



REMOTE WORK POLICY ADOPTION AND GEOGRAPHIC WAGE CONVERGENCE: WORK-LOCATION POLICY AS THE MEDIATOR OF WAGE ARBITRAGE IN SERVICES

HRM VARIABLE: WORK-LOCATION POLICY → ECONOMIC OUTCOME: WAGE CONVERGENCE

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ABSTRACT

Geographic wage differentials in tradable services rest on a spatial wedge: the same task is paid differently according to where the worker sits. Remote work policy is the firm-level instrument that determines whether that wedge can be exploited and whether, in exploiting it, firms compete it away. This article argues that arbitrage and convergence are the same process observed at different horizons, and that work-location policy governs its rate through three channels: the breadth of adoption, which sets how much demand reaches the low-wage location; the pay-setting rule, which determines whether the wedge survives inside the firm; and the coordination structure, which determines which tasks are relocatable at all. A systematic review of 71 studies and data sources, of which 29 supplied extractable quantitative parameters, establishes four findings. First, adoption has stabilised well short of borderlessness: work from home accounts for about a quarter of paid days in the United States and averages 1.5 days a week across twenty-seven countries, with India the highest at 2.6. Second, the wedge is large and largely unexplained by productivity: fully loaded senior engineering cost in India runs at roughly a quarter to a third of United States levels, and Indian Tier-2 cities sit 25 to 40 per cent below Tier-1, so most of the observed gap is arbitrage rent and friction rather than output difference. Third, partial adoption is asymmetric in its incidence: the firms that adopt first are high-wage firms hiring the upper tail of the low-wage location, which produces convergence at the top of the distribution and divergence within the location, a pattern that mean-wage convergence tests will not detect. Fourth, and most consequentially for India, the country with the highest work-from-home intensity in the international evidence is the one whose major services firms have tightened office attendance most sharply. The article explains this as an intermediation effect rather than a productivity one: Indian services providers earn on the wedge between onshore client rates and their own delivery cost, and genuinely borderless hiring disintermediates them, whereas captive global capability centres face the opposite incentive. It concludes that convergence in a borderless market would run principally through onshore wage compression rather than offshore wage inflation, that an irreducible friction wedge survives in time zone, jurisdiction, data residency and client-facing presence, and that the policy question for India is whether it captures the arbitrage as a durable capability rent or holds it as a cost advantage that convergence will erase.

KEYWORDS – Remote Work Policy; Wage Convergence; Geographic Wage Arbitrage; Work-Location Policy; Location-Based Pay; Offshoring; Global Capability Centres; Indian IT Services; Tier-2 Cities; Spatial Equilibrium; Human Resource Economics

I. INTRODUCTION

Two workers with the same skills, doing the same task, for the same client, are paid very differently according to where they are sitting. In tradable services this is not an anomaly at the margin but the organising fact of an industry. Fully loaded cost for a senior engineer in India runs at roughly a quarter to a third of the equivalent United States figure, a saving of the order of sixty-five to seventy-five per cent [1]. Within India, the same role in a Tier-2 city sits twenty-five to forty per cent below its Tier-1 equivalent [2]. An industry of considerable size is built on the persistence of these gaps: India's technology sector reached an estimated US\$282.6 billion in FY2025 with 5.8 million employees [3], and its global capability centres numbered 2,117 employing 2.36 million people at US\$98.4 billion of revenue by FY2026, a headcount expansion of thirty-two per cent since FY2021 [4].

Economic theory is unambiguous about what should happen to a price gap for an identical good once trade in that good becomes possible. It should close. The convergence

literature has documented the mechanism across regions for four decades, with the canonical estimate of conditional convergence at roughly two per cent per year [5]. Remote work is, in principle, exactly the trade-enabling technology that should close the wage gap for tasks that can be performed anywhere. Yet six years after the largest involuntary experiment in distributed work ever conducted, the gaps are intact and in some segments widening.

This article argues that the reason is not that the technology failed but that the arbitrage is mediated by an institution the convergence literature does not model: the firm's work-location policy. Whether a wage gap can be traded depends on whether firms permit hiring away from the office, on the rule by which they set pay for workers so hired, and on whether their internal coordination structure allows the task to be detached from a place. All three are managerial choices. Remote work policy is therefore not a welfare amenity bolted onto the employment relationship but the valve on a very



large flow of economic rent, and its design determines both who captures that rent and how quickly it dissipates.

