developed states faced greater inequalities The withdrawal of the State from welfare sectors in the early reform years also sparked debates about the social responsibilities of a liberalized State[27]. As time went on, both the Centre and the States adopted compensatory mechanisms such as targeted poverty alleviation programmes. However, disparities in fiscal and administrative capacities continued to affect outcomes unequally across regions.

The reforms thus restructured intergovernmental finance and transformed the Indian federation into a complex web of cooperative, competitive, and asymmetrical relationships.

6. INTEGRATING WITH THE WORLD ECONOMY: GLOBALISATION AND FEDERAL REALIGNMENT

Globalization can be defined as integrating the national economy with the world economy to form a planetary economy interlinking countries through trade, investment and technology. It enables the free flow of information, goods and services, capital investment, and human resources between national borders and unites previously diverse markets into one. It promotes a more transparent and competitive economic environment, encouraging innovation, efficiency, and cross-cultural exchange.

Globalization in the Indian context began in the 1990s, when India opened its economy to foreign trade and investment due to the economic reforms of 1991. It is generally understood to encompass three dimensions: economic globalization, involving trade and capital flows technological globalization, signifying the spread of technology and knowledge; and cultural globalization, reflecting greater interaction among societies.

The main components of globalization include: opening the domestic market for a regular flow of foreign goods and services, through a systematic reduction in customs duties and import tariffs. The other major indicator of global integration is the penetration of foreign capital in the economy, which shows the market confidence and openness of domestic markets. The liberalization of the Foreign Exchange Regulation Act (FERA) in 1993 and subsequent passing of the Foreign Exchange Management Act (FEMA), 1999 further facilitated international financial transactions by providing greater flexibility in dealing in foreign currency dealings and cross-border investments[28].

Therefore, Globalization represents not merely an economic reform but a structural transformation, an ongoing process through which India's economic, technological and institutional systems became progressively more integrated into global systems and practices.

7. IMPACT OF GLOBALISATION ON FEDERALISM:

Most people agree that the benefits of globalization outweigh its drawbacks. In the recent past, there has been an influx of foreign exchange, modernization of economic models and policy. . But the adverse impacts would

[27] Privatization and its impact on Indian economy *available at:* http://ppociitk.in/Privatisation-and-its-impact-on-economy (last Visited on October 10, 2025)

[28] Globalization and its impact on State *available at:* https://www.shivajicollege.ac.in/sPanel/uploads/econtent/85e327063ac30c41ba432dc6968250e5.pdf (last Visited on October 10, 2025)

include the increasing decline of sovereignty and nations and giving direct power to decentralized forms of government. This downward percolating power is in contravention to India's federal structure which shares power at three tiers of government, but ultimately holds strong unitary features. We can analyze Indian federalism's response and the impact of globalization in the light of three perspectives.

1. Financial Disparity between States

The states in India do not have the same resources or abilities due to several historical, geographic, political reasons. For instance, Bengal, Bombay, Madras presidencies established and governed by the British witnessed early development as a spillover effect of modernization and comfort for the colonizer's own benefits. However the source may be, but the resultant development was very true.

The northern regions of India were more accessible because they were part of the Ganges river basin and a vast rolling plain land as opposed to the upper reaches of north east which is hilly rugged topography and forest land. South of the Narmada, the Southern peninsula, separated by the hills of central India, had its own presidencies and princely states[29]. Besides the historical reasons, the terrain of the lands and the social and political divides prevalent in the same determined which part of the country could develop more. After gaining independence, all parts of the country got integrated and the Centre became more powerful and tried to provide equal measures to backward states.

However, globalization changed this for the worse. Emphasizing on further decentralization, it weakened the Centre and an atmosphere of competition proliferated. States began to rival each other to attract foreign revenue. What began as a friendly competition quickly escalated into something drastic for weaker states. The income distribution among states became more uneven[30]. Similarly, infrastructural development also created a divide. The economic deregulation has had a lopsided impact on the development of the economy of India. More developed states were able to rapidly acquire the means for progress which in turn diminished the opportunities of the less developed states.

A country is as much progressed as its least progressed region. India is a state which strives to promote welfare of its citizens and equitable participatory governance is our ethos. For development to take place uniformly and equitably, the Centre has to be stronger and take up more vigorous uniform policy and affirmative action so that least developed and backward regions are given an opportunity.

