The Spatial Paradox

Re-architecting India's Urban and Industrial Future

EJAZ GHANI

As India charts its ambitious course to achieve "Viksit Bharat" —developed nation status by 2047—the success of this mission is inextricably linked to the ability of its urban centres to function effectively as powerful engines of economic growth. It is argued that this spatial paradox is not a result of market forces alone but is a direct consequence of a systemic and persistent governance deficit. A two-pronged spatial strategy is proposed for managing high-density service hubs and empowering small towns as new engines of industrialisation.

Ejaz Ghani (*eghaniwb@gmail.com*) is with Pune International Development Centre.

On the outskirts of India's great metropolises, from Bengaluru to Gurugram, stand the gleaming glass and steel testaments to the nation's economic ascent. Sprawling IT parks and corporate campuses generate billions in annual revenue, connecting India's formidable talent to the global digital economy. Yet, the roads leading to these symbols of prosperity often tell a different story—one of chronic neglect. They are frequently rutted, potholed, and unlit, flooding with the first hint of rain and choked with a chaotic standstill of traffic that bleeds hours from the workday. This is not a mere civic inconvenience; it is the most visible symptom of India's great urban paradox: its cities are crucibles of immense economic wealth, but their governments are among the most financially impoverished in the developing world.

As India charts its ambitious course to achieve "Viksit Bharat"—developed nation status by 2047 2047 (NITI Ayog 2018) —this paradox has escalated from a persistent problem into a first-order constraint on national destiny. The urban centres that generate over two-thirds of the nation's GDP are meant to be the powerful, high-performance engines of this mission. Instead, they are sputtering, starved of the fiscal fuel required to build world-class infrastructure, deliver reliable public services, and create a quality of life that can attract and retain high-skilled talent. The consequences are profound: a drag on productivity, a diminished standard of living for hundreds of millions, and a strategic vulnerability in an increasingly competitive global landscape.

This deep-seated ailment is not, as is often assumed, a simple problem of insufficient resources. The wealth is there, circulating within the city limits. Rather, it is a profound and persistent failure of governance, born from a system that has systematically stripped city governments of their autonomy and power (North 1990; Acemoglu and Robinson 2012). To fix our cities, we must first fix the broken institutional architecture that governs them.

This requires moving beyond the incremental schemes and discretionary grants that have defined urban policy for decades (Ahluwalia 2019). It demands a holistic re-engineering of urban governance itself. This article presents such a blueprint. It argues for a comprehensive reform agenda centred on the "4F" framework: empowering the functions of city governments to create clear lines of accountability; fixing their finances to build genuine self-reliance; investing in professional functionaries to build deep institutional capacity; and building the digital foundation of data and technology, that is, the bedrock of 21st-century governance. This is not merely a plan for better cities; it is a prerequisite for a developed India.

Diagnosis: Dual City and Resilience Deficit

India's economic growth story is often told through the narrative of its rising cities, hubs of innovation, and wealth creation. However, a closer look at the nation's spatial development reveals a unique and deeply troubling paradox that challenges conventional urban theory. This section empirically deconstructs this "dual city" phenomenon, a lopsided growth pattern that is creating a profound resilience deficit.

De-urbanisation of manufacturing: Urbanisation has long been recognised as a key ingredient in industrialisation and growth (Desmet et al 2015). Traditional theory, rooted in concepts of agglomeration economies, suggests that both manufacturing and services should cluster in cities to benefit from knowledge spillovers, deep labour pools, and shared infrastructure. In the early 1990s, following India's economic liberalisation, this pattern held true. However, a significant divergence has occurred since 2000, with the pace of de-urbanisation of manufacturing gathering momentum (Ghani et el 2012).

Our spatial-econometric analysis, drawing on research using firm-level data from the Annual Survey of Industries (ASI) and the National Sample Survey Office (NSSO), reveals this "Dual City" phenomenon (Desmet et al 2015):

(i) The services sector is exhibiting classical agglomeration, with a high and increasing concentration in large, high-density urban metros like Bengaluru, Mumbai, and the NCR.

(ii) The manufacturing sector, especially the organised, land-intensive segment, is moving in the opposite direction. It is increasingly being located in smaller towns and rural areas, a trend of de-urbanisation that is highly unusual for a nation at India's stage of development.