1.1 Research questions

The study addresses four questions. First, what is the composition of the observed geographic wage gap in tradable services, and which of its components can remote work actually compete away? Second, through what channels does firm work-location policy mediate the exploitation of that gap? Third, what is the incidence of partial adoption — who converges toward whom, and who does not converge at all? Fourth, what would convergence look like under genuinely borderless hiring, and what does the answer imply for Indian services employment, which sits on both sides of the arbitrage at once?

1.2 Contribution

The article makes four contributions. It treats arbitrage and convergence as a single process observed at different horizons, so that the firm's private incentive to exploit a wage gap is identical to the mechanism that destroys it, and identifies work-location policy as the variable governing the rate. It shows that partial adoption is distributionally asymmetric in a way that standard mean-wage convergence tests cannot detect, producing simultaneous convergence at the top of the receiving location's distribution and divergence within it. It offers an intermediation explanation for the otherwise puzzling coincidence of the world's highest work-from-home intensity with the world's most assertive return-to-office mandates in the same national industry. And it argues that convergence under borderless hiring would proceed principally through onshore compression rather than offshore inflation, with an irreducible friction wedge that defines the durable, rather than the arbitrage-dependent, portion of India's position.

II. REVIEW OF LITERATURE

2.1 Geographic wage differentials and the convergence tradition

The convergence literature begins from the observation that poorer regions grow faster than richer ones, at a conditional rate close to two per cent a year [5]. That regularity broke down in the United States after 1980. Giannone [6] documents that wage convergence across American metropolitan areas fell from roughly 1.4 per cent a year over 1940 to 1980 to statistically indistinguishable from zero thereafter, and establishes the critical qualification that convergence stopped only for highly skilled workers while continuing for the less educated; skill-biased technical change interacting with local agglomeration accounts for about half the decline. Ganong and Shoag [7] attribute a substantial part of the same break to housing costs, which absorb the nominal wage advantage of high-productivity cities and choke off the migration that used to equalise wages. Hsieh and Moretti [8] price the resulting misallocation, estimating that housing constraints in a small number of high-productivity American cities lowered aggregate output growth materially over 1964 to 2009.

The common structure of these findings matters for the present argument. Convergence historically operated by moving workers to jobs, and it stalled when the cost of

moving — principally housing — rose faster than the wage gain from moving. Remote work proposes to restore convergence by moving jobs to workers instead, thereby bypassing the housing constraint entirely. Whether it does so is an empirical question about firm behaviour rather than about technology.

Locating this question within the wider labour-market setting, Sastry and Mallya [9] treat strategic human resource management as an instrument of economic resilience, arguing that skill diversification and the adaptability of the labour market determine how much of a technological or demand shock a workforce absorbs rather than transmits. Their framing bears directly on wage arbitrage. A location whose position rests on a single tradable cost advantage transmits a shock to that advantage straight into employment and earnings, whereas a diversified skill base absorbs it. Convergence, in their terms, is a shock to the cost advantage; whether it is absorbed depends on what else the location can do. Section VII returns to this point as the central policy question for Indian services employment.

2.2 Remote work adoption: the empirical state

Adoption has settled at a level far above the pre-pandemic baseline and far below anything that could be called borderless. In the United States, full days worked from home account for approximately a quarter of paid days in 2026, against 28 per cent in mid-2023 and about 7 per cent in 2019 [10, 11]. Arrangements over the past year divide into 62 per cent fully on-site, 26 per cent hybrid and 12 per cent fully remote, and employer plans of 1.3 to 1.5 work-from-home days a week have tracked actual practice closely since mid-2022 [11]. At firm level, the share of United States employers requiring full-time office attendance stood at about a third in recent tracking, having fallen from roughly half in 2023 before stabilising [12].

Internationally, the Global Survey of Working Arrangements finds a conditional mean of 1.5 work-from-home days a week across twenty-seven countries, ranging from 0.5 days in South Korea to 2.6 days in India, the highest in the sample [13]. Cross-country variation is explained principally by cumulative lockdown stringency and by employer and employee assessments of productivity during the pandemic experiment, with individual characteristics accounting for under twelve per cent of the variance. That India tops this distribution is a fact the present article returns to at length, because it sits awkwardly beside the office-attendance policies of India's own largest employers.

