THEIR VIEW

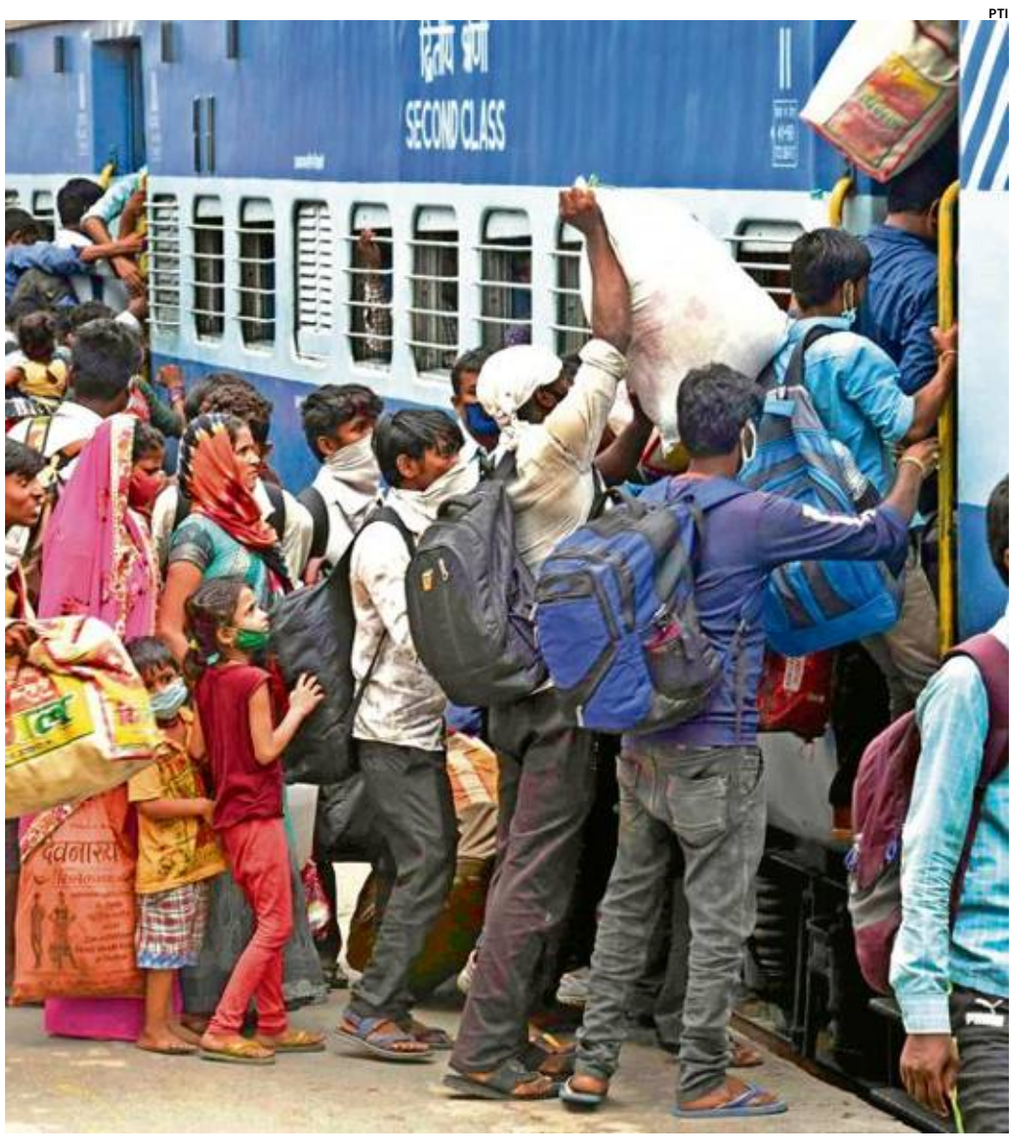
# India's economic activity faces an 'unequal geography' problem

*Productive activity is concentrated in a few states, and regions within them, thus driving income inequality in the country*



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PTI




There are breathtaking differences in the scale of economic activity across and within the states of India, and policymakers need to address this unequal geography.