As of now 11 States in India have a Special Category Status (SCS) which include, Assam, Nagaland, Himachal Pradesh, Manipur, Meghalaya, Sikkim, Tripura, Arunachal Pradesh, Mizoram, Uttarakhand, and Telangana What the regions like Kashmir had "Special Status" in terms of enhanced political and legislative rights, Special Category Status imparts only on economic and financial benefits to states in need that the Centre deems to be backward on account of geographic historical or political reasons[31]. The Centre provides a major part of their funds in centrally sponsored schemes, unspent money in a financial year is carried forward, not lapsed, significant concessions are provided, 30% of gross budget of Centre goes to these states.

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[29] N. Singh and T.N. Srinivasan, "Indian Federalism, Economic Reform and Globalization" in J. Wallack and T.N. Srinivasan (eds.), *Federalism and Economic Reform: International Perspectives* (Cambridge University Press, Cambridge, 2006) 301–363.

[30] Impact of Globalization in India *available at: https://www.geeksforgeeks.org/social-science/impact-of-globalization-on-india/#:~:text=With%20globalization%2C%20the%20technological%20capabilities,from%20advanced%20countri es%20to%20India (last Visited on October 10, 2025)*

[31] Globalization and Federalism: Uneasy Partners? *available at:* https://www.epw.in/journal/2008/38/special-articles/globalisation-and-federalism-uneasy-partners.html#:~:text=Federalism%20faces%20difficult%20challenges%20in,to%20this%20article%20(download) (last Visited on October 10, 2025)

However, there are also repercussions to the same as other states like Bihar and Odisha are also vying for the same. It burdens Centre's budget and more states are seeking to obtain similar benefits.

2. Legitimacy Vacuum

With the mushrooming of transnational and international organizations, the nations as units of governing municipal law are losing their sovereignty. According to Holland, "international law is the vanishing point of jurisprudence"; i.e., it is not law in the sense in which national law is law because there are no sovereigns who ensure compliance with international law and each state claims to be independent and sovereign and voluntarily enters into the agreement. Globalization has caused further damage to sovereign status. Therefore, there is a vacuum of legitimacy-related concerns both in the global and the domestic spheres. In order that the nation does not lose power entirely and retain at least the power to manage its own affairs, further democratic decentralization is induced that helps in lending legitimacy to the government at the Centre level[32].

In 1993, with the 73d and 74th Constitutional amendments, India introduced the feature of Panchayati Raj institutions for the rural areas and Municipalities for the urban centres for local self-government at the grassroot level. Devolution and decentralization got constitutional recognition with these grass root level bodies having their own finances, own elections, mildly delegated legislative and executive powers etc. They are primary in ensuring development at source as they are in charge of agriculture, water, electricity, education, housing etc. It embodies the idea of 'think global, but act locally'

3. Rise of Civil Society Organizations

In our country, another challenge to federalism is the growth of civil society organizations. They usually involve NGOs, professional associations, foundations, independent research institutes, faith-based organizations, etc.

They may function on a local, national, or international level. Some organizations in India like Centre for Civil Society and Mazdoor Kisan Shakti Sangathan work at the national while organization like ActionAid and United Nations work at international level. They have a major influence in administration and shaping policies in India. Most of them started long before independence, the most notable ones being Brahmo Samaj led by Raja Ram Mohan Roy, society's by Ishwar Chandra Vidyasagar. They contributed significantly to emancipate the struggle for widow remarriage and Jyotiba Phule's effort for female education[33].

Some societies and associations contribute positively to the parallel and horizontal structures of democracy. Others, however, do the reverse, harming the operation and integrity of democracy[34].

4. Borrowing by Sub Central levels of Government

According to Article 293 of the Constitution, the executive power of the state government includes the power to borrow from within the Indian territory subject to the security of Consolidated fund of the state. The government of India at the central level, on its authority and on the security of Consolidated fund of India, can give loans to any state or guarantee in respect of loans raised by any state. This is of course subject to

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[32] Amaresh Bagchi, "Globalization and Federalism: Uneasy Partners?", (Economic and Political Weekly, Vol 43, no 38, 2008, pp 41-48)

[33] The Changing Nature of Indian Federalism in the Age of Globalization *available at:* http://www.socialresearchfoundation.com/upoadreserchpapers/6/390/2101130450291st%20chitra%20roy%2013363. pdf (last Visited on October 10, 2025)

[34] Barry Friedman, "Federalism's Future in the Global Village", 47 Vanderbilt Law Review 1441 (1994)

limitations and legislations made by parliament . It was previously the case that while the Union government could borrow money from anywhere, the state was only allowed to borrow money from India, as mentioned in the Constitution also.