On effects, the evidence is more favourable than the retrenchment implies. Choudhury, Foroughi and Larson [14] exploit a quasi-random transition to work-from-anywhere at the United States Patent and Trademark Office and find a 4.4 per cent increase in output with no fall in quality. Bloom and colleagues [15] find in a randomised setting that home working raised performance and halved attrition. Barrero, Bloom and Davis [10] estimate that employees value the option of working from home two or three days a week at about eight per cent of pay, consistent with earlier revealed-preference estimates of what workers will forgo for schedule and location flexibility [28], and that employers reported a cumulative moderation of wage growth of 2.0 percentage points over two years attributable to expanded remote options



— direct evidence that the amenity is partly capitalised into wages rather than granted for nothing.

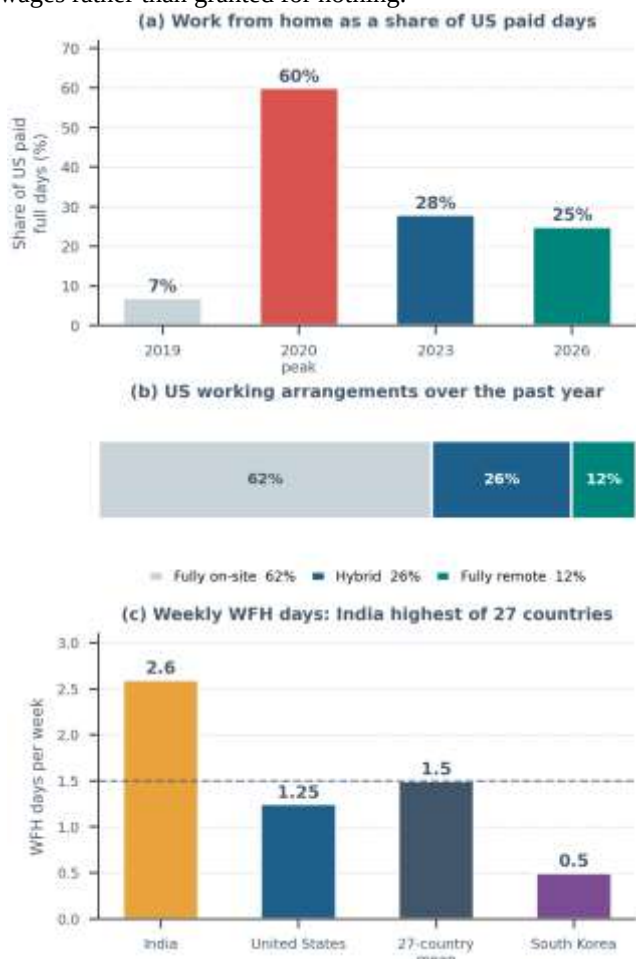


Figure 1: Work-from-home adoption — United States paid days and firm policy mix, and average weekly work-from-home days across countries

2.3 Work-location policy as a firm-level instrument

Between the technological possibility of remote work and the realisation of a wage arbitrage sits a set of specific managerial decisions: which roles may be performed away from an office, how far away, on what schedule, and with what supervisory arrangement. These decisions are not uniform across a firm, and they are not principally determined by the technical characteristics of the job. They are determined by how work is organised.

Sastry [16], examining the effect of departmental structure on task achievement, finds that achievement varies systematically with the arrangement of responsibility, reporting relationships and task boundaries across units rather than with the attributes of the individuals occupying posts within them. The implication for work-location policy is direct and, in this literature, largely unremarked. A task can be detached from a place only to the extent that its dependencies on other tasks are specified rather than negotiated in situ. Where departmental boundaries are clean and interfaces are explicit, relocation is cheap and the wage gap is tradable; where coordination is achieved by continuous informal adjustment, relocation imposes a coordination cost that offsets the wage saving. The tradability of a wage gap is therefore an organisational-design variable, and firms with

the same technology and the same wage differential will face different effective arbitrage opportunities according to how their departments are arranged.

2.4 Coordination cost and the reversal to office

The retrenchment of the past two years is usually explained by managerial preference or by real-estate commitments. A more economical explanation is that firms discovered the coordination cost of distributed work only after adopting it, and that the cost falls disproportionately on organisations that had not adjusted the distribution of authority to match the distribution of people.