Among the major states, the two richest, Goa and Gujarat, have per capita incomes 10 times and six times that of Bihar, respectively. The top ranked five states account for as much as 50% of India's total gross domestic product (GDP) while the bottom five account for only about 10%. In exports, the top ranked three states—Gujarat, Maharashtra and Tamil Nadu—account for 55% of total exports. The 10 states ranked at the bottom account for less than half-a-percent each.

In investment projects, just three states—Maharashtra, Gujarat and Karnataka—account for over 41% of the total number of projects. The same three states, along with Tamil Nadu, also account for over 62% of total bank credit and 52% of bank deposits. At the opposite end, each of the lowest-ranked 10 states accounts for less than 1% of total bank credit and seven of them have less than 1% of bank deposits.

This sharp concentration of economic activity is also visible at a more granular level when comparing districts within states. Among the better-off states, the district of Bengaluru Urban alone accounts for 40% of Karnataka's gross state domestic product (GSDP). In Telangana, just two districts—Rangareddy and Hyderabad Metropolitan district—account for 35% of the state's GSDP. Similarly, Mumbai and Thane together account for 35% of the GSDP of Maharashtra. Among the poorer states, just three districts in Uttar Pradesh—Gautam Buddha Nagar, Lucknow and Ghaziabad—together account for nearly a quarter of the state's total GSDP. In Rajasthan, Jaipur alone accounts for 15% of GSDP.

In exports, while Gujarat accounts for 77% of total petroleum exports, Jamnagar district accounts for 67%. The world's largest refinery, owned by Reliance Industries, is located there. In electronics, Tamil Nadu accounts for 42% of total exports while the single district of Kanchipuram accounts for 35%. In gems and jewellery exports, Maharashtra accounts for 46% of total exports while the Mumbai Suburban district alone accounts for 38%.

Investment projects also demonstrate extreme concentration. Of the districts currently having investment projects, 115 of them have only one project in 2025-26. Districts having 1-10 projects, the norm, account for 86% of all investment projects. But at the top-end, Mumbai alone has 152 projects, Pune has 127, Bengaluru 87 and Bharuch and Dhar 81 each. Credit flows are similarly concentrated.

Paul Krugman won the Nobel prize for his new theory of economic geography, that competitive market forces would lead to spatial concentration of economic activity, or divergence rather than convergence across regions. The evidence presented demonstrates how this market-driven process of spatial concentration of economic activity is powerfully at work in India.

Much of the wealth and income inequality in the country stems from this unequal geography of economic activity. Since market forces are driving this rising inequality across space, public policy needs to "lean against the wind" and reverse or contain such rising spatial inequality. What policy instruments do we have to deploy such a strategy?

The flow of bank credit, bank deposits, state government revenues and expenditure are all highly correlated with the spatial distribution of economic activity. Conventional monetary or fiscal policy instruments, thus, tend to reinforce rather than contain concentration. Here, the role of the Finance Commissions is important. The Constitution mandates the Finance Commission to address the horizontal imbalance across states, and Finance Commission awards have indeed had an equalizing effect. However, this impact has been very limited compared to the strong impact of market forces in the opposite direction.

Thus, it is likely that the concentration of economic activity will persist, divergence between the advanced and less-developed states will increase and there will be a growing flow of workers from the less-developed states to the advanced. Many village studies confirm this. Urban local governments in the advanced states need to be adequately empowered and resourced to create the infrastructure to absorb such migration: housing, water supply and sanitation, power supply, public transport and communications.

There is a sharp contrast here between India and China. The provincial governments in China are not as important as the urban local governments, which are very powerful bodies, raise their own resources and are highly competitive with one another in order to attract private investment. In India, in contrast, a conflict of interest in power sharing between elected legislators of state governments and local bodies has left the latter with very little power and weak capacity.

Constitutionally, the Finance Commissions cannot directly assist local governments. However, the horizontal devolution formula can be used, with adequate weights, wherein the states are incentivized to contain the concentration of economic activity within their territories by empowering the local governments.

*These are the author's personal views.*

**QUICK READ**

Strong market forces driving this concentration indicate the skew will stay and so lead to migration to developed states. Urban local bodies must be empowered and funded to absorb their flows.

The Finance Commissions have a role. They can't fund local bodies directly under their mandate but can incentivize states to work on preventing economic concentration.

