SOCIO-ECONOMIC VOICES

India's Silent Divide - Expert Shares Why Some States Soar, Others Stall

Shishir Gupta,
Senior Fellow, Centre for Social and Economic Progress (CSEP)

Private Money, Public Hesitation - Why India's CapEx Boom Stalled

Intro: India's growth story is full of contradictions — states racing ahead while others crawl, corporates flush with profits yet hesitant to invest and women still missing from the workforce despite rising education. What explains these paradoxes? In this sharp and revealing conversation, senior journalist **Mahima Sharma** sits down with **Shishir Gupta, Senior Fellow, Centre for Social and Economic Progress (CSEP).** Together they decode India's uneven state growth, corporate caution and the quiet revolutions shaping our economic future. Read the exclusive at this week's **Socio-economic Voices** on **Indiastat**.

MS: Which ones are the leaders and laggards in state growth in India over the last 20-30 years?

SG: If we analyse the per capita growth performance of states since the 1991 reforms (1994-2020), three distinct growth archetypes emerge. **Fast, Average and Slow.**

Fast-growing states recorded an annual per capita GDP growth of more than **5.4 per cent**, while states with annual per capita growth of less than **4 per cent** are classified as **slow-growing during the period and those in between are classified as average-growing.**

Eight states fall into the fast-growing category, with six each in the average and slow-growing categories. **Fast states** comprise Gujarat, TN and Karnataka, among others. **Average growing states** include Maharashtra, Odisha, and Rajasthan. The **cohort of the slow-growing states** includes Jharkhand, Chhattisgarh, Assam and a few others. Finally, there is a moderate positive correlation between income per capita and per capita growth. This is indicating that the process of income convergence has not started within Indian states.

MS: What are the key drivers of state growth in India in the last 5 years? Do all states have the same growth model - if not, what all steps the lagging ones can follow?

SG: There are two main drivers of state growth: strong growth attributes and specialised key economic centres (or, large cities). The growth attributes include physical capital like road density, social capital like gross enrollment in tertiary education and quality of governance like labour market flexibility. Key Economic Centres (KECs) are districts comprising million-plus urban agglomerations (UAs), plus the capital cities. A few salient points emerge from this framework.

No one-size-fits-all state growth strategy. Growth attributes serve as foundational elements, while KECs are catalysts. States must determine their growth strategy based on where they lie on these two axes. A state like Maharashtra needs to revitalise its KECs, whereas Haryana needs to focus on strengthening its attributes.

States have a pivotal role in improving both the growth axes. Of the nine identified growth attributes, six are in the State List. Likewise, KECs are large urban centres, generally governed by Urban Local Bodies (ULBs), which fall

under state government jurisdiction.

MS: Despite a 66% increase in capex over four years, why do you think private companies remain cautious about large-scale investments?

SG: Corporate investment (CapEx) is the main engine of overall investment in India. During the **“Surge” years of 2004–08,** companies invested about 16% of GDP (Gupta & Sachdeva, 2022). By 2019–20, this fell to 11% and has stayed around that level since. This slowdown is puzzling because the basics for new investments already exist. Companies are earning well, with profit-to-sales ratios at **7% in 2023, and banks are strong, with NPAs down to 2.5% (RBI, 2025).**

The reason for the corporation’s indifference towards investment lies not in its lack of ability, but in its lack of willingness to invest (Gupta & Sachdeva, 2025). The latter is dependent on the growth outlook firms have about the future. In the mid-2000s, India’s growth outlook was around 8 per cent. This gave firms the confidence to commit capital aggressively. **Contemporary growth outlook is closer to 6.5 percent** as mentioned above, tempering the animal spirits and keeping capacity creation more measured. Corporate India’s lukewarm response to investment, thus, reflects a rational response to its perception of tepid future demand growth.

MS: With private capex reaching ₹6.56 trillion in FY24–25, what sectors do you believe will attract the most investment in the coming years?

SG: Three/Four sets of sectors are likely to do well over the next 2-3 years.

- First, sectors covered under the production-linked incentives (PLI), especially electronics manufacturing and semiconductors.
- Second, there is likely to be a push to build urban infrastructure in the future. Thus, construction and service provider companies in that space should attract investment.
- Third, digitisation is likely to grow unabated. Consequently, tech service providers should do well. One dark horse could be the companies related to defence manufacturing, given the geopolitical sensitivities.