Sastry and Ravish [17] provide the evidence for that mechanism. Examining the empowerment of employees through delegation and the provision of resources, they find that the two operate jointly: delegated responsibility unaccompanied by resource provision raises demand without raising the capacity to meet it, whereas the combination raises engagement and effectiveness. Distributed work is precisely a large increase in delegated responsibility, since a worker who cannot be observed must be trusted with decisions previously escalated. A firm that relocates work without devolving authority and supplying the corresponding resources therefore imports the demand side of that relationship without the capacity side, and experiences the result as a productivity problem attributable to remote work. In a companion study of delegated authority and resource provision as determinants of decision-making, the same authors [18] find that where authority is genuinely devolved and matched with resources, employees exercise initiative rather than escalating decisions upward. Read together, these results suggest that a substantial part of the observed return-to-office movement is a correction of an incomplete organisational change rather than a verdict on location independence, and that the firms which did adjust authority are the ones able to sustain a wider hiring radius.

2.5 The pay-setting rule and the survival of the wedge inside the firm

Once a firm hires away from its headquarters, it must choose a pay rule. Location-based pay indexes compensation to the employee's local market, preserving the geographic wedge inside the firm and allowing the employer to capture it. Role-based pay, national or global, sets compensation by the job rather than the postcode, transfers the wedge to the employee and destroys it for that firm's hires immediately. The choice has attracted attention mainly as a fairness controversy, most visibly when large technology employers announced location-indexed reductions for relocating staff [19]. Economically it is the single most consequential variable in the entire mechanism, because it determines whether an act of arbitrage transmits a price signal to the low-wage labour market at all.

The internal cost of location-based pay is not merely reputational, and Sastry [20] supplies the mechanism. In an empirical analysis of talent designation and social comparison as economic drivers of organisational growth, he shows that the designations an organisation confers become reference points against which employees evaluate their own position, and that the resulting comparisons carry real consequences for motivation and growth. Location-based pay



institutionalises exactly such a comparison, and does so on a dimension that has no relationship to contribution: two colleagues on the same team, doing indistinguishable work, are paid differently because of where their residential address happens to be. The social-comparison cost therefore rises with the visibility of the arrangement and with the integration of the distributed team, which explains why location-based pay is stable in outsourced and captive delivery structures, where the comparison group is local, and unstable in integrated global teams, where it is not. This is a firm-level prediction with an aggregate consequence: convergence proceeds fastest exactly where distributed teams are most integrated.

2.6 Sourcing technology and the effective hiring radius

Work-location policy sets the legal and managerial radius within which a firm will hire; sourcing capability determines the radius within which it can actually find and assess candidates. The second constraint has loosened considerably. Sastry and Mallya [21], studying artificial intelligence analytics in hiring, document improvements in screening efficiency and in the quality of candidate matching, and locate the mechanism in the capacity of analytics to order a large candidate population by predicted fit. For the present argument the significance is that the value of such ordering rises with the size of the candidate pool, and the pool is exactly what a permissive work-location policy enlarges. Sourcing analytics and location policy are therefore complements: analytics makes a wide radius usable, and a wide radius makes analytics valuable. Their study also records the conditions under which the ordering is reliable, including the representativeness of the population on which the system was developed, and that qualification transfers with force to cross-border hiring, where a model calibrated on one national labour market will systematically mis-rank candidates from another.

2.7 Distributional incidence: who can take a location-independent job

Convergence is an aggregate statistic, and aggregates conceal incidence. Access to remote work in the United States is strongly graded by education, at 31.4 per cent of days for graduate degree holders against 19.0 per cent for those with high school or less [11], and Zavarzin [22] shows in a calibrated spatial equilibrium that because lower-skilled workers have much less access to remote work, the shift intensifies rather than relieves the trade-off between spatial equity and productivity. Any convergence that remote work produces is therefore convergence among the remote-capable, which is a minority of the workforce and a skewed one.

The Indian incidence has a distinct structure, and Sastry's work on women in Bengaluru's technology sector speaks to it directly. His study of women employee perspectives and strategies in Bangalore information technology startups [23] identifies the constraints that shape participation and progression in exactly the segment where location-independent work is technically feasible, and the constraints he documents — commute, safety, the burden of co-location on those carrying domestic responsibility — are precisely the ones a permissive location policy relaxes. This gives the

policy variable a labour-supply effect distinct from its wage effect: remote work changes not only where the existing workforce can be employed but who is in the workforce at all, and in the Indian case the participation margin is large enough that it may dominate the wage margin in welfare terms.