MINT CURATOR

# Starlink vs Jio: Match national priorities to win Indian favour

*Foreign firms must understand what the country wants from them*



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The government can't finance the country's transformation alone. BLOOMBERG

When Jio began trading on Wednesday, its $107 billion valuation put a price on several bets at once: Mukesh Ambani's wager that cheap data could underpin the digital economy of 1.5 billion people; Google and Meta's decision to back him; and Prime Minister Narendra Modi's digital push.

Elon Musk should watch closely. The SpaceX CEO has suggested Ambani's rise owes something to crony capitalism. That misses the more useful lesson for any global firm trying to crack a market that's long been hard to read and harder to profit from: In India, the surest route to commercial success increasingly runs through the government's strategic priorities.

Jio understood that early. Making connectivity cheap and ubiquitous wasn't just a commercial proposition; it served one of New Delhi's central development goals. Reliance deployed billions of dollars in capital, drove data prices to among the world's lowest and in the process amassed more than 500 million customers. The government got infrastructure it could never have financed as quickly on its own. Reliance got a market of extraordinary scale. That symbiosis shows how Indian capitalism works.

Over 12 years, the old idea that government has no business in business has given way to a muscular partnership between the state and private capital. Industrial policy has shifted from protecting small firms towards cultivating firms big enough to make big bets. The logic is that the state can't finance India's transformation alone, so it uses incentives, procurement, strategic investment, regulation and even coercion to draw private capital behind its goals.

The deal isn't without risks. When commercial success depends heavily on alignment with government priorities, the line between industrial policy and favouritism becomes harder to ascertain. Firms with the capital, political access and patience to help New Delhi achieve its goals can acquire advantages rivals struggle to match. That's why Musk's complaint resonates. But moaning about the system isn't a strategy.

Foreign firms aren't shut out. They simply have to understand what the people of India want from them. One route is to back a company already positioned at the centre of a national priority. Meta, Google and other investors put about $20 billion into Jio in 2020, while covid was inflicting a massive economic cost and its cheap-data model was still being tested. They were betting on India's digital transformation.

The other route is harder: Behave like a national champion yourself. That means bringing enough capital, technology and staying power to solve a problem the government considers important. And doing it at a price that works.

Foreign firms have long understood one part of that equation. McDonald's created the McAloo Tikki Burger. Hyundai designed cars with Indian consumers in mind. Samsung adapted appliances to local habits. Chevrolet, Datsun and Carrefour, by contrast, are reminders that global scale and a famous brand don't guarantee success. A product with cult status elsewhere doesn't amount to much if it doesn't solve an Indian problem at a local price.

Under the current government, however, localization isn't enough. The more consequential question is which national priority your investment serves. For Jio, the answer was digital connectivity. For other firms it might be electronics manufacturing, semiconductors, AI, renewable energy or defence. New Delhi has made it increasingly clear where it wants capital and technology deployed. Companies that can align their commercial ambitions with those goals start with an advantage.

Alignment only gets you started, though. Jio's next phase—rolling out its digital offering and launching 1,600 satellites—will expose it to market realities no national-champion status can shield it from: technological disruption, changing consumer behaviour and regulatory setbacks. It must deliver margins that satisfy shareholders without abandoning the cheap data prices on which its empire was built. A public listing will only increase that pressure.

Which brings us back to Musk. Could SpaceX's Starlink succeed in India? Certainly. But permission to sell satellite broadband won't be enough. Starlink would need to convince both New Delhi and Indian customers that its commitment is durable rather than transactional. It would need an Indian operation capable of delivering even if US policy shifts. And it would have to pair high-quality service with Indian-level prices and sustain that commitment for years, perhaps on negligible profits.

If Starlink can do all that, it can compete with Jio. But that would require the company to stop treating India simply as a market to enter and start treating it as a national project. ©BLOOMBERG

GUEST VIEW

# *We need economic growth with Indian characteristics*

SALMAN SOZ



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Imagine a young woman walking into a gleaming office tower in Bengaluru. She has an offer letter to join a top company in India's celebrated information technology industry, which earned revenues of about $283 billion in 2024-25 and employs 5.8 million Indians. Her starting salary is ₹3.6 lakh a year. Given India's notoriously difficult job market, she counts herself lucky.