MS: With geopolitical uncertainties and global economic shifts, how can Indian businesses mitigate risks associated with large capital expenditures?

GS: The global centre of activity began shifting to the East some time back. According to most estimates, emerging and developing Asia is expected to contribute 40-50% of the incremental GDP over the next 3-5 years. The rise in Asia is happening in an era of unprecedented turmoil in the broader global economy, characterised by a slowdown in international trade and the rise of protectionism in the name of industrial policies. In contrast to the actual annual global trade growth of 3.5% over the last decade, the IMF projects global trade to grow at 2.7% over the foreseeable future (2023-2028).

In this uncertain and slowing economic environment, Indian businesses need to **focus extra hard on maintaining global competitiveness.** Along with that, they should actively look to **diversify their customer base** to avoid over-indexation on select geographies. The government can help in this by ushering in a process of factor reforms to **reduce the cost of capital, labour and land for the businesses.** And also by signing **bilateral free trade agreements (FTA) like the one with the UK** and joining the regional trading blocs like **RCEP or the CPTPP.** Not only will this give market access to Indian businesses, but it will also give **policy stability and clarity,** which will go a long way in pushing large-scale investment.

MS: What strategies can be employed to ensure that the anticipated $800–850 billion private capex over the next five years translates into sustainable economic growth?

SG: There are two main components of capital formation: creation of physical assets (factories, offices, roads, ports, etc.) and the building of plants and equipment. Steel and cement are critical for the former, while also significant for the latter. Thus, for private capex to be sustainable, India needs to make efforts at decarbonising the steel and cement sectors on a priority basis.

According to a recent CSEP Working Paper by Raj and Mohan (2025), out of a total of $ 467 billion required for decarbonising the four key sectors (cement, steel, energy and road transport) **between 2022-2030, about 80% will be required by the first two only.** This is because steel and cement are hard-to-abate sectors due to their energy-intensive and emission-intensive production processes. Steel and cement being largely privately owned in India, efforts at decarbonising these sectors would have to come largely from the private sector. In view of the positive externalities of mitigating emissions effectively, private investment in these sectors should be incentivised.

MS: With India's GDP growth projected at 6.5% for FY26, what strategies should be adopted to sustain this momentum in the long term?

SG: India invests around 30% of its GDP and it has an incremental capital output ratio (ICOR) of around 4.5. This gives India a long-term growth trajectory of around 6.5%. While this is respectable compared to the growth outlook for most other major economies, it is not good enough, given our aspiration of becoming a developed country by 2047. Becoming Viksit Bharat by 2047 necessitates us to increase our average annual GDP growth from now till 2047 to 8%. Upping the growth trajectory will **require significantly higher investment.** This, in turn, requires greater demand to **justify higher investment.** Global trade offers unlimited demand potential for our goods and services. Tapping it will require us to **become more competitive.** This calls for the next round of **structural reforms involving land, labour, capital and governance.**

MS: Given that only 15.9% of working Indian women have salaried or contracted jobs, what policies can enhance access to formal employment?

SG: Indian women's lack of presence in formal jobs is symptomatic of their low labour force participation (LFPR) in general. **At around 33 per cent, female LFPR is low in India compared to the average for lower-middle-income countries at 41%.** Female LFPR is a function of societal norms and demand for labour. However, more often than not, discussion in India has focused on the constraints relating to the norms only. **This conclusion passes the smell test also:** Indian women spend eight times more time than men on unpaid care work, compared to a global average of three times. **India ranks 120th out of 146 countries in terms of wage equality for men and women.**

But what about the demand for labour and its impact on the employment of women in India? Surely, it can't be a coincidence that peer countries with higher female participation also have a higher share of labour-intensive industries in their GDP and employment. **Female LFPR in any country** is a result of its female-intensive employment, labour intensity of the overall economy and the level of economic development. Since the level of economic development does not differ much among peer countries, we focus on the impact of the first two factors to disentangle their impacts on female LFPR. A quick comparison with Bangladesh and the Philippines is helpful to illustrate these dynamics. **If India had Bangladesh's and the Philippines'** female intensity, its female LFPR would rise to 37 percent and 43 percent respectively, higher from its current level of 33 percent. But a far cry from the LFPR of these countries at 44 and 50 percent, points to the significance of demand side factors in explaining the overall in female LFPR.