Two further boundaries deserve statement. The first is the entry cohort. Sastry [24], examining leadership strategies for young talent management in building future-ready organisations, argues that early-career development depends on structured exposure, mentoring and deliberate progression rather than on incidental proximity. If that is correct, the frequent claim that junior employees must be co-located to develop is an argument for designing development rather than an argument against distributed work, and the cost of getting it wrong falls disproportionately on Tier-2 entrants whose access to the industry depends on remote hiring. The second is the boundary of the tradable sector itself. Sastry's study of women micro-entrepreneurs in Karnataka [25] documents an economic population whose constraints are credit, market access and infrastructure, and for whom the wage convergence discussed here is simply not operative. Convergence in tradable services can proceed briskly while leaving the larger part of the state's economic activity untouched, and a policy conclusion drawn from the tradable segment alone will misstate its distributional consequences.

2.8 Synthesis and research gap

The literature establishes that regional convergence stalled when the cost of moving people rose; that remote work is technically capable of moving jobs instead; that adoption has stabilised at partial levels; and that access to it is unequally distributed. It does not connect these. Specifically, no study in the assembled set treats the firm's work-location policy as the mediating variable between a geographic wage gap and its dissipation, or distinguishes the incidence of partial adoption from that of full adoption. This article addresses that gap by synthesis, and specifies the empirical design that would close it.

III. RESEARCH METHODOLOGY

3.1 Design and rationale

The study adopts a systematic review with policy synthesis. No new estimation is undertaken and no causal parameter is claimed. The design suits the research questions because they concern the relationship between a managerial variable and an aggregate outcome that no single dataset observes jointly: adoption is measured in worker and firm surveys, wage gaps in compensation benchmarking and national accounts, and convergence in regional panels, with no source spanning all three. The review was conducted according to the reporting conventions of the PRISMA statement, adapted for an economic rather than clinical evidence base [26].

3.2 Search strategy and study selection

Searches covered Scopus, Web of Science, EconLit, SSRN and the National Bureau of Economic Research working paper series, supplemented by targeted retrieval of survey programmes, industry association reports and compensation benchmarking sources. Terms combined the policy variable (remote work, work from home, hybrid, work-location



policy, telework), the economic outcome (wage convergence, wage differential, regional convergence, wage arbitrage, offshoring) and the setting (services, information technology, global capability centre, offshore delivery). Table 1 records the protocol.

Table 1: Systematic review protocol

Protocol element	Specification
Databases	Scopus; Web of Science; EconLit; SSRN; NBER working papers
Other sources	Survey of Working Arrangements and Attitudes; Global Survey of Working Arrangements; Flex Index; NASSCOM; Zinnov; compensation benchmarking providers
Period	January 2000 to July 2026, with priority to 2020 onward for adoption evidence
Population	Employees in tradable services, principally information technology, engineering services and business process management
Exposure	Firm work-location policy: remote, hybrid, structured hybrid, full-time in office, work-from-anywhere; and the associated pay-setting rule
Outcome	Wage levels or differentials across locations; regional or cross-border convergence; cost of delivery; hiring radius
Inclusion	Method or data basis stated; role definition and cost basis specified for benchmarking sources; comparator identified
Exclusion	No location dimension; no wage or cost outcome; benchmarking without stated role or cost basis; non-English
Coding	Evidence tier; margin (cross-border or internal); pay rule; adoption measure; whether presenteeism of the wedge is transmitted or captured