What she probably doesn't know is that in 2010, the same company offered freshers ₹3.25 lakh a year. Her pay is marginally higher than what her predecessors earned 15 years ago. Prices, meanwhile, have more than doubled. In real terms, her starting salary is half of what it was in 2010.

Stagnant real wages for large sections of India's workforce have become a feature of the economy. The government's own Economic Survey concedes that for salaried and self-employed workers, real earnings in 2023-24 had still not recovered to their 2017-18 level. Every month, the government's Labour Bureau records wages for myriad occupations, from ploughing and harvesting to carpentry and construction. Adjusted for inflation, those wages have barely moved in a decade. Economists Arindam Das and Jean Drèze, using Labour Bureau data, found that inflation-adjusted rural wages grew barely above zero percent a year over the decade to 2023-24.

The situation has worsened lately. Between 2019 and 2024, rural wages rose 5.2% a year in rupees but fell 0.4% a year once inflation is taken into account. But it was not always like this. Between October 2007 and October 2013, a Reserve Bank of India working paper found that average growth in nominal agricultural and non-agricultural wages outpaced inflation by about 7 percentage points. Such high real wage growth has not been seen since.

The plight of the Indian worker stands in stark contrast to the fortunes of corporate India. In 2025-26, profits of the Nifty 500 companies rose to 5.2% of GDP, an all-time high. The government's Economic Survey reports that listed companies' profits nearly tripled between 2020-21 and 2024-25, from ₹2.5 trillion to ₹7.1 trillion (roughly $34 billion to $84 billion).

How does this compare to China? In 2008, migrant workers earned about 1,340 yuan a month. By 2024, they earned 5,634 yuan. That is about three times as much after adjusting for inflation. Further, the International Labour Organization (ILO) found that Chinese urban wages more than tripled in the decade to 2010. That means the wage growth in recent times has been on the back of already growing incomes. The Chinese economy grew and incomes of workers grew with it, while India's economy grew but worker incomes stagnated.

The government is not unaware of any of this. Speaking at the All India Management Association in September, the chief economic advisor told corporate India that "growth changes the country only when it is shared honestly between those who do the work and those who put up the money." He went on to argue that "...if we held down wages, delay paying suppliers, and keep the difference as profit, that becomes self-defeating." The finance minister, addressing the same convention later, said India's next phase of consumption growth would be driven by wage growth and upward mobility, and cautioned companies against building their strategy around affluent urban buyers alone.

But these comments are no substitute for policy. And they come without the balm of acknowledgment of a lost decade of wage stagnation. Instead of exhortations that make them sound helpless, perhaps our policymakers should reflect on their policy choices. In 2019, the government gave corporate India one of the biggest tax cuts ever, with ₹1.45 trillion a year in forgone revenue. The Prime Minister tweeted that "The step to cut corporate tax is historic. It will give a great stimulus to #MakeInIndia, attract private investment from across the globe, improve competitiveness of our private sector, create more jobs and result in a win-win for 130 crore Indians." The promised broad-based investment boom did not follow on anything like the scale advertised, and the mixed evidence on corporate tax cuts did not justify the certainty with which those claims were made.

The lesson from other countries is that wage growth is a policy choice. Vietnam, which competes with India for factories leaving China, offers the clearest example. Every year, it revises the minimum wage, keeping in mind living costs and inflation. It raised the floor by 6% in 2024 and 7.2% in 2026, and has recommended a 7.8% increase for 2027. Meanwhile, investment has been strong. China's Communist Party has written into its latest five-year plan that a greater share of national income should go to those who work, and that wages should rise at a reasonable rate. This in a country where the average factory worker is far better-off than their Indian counterpart. Meanwhile, India's government asks its companies to be fair and leaves it at that. Exhortation is not policy.

Following the release of the gross domestic product data for the first-quarter of 2026-27, the Prime Minister asked the country to celebrate India's 7.8% growth rate. But a growth rate is not an end, and it is time we looked at India's growth model more critically. We must ask what use is the economic growth that is disconnected from personal growth.

**QUICK READ**

India's flashy headline GDP figures don't reveal the pain underneath. Real incomes haven't risen in years even as corporate profits have swollen thanks to tax cuts.

In contrast, competing economies such as Vietnam have seen real incomes rise. India could follow their model and adjust wages regularly based on living costs to benefit workers.