MS: Considering the global average female labour force participation is 47.2%, what strategies can India adopt to close this gap? What lessons can India learn from countries with higher female labour force participation rates to implement locally relevant solutions?

SG: As argued above, female participation is low in India as a confluence of stringent societal norms and a lack of labour demand. Since norms take a long time to change and are more organic in nature, it's better to focus on alleviating the labour demand constraints in the short run, to push employment, raise income. This will in-turn help ease the norms over time. So, what can be done to improve the labour demand? Improving the quality of labour and the laws that are associated with hiring and laying off workers - appear as good first steps.

India's quality of education leaves much to be desired. It can be assessed from the Annual Status of Education Report learning tests in reading and arithmetic. **Students passing the learning levels in the 3rd grade reading tests and arithmetic were at 23% and 33% respectively.** Thus, improving the quality of labour will encourage firms to hire more, ceteris paribus. Likewise, it is no secret that Indian firms operate under onerous labour laws. As a result, close to 15 percent of firms in India cite labour laws as a major or very severe constraint, compared to just 3.4 percent in Bangladesh and 6.4 percent in the Philippines. **Bringing flexibility in labour laws** will incentivise the firms to hire labour more freely. This would be pushing up employment and in the process, female participation.

A quick peek into Bangladesh's evolution of female LFPR highlights the importance of the demand-side factors more clearly. In the year 1990, both India and Bangladesh had similar women's participation rates at 30 and 25 percent, respectively. The success of Bangladesh's export-driven Ready-Made Garment industry (RMG) has played a pivotal role in enabling this increase. In 1983, RMG exports accounted for only 4 percent of Bangladesh's total exports, which increased to 81 percent in 2021, amounting to USD 42 billion. Over 60 percent of the RMG sector's employees are female (Export Promotion Bureau Bangladesh 2021). Without this meteoric rise in the RMG industry, Bangladesh's female participation would have been approximately 38 percent (and not 44 percent). The lesson for us is clear, ceteris paribus, a more employment-intensive growth path is better from a female participation perspective also.

Key References:

- CSEP Working Paper, Decoding State Growth, April 2025
- CSEP Working Paper, Decoding State Growth
- Ideas for India article: Why Next Generation Reforms are Critical for Reviving Investment
- CSEP Working Paper, India's New Growth Recipe, 2022
- Article for Ideas for India - Why Next Generation Reforms are Crucial for Reviving Investment.

About Shishir Gupta

Shishir Gupta is the Senior Fellow at CSEP, New Delhi. His work covers many parts of India's economy, including growth, gender, digital change and urban development. Before joining CSEP, he worked for 14 years at the McKinsey Global Institute. He aims to make a real impact through policy work. Shishir holds an MA and MPhil in Economics from the Delhi School of Economics.

About the Interviewer

Mahima Sharma is an Independent Journalist based in Delhi NCR. She has been in the field of TV, Print & Online Journalism since 2005 and previously an additional three years in allied media. In her span of work she has been associated with CNN-News18, ANI - Asian News International (A collaboration with Reuters), Voice of India, Hindustan Times and various other top media brands of their times. In recent times, she has diversified her work as a Digital Media Marketing Consultant & Content Strategist as well. Starting March 2021, she is also a pan-India Entrepreneurship Education Mentor at Women Will - An Entrepreneurship Program by Google in Collaboration with SHEROES. Mahima can be reached at media@indiastat.com

Disclaimer: The facts & statistics, the work profile details of the protagonist and the opinions appearing in the answers do not reflect the views of Indiastat or the Journalist. Indiastat or the Journalist do not hold any responsibility or liability for the same.

INDIASTAT INITIATIVES

A storehouse of socio-economic statistical of 620 districts. A cluster of 11 associate websites

indiastatelections

Provides election data for all 543 parliamentary and 4120 state assembly constituencies

indiastatpublications

A collection of election and reference books in print, ebook & web based access formats

indiastatquiz

An initiative to promote election awareness by collaborating with election offices to conduct engaging quizzes.

24 years of serving socio-economic and electoral research fraternity in india and abroad

© Datanet India Pvt. Ltd.