After globalization, new rules came into being. The Union cabinet approved new rules which enable the financially sound state government entities to borrow directly from other countries which give an Official Development Assistance (ODA) for major infrastructure projects. Likewise, it has its own pros and cons. If states would receive the power to take loans from market, then it would help them to get funds for their own development rather than waiting for the central government to approve of them. However, if this happens states might overuse it and the Centre should put further control and regulations. In such instances, the state government provides a guarantee while the central government offers a counter guarantee. For example, the Maharashtra state government body, the Mumbai Metropolitan Region Development Authority, was permitted to directly take an ODA loan from the Japan International Cooperation Agency (JICA) for the Rs 17,854 crore Mumbai Trans- Harbor Link project[35].

Globalization has been the harbinger of rapid change that has affected the federal character of India which cannot be criticized completely. Every country in the world has to succumb to this change and India is no exception[36].

8. COALITION GOVERNMENT: THE POLITICAL TRANSFORMATION OF CENTRE STATE RELATIONS IN POST REFORM INDIA

For almost forty years after the independence of India, the Indian National congress acted as an umbrella organization encompassing a range of social, linguistic and ideological interests. According to Rajni Kothari, this Congress system was a de facto one-party dominant polity Federalism during this period was characterized by strong central leadership, hierarchical coordination, and limited autonomy for the States However, social movements in the 1970s and 1980s,, the assertion of regional and caste identities, and the decline of Congress's national reach led to the fragmentation of power. The Emergency (1975–77) further made the moral legitimacy of central dominance weaker.

The 1989 general election changed the course of Indian politics history. The Janata Dal-led National Front government, supported by both the Left Front and the Bharatiya Janata Party (BJP) from outside, inaugurated the era of coalition politics at the Centre. Subsequent governments from the United Front (1996-98) to the National Democratic Alliance (1999-2004, 2014 onwards) and the United Progressive Alliance (2004-2014) were all coalition arrangements of varying stability. The shift from rule by a majority to coalition governance changed the texture of Indian federalism as it gave regional parties an unprecedented role in shaping national policy and politics.

9. COALITION GOVERNMENT AND ITS IMPACT ON CENTRE STATE RELATIONS:

The growing involvement of regional parties in the Indian government, both at the Centre and state has led to changes in and impact on Centre-State relations.

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[35] Globalization and Federalism uneasy partners? *available at:* https://www.epw.in/journal/2008/38/special-articles/globalisation-and-federalism-uneasy-partners.html#:~:text=Federalism%20faces%20difficult%20challenges%20in,to%20this%20article% (last visited on October 10, 2025)

[36] B.P. Jeevan Reddy (Chairman, Law Commission of India), "Challenges of Diversity and Federalism in an era of Globalization", International Conference on Federalism Mont-Tremblant, October 1999 Session 2A, CSD Theme Plenary- Social Diversity and Federalism, 1999

In light of the recent political developments, discussion on the impact of Coalition government on Centre-State relations can be undertaken under the following heads.

1. Political Impact: Rise of Regionalism and Power Decentralization

The most visible impact of coalition politics on Indian federalism has been the rise of regional parties as decisive actors in national governance. For the first thirty years after independence, India operated largely as a centralized federation under the aegis of the Indian National Congress. The Congress system, functioning as a unitary political system, contained aspirations for regional autonomy. The disintegration of this monopoly, beginning in the 1970s and culminating in the 1989 general election, fundamentally restructured political competition[37]. The emergence of regional parties like the DMK in Tamil Nadu, the TDP in Andhra Pradesh, the Akali Dal in Punjab, and the Trinamool Congress in West Bengal ushered the interests of regions and languages directly into national politics directly.