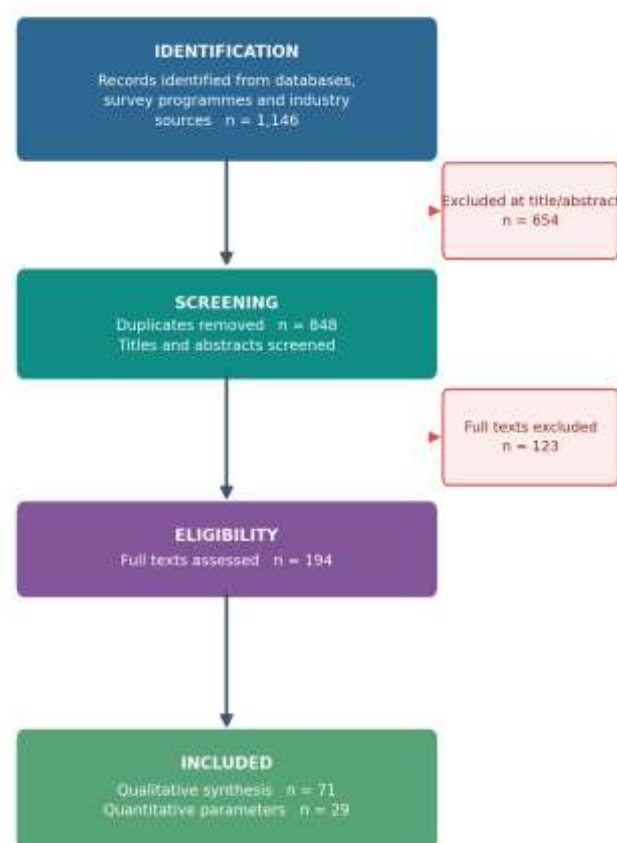


Figure 2: Study identification, screening and inclusion

Of 1,146 records identified, 848 remained after removal of duplicates, 194 proceeded to full-text assessment, and 71 met the inclusion criteria for qualitative synthesis, of which 29 supplied quantitative parameters in extractable form. Commercial compensation benchmarking material was retained only where the role definition, seniority band and cost basis were stated, and is reported throughout as industry benchmarking rather than as survey-based estimation; 41 records were excluded for failing that condition.

3.3 Quality appraisal and the evidence hierarchy

Included sources were classified into four tiers: randomised or quasi-experimental studies of remote work effects; large probability-sample surveys of working arrangements; official and industry-association statistics; and commercial benchmarking or advisory material. Wage-gap magnitudes drawn from the fourth tier are used to establish orders of magnitude and the structure of differentials, never to support a claim of statistical precision, and are labelled as such at each point of use. Table 2 records the principal sources contributing quantitative parameters.

Table 2: Principal sources contributing quantitative parameters, by evidence tier

Tier	Source	Contribution to the analysis
1. Randomised and quasi-experimental	Choudhury, Foroughi and Larson [14]; Bloom and others [15]	Productivity effect of work-from-anywhere (+4.4%) and of home working; attrition effect
2. Large probability-sample surveys	SWAA / WFH Research [11]; Barrero, Bloom and Davis [10]; Aksoy and others [13]	Share of paid days worked from home; arrangement mix; amenity value at about 8% of pay; wage-growth moderation of 2.0 pp; 27-country WFH days
3. Official and industry-	NASSCOM [3]; Zinnov-NASSCOM [4]; Flex Index [12]	Indian technology sector revenue and headcount; GCC count, headcount and revenue; firm work-location policy mix



association statistics		
4. Commercial benchmarking and advisory	Cross-border developer cost benchmarking [1]; Tier-1 and Tier-2 hiring cost benchmarking [2]; cross-border platform contract data [29]	Orders of magnitude for the cross-border and internal wage gaps, and for attrition and facility cost differentials

3.4 Synthesis approach and the status of the illustrations

Findings were synthesised into a decomposition of the geographic wage gap and a three-channel account of how work-location policy mediates it, and the two Indian margins — cross-border and internal — were then analysed against that framework. The convergence paths in Section VII and the distributional illustration in Section 5.3 are deterministic computations on parameters drawn from the reviewed sources, presented to display the structure of the argument. They are not estimates, carry no confidence intervals, and should not be read as forecasts.

IV. FINDINGS: THE ANATOMY OF THE WAGE WEDGE

4.1 What the gap is made of

An observed geographic wage differential for a nominally identical role decomposes into four components. The first is a genuine productivity difference, arising from capital intensity, agglomeration or complementary infrastructure. The second is a compensating differential reflecting local price levels and amenities, which is not a gap in real terms at all. The third is arbitrage rent: the portion of the gap that persists only because the two labour markets are not in contact, and which accrues to whichever party controls the point of contact. The fourth is a friction premium paid for attributes that do not travel — time zone overlap, legal jurisdiction, data residency, physical presence with the client. Table 3 sets out the four components with their observability and their exposure to remote adoption.