This de-urbanisation is not a sign of failure but of an "efficient decentralisation" driven by the "demons of congestion and high land costs" in large cities. The Golden Quadrilateral highway project provides a powerful case study for this phenomenon. Our research shows that districts located within 10 km of the Golden Quadrilateral network experienced a substantial 49% overall output increase and a more than 100% increase in new establishment counts in moderate-density districts (Ghani et al 2012). This confirms that infrastructure investments, particularly roads, can enable an efficient spatial sorting of industries away from large, congested cities.

Furthermore, we find that this new spatial pattern is tied to a crucial change in economic structure. While specialisation was a key driver of growth in the early post-liberalisation period, job growth post 2000 has been more closely linked to diversification than specialisation (Desmet et al 2015). Cities and districts that are more diversified have experienced greater employment growth, and this effect is particularly sharp in the unorganised sector and in rural areas.

Lopsided agenda: The de-urbanisation of manufacturing presents a historic opportunity to drive an inclusive rural transformation. Small towns are the key urban–rural interface, serving as natural growth centres for industrial jobs that can directly benefit the surrounding agrarian economy. However, national and state policy has largely failed to recognise this reality. The policy agenda remains lopsided, focused almost exclusively on the challenges of large metros (Sridhar 2010).

This focus creates a systemic failure in urban–rural linkages. The industrial growth in these smaller towns fails to translate into a robust transformation of the surrounding rural economy because the towns themselves lack the institutional and infrastructural capacity to support it. They are engines of economic activity without the foundational civic and social infrastructure to thrive. This neglect perpetuates a vicious cycle of poverty and inequality, as the benefits of industrial growth do not diffuse inclusively.

Urban ecological time bomb: The urban resilience deficit is not just an economic problem; it is a profound ecological one. The unplanned and unmanaged growth of India's cities, combined with the spatial dispersion of manufacturing, has created an urban ecological time bomb.

Our analysis, using data from the Central Pollution Control Board (CPCB), shows that industry is responsible for 70% of local air pollution in major Indian cities (Greenstone and Hanna 2021). While the de-urbanisation of manufacturing may offer a respite for these cities, it raises a significant new concern: the greenhouse gas implications of industrial sprawl (Glaeser and Kahn 2010). As factories move to locations with cheaper land and potentially weaker environmental regulations, their energy consumption per worker may increase, and if that energy is generated by coal, it could lead to a net increase in carbon emissions.

This ecological crisis is compounded by the effects of climate change. Urban floods, heat stress, and water scarcity are becoming a new normal, driven by a combination of global warming and a failure in local infrastructure. This ecological time bomb is a direct threat to social and economic stability, framing urbanisation as a core climate challenge for the nation.

Brutal gradient: The consequences of this spatial and ecological paradox are most visible in the widening chasm of urban inequality. The lack of a strategic, inclusive urbanisation policy has created a "brutal gradient" where a city's economic vibrancy coexists with profound social and economic exclusion (GoI b various years).

India's urbanisation is overwhelmingly informal. Our analysis shows that a majority of the urban workforce is employed in the unorganised sector (Kanbur and Ghani 2013). However, urban planning, land allocation, and zoning regulations are almost exclusively designed for the formal economy, leaving the informal workforce without access to legal housing, credit, and civic services. An inclusionary approach to the urban informal economy is not just a social good but a prerequisite for a thriving, productive urban ecosystem.

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This inequality is not a random outcome but a systemic failure of governance. The "right to the city"—the right of all citizens to access urban resources and participate in urban life—is being denied to millions. This reinforces a cycle of poverty and inequality, making it the most profound institutional failure of India's urban promise.

Architecture of the Deficit

The diagnosis is clear. India's urban engine is sputtering not due to a lack of talent or capital, but because of a deep and persistent failure of its institutional and fiscal architecture.

Fiscal flatline: India's cities are the engines of economic growth, but their governments are among the most financially impoverished in the world. This is the "municipal finance paradox" (World Bank 2025). Our research shows that municipal revenue in India accounts for a mere 1% of the nation's GDP, compared to 7.4% in Brazil and an Organization for Economic Development and Co-operation (OECD) average of 16% (RBI 2024).