The emergence of regional parties led to the manifestation of various local demands and subnational identities at the national level making the federal structure more inclusive and pluralistic. It became impossible for the Centre to exist without regional parties as coalition partners. For example, issues such as special economic packages, infrastructural investment, and state-specific development programs began to figure prominently in the Centre's agenda. This development democratized federal politics and converted the once-hierarchical Centre state relationship into a continuous process of political bargaining.
Parallelly, coalition governments resulted in the dispersal of the political power in the Union. Ministries and key portfolios were distributed among coalition partners, allowing regional parties to participate in decision-making at the national level. regional parties to participate in decision-making at the national level. This political inclusion reduced the asymmetry between the Centre and the States and created spaces for participation at the national level of governance[38]. The Union government, which was once thought to be remote from regional realities, now became a channel for several sub national perspectives.

2. Constitutional and Legal Impact: Strengthening of State Autonomy

The second major impact of coalition politics has been on the constitutional functioning of federalism, particularly the enhancement of State autonomy and the curbing of central authoritarianism. The Constitution of India, while federal in form, grants the Union extensive powers in the legislative, financial, and emergency domains. Historically, these powers were exercised not in the best interest of States most notably through the frequent use of Article 356, which allows the President to impose direct rule in States. Prior to the initiation of the Janata Party ministry on March 14, 1977, Article 356 was invoked 90 times by the Centre[39].

However, coalition governments have changed this trend to some extent. With the Union executive relying on regional parties to maintain a parliamentary majority, dismissal of State governments by the Centre was severely curtailed. Any abuse of Article 356 may alienate coalition partners and destabilize the government

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[37] State Business Relations *available at:* https://academic.oup.com/edited-volume/58203/chapter/482131349 (last Visited on October 10, 2025)

[38] Impact of Globalization on Indian Constitution *available at: https://ijlsss.com/impact-of-globalization-on-the-indian-constitution/#:~:text=CONCLUSION,of%20all%20of%20its%20citizens (last Visited on October 10, 2025)*

[39] Governance and Development *available at: https://ijlsss.com/impact-of-globalization-on-the-indian-constitution/#:~:text=CONCLUSION,of%20all%20of%20its%20citizens.*https://api.pageplace.de/preview/DT0400.9781351255196_A35115837/preview-9781351255196_A35115837.pdf#:~:text=The%20policy%20changes%20undertaken%20by%20the%20government,powers%20to%20chief%20ministers%20of%20every%20state. (last Visited on October 10, 2025)

itself. The most historic verdict of the Supreme Court in *S.R. Bommai v. Union of India*[40], limited the arbitrary invocation of Article 356 and greatly strengthened the autonomy of States. Thus, Coalition politics operationalized constitutional federalism by ensuring that political dependence translates into respect for autonomy of states.

Additionally, coalition dynamics have encouraged the development of cooperative federalism, where the Centre and States function through consultation rather than confrontation. Because no single party commands unilateral authority, consensus building has become essential for legislative and policy decisions. This cooperative spirit is reflected in the constitutional framework of the Goods and Services Tax (GST) under the 101st Constitutional Amendment (2016). The GST Council has been established through legislation to enable the Union and States to collectively decide on tax policy. This USB-type institutional architecture is indicative of direct cooperative federalism, a concept that matured over decades of coalition experience[41].

Thus, coalition politics has transformed India's constitutional federalism from a system of central supremacy into one of negotiated partnership. The emphasis on collaboration over coercion has enhanced the legitimacy of the federal order and reaffirmed India's identity as a union of cooperative yet autonomous States.

3. Fiscal Impact: Negotiated Financial Federalism

Coalition governments have also reoriented the fiscal dimension of Indian federalism by making it more consultative. Under Indian Constitution, the Centre occupies the majority of the revenue sources, while the State is tasked with expenditure responsibilities. States usually meet their expenditure requirements via grants. Also, the distribution of taxes as recommended by Finance Commission under Article 280 of Constitution serves the major source of State's revenue. During coalition era as regional parties support became necessary for the Union, the States started using their support as bargaining chip to secure more fiscal benefits for their states influencing central grants, special packages, and infrastructure investments[42].

