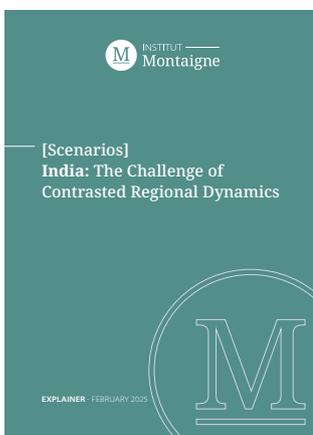


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[Scenarios] India: The Challenge of Contrasted Regional Dynamics



As Europe seeks to deepen its partnership with India—both as a hedge against global uncertainties and as part of a broader effort to reduce its dependence on China—an understanding of India’s internal development dynamics is essential. The success of this engagement, particularly for European companies investing in the country, will depend on how well they can navigate India’s regional complexities. To adopt a uniform approach is to risk overlooking the deep disparities that shape India’s political economy. Instead, pursuing a regionally informed strategy—one that accounts for the country’s various development

models—will allow **Europe to position itself as a key partner in India’s industrial transformation** while securing its own economic and geopolitical interests. As Europe expands its trade and technological cooperation with New Delhi, **it must recognize that India is not a single homogeneous market**. Where a company invests will determine the success of its operations, making an understanding of regional variations vital for long-term, sustainable engagement.

India’s economic landscape consists of multiple “Indias” within its borders, each shaped by distinct historical, political, and economic contexts. Beyond its federal structure, these disparities define the country’s trajectory, making a regionally focused analysis necessary. This note examines **Bihar, Gujarat, and Tamil Nadu** as illustrative examples of India’s diverse development models. While the North–South divide is often highlighted due to the southern states’ reluctance to subsidize the North, we also include the West for a more comprehensive analysis.

- **Bihar**, a northern state, remains entrenched in underdevelopment, struggling with poor infrastructure, low human capital investment, and persistent poverty.
- **Gujarat**, located in the West, represents a model of rapid industrial expansion driven by capital-intensive industries, infrastructure investment, and business-friendly policies—an approach that has yielded high growth but has also exacerbated socioeconomic inequalities.
- **Tamil Nadu**, in the South, prioritizes human capital development, with sustained investments in education, healthcare, and social welfare, leading to more inclusive growth and a resilient, high-tech, and rapidly industrializing economy.

Each serves as a prototype for its region: **the Hindi Belt, the West, and the South**. By comparing their policy choices and outcomes, the note highlights how governance, economic planning, and social investments drive regional growth and, in turn, influence India's broader path as a global economic power.

For European investors and policymakers, these divergences underscore the importance of a **tailored approach** to engagement with India. Although Tamil Nadu offers an attractive destination for industries dependent on human capital, Gujarat's industrial infrastructure may be more suited to large-scale manufacturing partnerships. Bihar's challenges, on the other hand, point to the need for development-oriented cooperation,

particularly in areas such as sustainable agriculture, digital inclusion, and infrastructure development.

This note takes a forward-looking approach by analyzing a range of key indicators and comparing them across Bihar, Gujarat, and Tamil Nadu, providing insights into the broader implications for India's future growth and its position in the global economy. It shows that the gap between the North and the rest of India will deepen in the coming decades: **by 2050, Bihar will still lag behind Tamil Nadu and Gujarat in every respect.**

India's regional inequalities are further exacerbated by its federal structure, which creates tensions over resource distribution and political representation. **Southern states like Tamil Nadu, which contribute disproportionately to India's economy, are increasingly contesting the fiscal transfers that subsidize less-developed northern states like Bihar.** This tension is expected to intensify with the likely upcoming **parliamentary seat redistribution** based on population growth, a move that could shift political power even more toward the North and marginalize the economically advanced southern states.

If Europe truly wants to position itself as a key partner in India's industrial transformation, it must **engage with the right regions, invest in long-term relationships, and adapt its strategies to India's evolving political and economic dynamics.**