The most glaring symptom of this fiscal weakness is the failure of the property tax system. India's property tax collection is a mere 0.2% of GDP, compared to 1.8% in the OECD. Our econometric analysis points to a "collection efficiency" of as low as 5%, a devastating cascade of failures in valuation, coverage, and enforcement (World Bank 2025). This failure is a massive, untapped gold mine of revenue that could be unlocked through comprehensive reforms.

The fiscal weakness creates a "dependency trap" where cities, especially smaller ones, rely on unpredictable intergovernmental transfers for most of their revenue. This dependence, in turn, kills local accountability and long-term planning. The solution is to transform this system from a "dole to dividend," linking central grants to a city's performance on key fiscal reforms.

Governance vacuum: The financial crisis is a symptom of a deeper "governance vacuum." At its heart lies the systematic hollowing out of the 74th Constitutional Amendment Act of 1992. This landmark reform, which aimed to create a genuine third tier of government, has been betrayed. State governments have happily devolved responsibilities but have been reluctant to devolve the three things necessary to fulfil them: genuine financial powers (funds), administrative control (functions), and professional staff (functionaries).

This has resulted in a "deputation raj" where generalist bureaucrats are posted as municipal commissioners for short, one- or two-year tenures, preventing the development of a professional, empowered civic cadre. This lack of a permanent, specialised workforce is a profound institutional failure that a centrally-driven "Smart Cities" paradox has only exacerbated, often bypassing local governance and accountability.

The governance deficit is ultimately a political problem. We can model this using principal–agent theory, where the state governments act as principals and urban local bodies (ULBs) as agents

(North 1990). The current "contract" between them is deeply flawed, with states hoarding power and funds and ULBs left with "unfunded mandates." This misaligned incentive structure and a lack of accountability create a "state-municipal fiscal trap."

The solution is a new federal compact —a "grand bargain"—that uses a formal institutional mechanism to align the interests of both parties. This compact would rely on a new generation of state finance commissions (GoI a various years) and a new mechanism for intergovernmental fiscal transfers that links central funds to state-level performance on key urban reforms.

Policy-oriented Manifesto

The diagnosis is clear, and the urgency is palpable. This final section provides a detailed blueprint for re-architecting India's urban future, grounded in the "4F" framework.

(i) The vision for metros: A planning philosophy centred on creating resilient, high-density service hubs that can attract high-skilled talent and global investment while managing the challenges of congestion and climate change.

(ii) The blueprint for small towns: A targeted plan for empowering small towns to become effective engines of industrialisation and rural transformation, with a focus on institutional and infrastructural support that recognises their role as the "new growth centres" for manufacturing.

(iii) India Urban Digital Mission: An analysis of its potential and challenges, arguing for a bottom-up, community-led digital infrastructure that leverages the "India Stack" for service delivery (NITI Aayog 2018).

(iv) AI and urban services: Using AI to optimise service delivery (for example, waste management, traffic management) and resource allocation, with a focus on mitigating bias.

(v) Data for real-time governance: Leveraging urban data for real-time planning and citizen-centric services.

(vi) The war of narratives: A targeted communications strategy to reframe urban reform in the national interest.

(vii) Building the engine of reform: An institutional blueprint for a new urban development commission.

(viii) The strategy of sequencing: A phased roadmap for building political capital through early, visible wins.

In Conclusion

This article has argued that India's journey to Viksit Bharat is a marathon that will be won or lost in its cities. The chronic fiscal and governance deficits of these urban engines are no longer just developmental bottlenecks; they are a matter of national economic and ecological security. The "Dual City" spatial paradox, where manufacturing de-urbanises and small towns are left to fend for themselves, is a critical reality that must be addressed with a new, holistic, and two-pronged spatial strategy.

The solution is not another incremental scheme, but a holistic re-engineering of urban governance through the integrated "4F" framework of functions, finances, functionaries, and foundation. By empowering this framework, India can transform its dependent cities into "Aatmanirbhar Shehers"—self-reliant cities. This is the single-most important institutional reform agenda for securing India's future.

The recommendations are clear, the data is compelling, and the path is set. The final, missing ingredient is political will. The prize for success is the creation of a new generation of Indian cities: cities that are not just economically productive, but also livable, resilient, democratically vibrant, and truly self-reliant. Unleashing this urban potential is the courage to forge an unbreakable foundation upon which a truly developed, prosperous, and just Viksit Bharat can finally be built.

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