

This dissertation consists of two essays dealing with the relationship between economic growth and horizontal fiscal equalization under the framework of fiscal decentralization in China and India. Meanwhile, the performance of policy regime changes such as 1994 Tax Sharing System (TSS) in China and economic reform in early 1990s in India has been evaluated.

The first essay examines the effects of both fiscal decentralization and horizontal fiscal equalization on economic growth in China, particularly the effect of Tax Sharing System reform since 1994. Compared with previous studies, with a much more complete dataset, better measurements and diverse methods, we find out that there is no substantial evidence of trade-off between horizontal fiscal equalization and growth; instead, a weak positive relationship between them is captured. The Tax Sharing System reform since 1994 has contributed to both economic growth and horizontal fiscal equalization interplay with fiscal decentralization.

The second essay examines the effects of both fiscal decentralization and horizontal fiscal equalization on economic growth in India, particularly the effect of Economic Reform since 1991. Using data covering from 1980 to 2005 and applying extreme-bounds analysis, we find out that fiscal decentralization has a positive effect on economic growth while a negative effect on horizontal fiscal equalization in India. These effects are both quantitatively and economically significant. In the meanwhile, there is no trade-off evidence between horizontal fiscal equalization and economic growth; instead, a mutually enhancing relationship has been detected. In addition, Economic Reform since 1991 has contributed to economic growth, although lowered horizontal fiscal equalization on the whole.