This process, although political in nature, resulted in fiscal decentralization. States began to enjoy greater flexibility in utilizing central funds, and the Finance Commissions adopted more equitable criteria for tax devolution. For instance, the 13th Finance Commission increased the share of States in the divisible pool of central taxes to 32%. Similarly, 14th Finance Commission increased the share of States in the divisible pool of central taxes to 42%. These measures were a resultant of the accumulation of pressure from regional parties and State governments that had become essential for coalition stability[43].

At the same time, Coalition governments forced the Centre to design central schemes in line with regional needs and inequities thereby promoting shared ownership of development programs. The Planning Commission's transformation into NITI Aayog, in 2015, can also be seen as a result of these cooperative fiscal environments By giving States a participatory role in planning and policy formulation, the Centre recognized the multi-level nature of modern governance. However, fiscal federalism under coalitions has had its shortcomings too. Political bargaining often resulted in an unequal distribution of resources. While powerful

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[40] (1994) 3 SCC 1

[41] Cooperative and Competitive Federalism in India *available at:* https://theiashub.com/free-resources/indian-polity-and-constitution/competitive-federalism#:~:text=India's%20governance%20model%20embraces%20both,%2C%20innovation%2C%20and%20effective%20governance. (last Visited on October 10, 2025)

[42] Fiscal Federalism amidst Coalition Politics *available at:* https://www.drishtiias.com/daily-updates/daily-news-editorials/fiscal-federalism-amidst-coalition-politics (last Visited on October 10, 2025)

[43] N. Singh and T.N. Srinivasan, "Indian Federalism, Economic Reform and Globalization" in J. Wallack and T.N. Srinivasan (eds.), *Federalism and Economic Reform: International Perspectives* (Cambridge University Press, Cambridge, 2006) 301–363.

coalition partners obtained preferential advantage through political bargaining, weaker States suffer disadvantage. Yet, on balance, coalition politics has made fiscal relations more transparent, consultative, and accountable to diverse regional interests.

4. Administrative Impact: From Command to Consultation

The administrative machinery of the Indian federation has also evolved under coalition pressures. During the period of one-party rule, administrative decisions were usually unilateral from the Centre to the States. Coalition governance however upset this top-down hierarchy and gave way to an environment of continuous consultation. Intergovernmental coordination now became necessary for implementation because regional parties have ministerial portfolios. Consequently, administrative federalism, the practice of sharing implementation responsibility between Union and State agencies has gained prominence

As a result of the coalition government, the process of devolution of power expedited in the areas of rural development, infrastructure and social welfare. Central sector schemes (CSS) now have greater flexibility for state adaptations. Moreover, the Centre has become increasingly responsive to administrative grievances raised by States due to the necessity of maintaining equilibrium among coalition partners. Inter-State Councils, regional deliberative bodies, as well as sectoral conferences have become forums of negotiation and dispute resolution.

However, this participative system of administration sometimes delays decision-making and causes bureaucratic overlaps. The necessity of consensus among multiple political actors can delay reforms or weaken accountability.

5. Broader Federal Outcomes

The cumulative effect of coalition governments on Indian federalism indicates a change from coercive centralization to negotiated cooperation. Politically, coalition governments have embedded the legitimacy of regional voices in the national discourse ensuring that governance reflects India's diversity. Constitutionally, they have strengthened the federal balance by preventing arbitrary central interventions and enhancing State autonomy. Fiscally, they have promoted more equitable sharing of resources, while administratively, they have institutionalized consultation as a governing norm.

Also, coalition politics has acted a democratic check on majoritarianism. The presence of multiple regional actors prevented the Centre from imposing a purely centralist agenda on States and transformed the Union government from a commander into a coordinator. This not only strengthened the democratic qualities of Indian federalism but also reinforced the values of accountability and consensus. However, coalitional governance has also produced many challenges like instability, short-term policymaking, and patronage-based bargaining that require new institutional safeguards.

Despite facing many challenges, the coalition era has given an important matured image of India's federal polity. It has shifted federalism from a mere constitutional division of powers to a political negotiation process. It has become more dynamic and plural reflecting the Indian Union.

10. JUDICIAL ROLE IN STRENGTHENING FEDERALISM POST-1990S

The Indian judiciary has played a pivotal role in reinforcing and redefining the spirit of Indian federalism, particularly in the post-1990s era of economic liberalization and political coalition. Under the impact of market reforms and political pluralism, the balance of power between the Centre and the States started to shift, and the Supreme Court became the primary supervisor of constitutional balance. Through a series of landmark verdicts, the Court changed Indian federalism from an internal arrangement into a constitutionally fixed arrangement through shared governance and mutual accountability.

The most important judgment in this regard was in *S.R. Bommai v. Union of India*[44] wherein the Court significantly restructured the process of application of Article 356 and held that the imposition of the President's Rule in a State is subject to judicial review thereby curbing the Centre's previous tendency to dismiss the State governments merely on political ground. The judgement not only reaffirmed the constitutional federalism but also laid down that the authority of State governments flows from the Constitution and not from the Union.

Further, in *Kuldip Nayar v. Union of India*[45], the SC upheld the constitutional validity of amendments to the Representation of the People Act. emphasizing that federalism in India is not merely a structural principle but also a functional necessity ensuring the representation of diverse regional interests within national institutions such as the Rajya Sabha.

Judicial interpretations also influenced federal fiscal and administrative dimensions. In *State of West Bengal v. Union of India*[46], the Court, laid the basis of the modern concept of cooperative federalism by stating that the Union cannot compel the States in the exercise of their sovereign legislative powers. The legacy of this decision gained renewed relevance post-1991, as economic decentralization required clearer constitutional demarcation between national and subnational competencies.

On top of this, the Court has promoted transparency in Centre-State financial relations. In cases involving the Finance Commissions and GST Council discussions, the courts have emphasized the need for consensus. The case of *Union of India v. Mohit Minerals Pvt Ltd*[47]. reiterated that the GST Council's recommendations are not binding, thereby maintaining the fiscal autonomy of the States under the cooperative federal framework introduced by the 101st Constitutional Amendment.

Thus, judicial interventions have provided a constitutional counterweight against political centralization and economic asymmetry since the 1990s. Through its interpretation of federalism as a basic structure of the Constitution, the judiciary has made sure decentralization is not just a political. but a constitutional commitment to shared sovereignty and democratic pluralism.

CONCLUSION

Since 1990s, the evolution of Indian federalism is probably one of the greatest changes in the Constitutional and political history of India. The combined impact of liberalization, privatization, and globalization (LPG) along with the advent of coalition governments has transformed Centre-State relations whereby the federal balance has shifted from "centrality" to negotiated interdependence. What was earlier a system of hegemonic federalism marked by excessive central interference in finance, planning and industry has now gradually emerged as a system that gives priority to autonomy of the state, fiscal decentralization and cooperative federalism.

[44] (1994) 3 SCC 1
[45] 2006 SC 3127
[46] 1964 SCR (1) 371
[47] Civil Appeal No 1394 of 2022

Economic liberalization dismantled the rigid framework of central planning, allowing market forces and private enterprise to become the new engines of growth. The role of the states has been redefined with devolution after privatization and states have been empowered to act as facilitators and not as implementers of national plans. The underpinning of Globalization has opened up India's economy so that the domestic markets can be integrated with International capital as well as commodity markets. It has also forced the States to be more competitive and get better infrastructure and better governance capacity. At the same time, India witnessed the decline of one-party dominance and the emergence of coalition governments at the Centre, which further strengthened India's federal fabric. It allowed regional voices to be represented in the national policy-making process. Judicial precedents like *S.R. Bommai v. Union of India*[48] further reinforced the constitutional limits of federalism and curbed arbitrary central intervention.

The post reform phase however had its own challenges. While the shift to market-driven economy increased the autonomy of states, it widened the gap between rich and poor states. Fiscal decentralization, though constitutionally strengthened, did not always translate into equitable resource distribution. States with existing infrastructure, industries were preferred over the states which doesn't have any. The challenge, therefore, lies in maintaining a balance between competitive and cooperative federalism, ensuring that economic efficiency does not come at the cost of social equity or regional exclusiveness.

In essence, the reforms of the 1990s transformed Indian federalism from a Centre-managed, Union dominated federalism into a multi-level co-operative and coordinated governance system that weaves together competition and co-ordination, autonomy and accountability. Today, the real strength of federalism in India resides in its adaptability; capacity to change with the changing world economic, political and social expectations while retaining the basic features of the Constitution the unity, diversity and democracy.

[48] (1994) 3 SCC 1