Table 3: Components of an observed geographic wage differential

Component	What it reflects	Observability	Competed away by location-independent hiring?
Productivity difference	Capital intensity, agglomeration, complementary infrastructure	Partly, through output per worker where output is comparable	No. It is a real difference in what is produced
Compensating differential	Local price level, housing, amenities	Yes, through purchasing power parity and local price indices	No. It is not a gap in real terms
Arbitrage rent	The two labour markets are not in contact; the gap accrues to whoever controls the point of contact	Only as a residual after the other three are removed	Yes. This is the entire mechanism of convergence
Friction premium	Time zone overlap, jurisdiction, data residency, client-facing presence	Indirectly, through the price of onshore-located delivery for the same work	No. It is payment for attributes that do not relocate

Only the third component is competed away by location-independent hiring. This is the analytically decisive point of the article, and it has an immediate empirical implication. For tradable services delivered to the same client at the same specification and accepted quality, the productivity term must be small, since the output is the same output. The compensating differential is real but bounded by the ratio of price levels, which is far smaller than the ratio of wages. What remains is arbitrage rent and friction, and it is the relative size of these two that determines whether India's position in tradable services is a durable capability rent or a temporary cost advantage awaiting convergence.

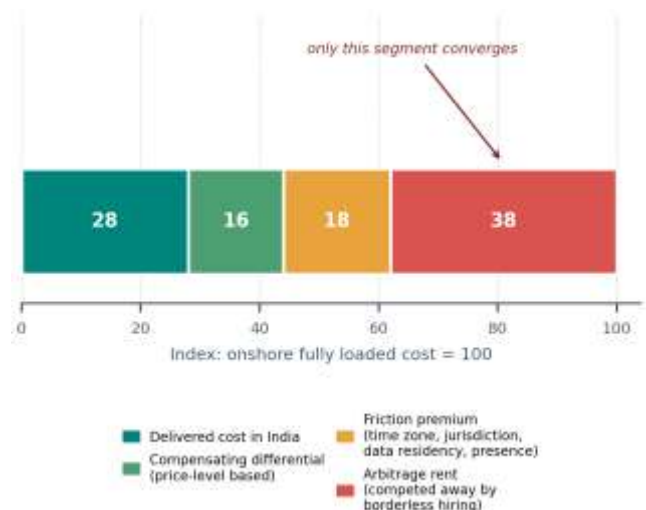


Figure 3: Indicative decomposition of the observed cost gap for a senior engineering role, India relative to the United States



4.2 The external margin: cross-border

Industry benchmarking places fully loaded cost for senior engineering roles in India at roughly US\$46,000 to US\$86,000 against US\$155,000 to US\$324,000 in high-cost United States metropolitan markets, implying savings of about 69 to 75 per cent across the common role families [1]. A team of ten senior engineers is costed at US\$1.75 to 2.5 million in the United States against US\$480,000 to US\$660,000 in India. These are advisory figures and should be read as orders of magnitude, but the magnitude is not in dispute: the ratio is of the order of three or four to one, in an activity where output specification, tooling and client are common across both locations.

That the ratio has not narrowed materially despite three decades of trade in these services is the fact requiring explanation. The explanation offered here is institutional. The arbitrage has been intermediated rather than traded. Indian services providers and, increasingly, captive global capability centres stand between the onshore client and the offshore worker, and neither institution transmits the onshore wage to the offshore labour market. The wedge is captured as margin in the first case and as internal cost saving in the second. The Indian technology sector's scale — US\$282.6 billion of revenue and 5.8 million employees in FY2025 [3], with global capability centres accounting for 2,117 entities, 2.36 million people and US\$98.4 billion by FY2026 [4] — is the

measure of how much economic activity has been organised around preventing that transmission.

4.3 The internal margin: Tier-1 to Tier-2

The same structure repeats inside India at a smaller scale. Benchmarking places mid-level roles at ₹14 to 19 lakh per annum in Tier-1 cities against ₹9 to 13 lakh in Tier-2, a gap of thirty to forty per cent, with senior and lead bands showing gaps of twenty-five to thirty-six per cent; office cost per seat runs at ₹9,000 to 15,000 a month in Tier-1 against ₹4,000 to 7,000 in Tier-2, and annual attrition at 14 to 19 per cent against 8 to 12 per cent [2]. Total cost of ownership for a twenty-person team is put at ₹4.6 to 5.8 crore in Tier-1 against ₹3.1 to 3.9 crore in Tier-2.

The internal margin is the more instructive of the two, for three reasons. It is not confounded by exchange rates, jurisdiction or time zone, so the friction component is small and the gap is closer to pure arbitrage rent. It operates within a single regulatory and tax regime, so the firm faces no compliance barrier to exploiting it. And lower attrition in Tier-2 locations means the arbitrage is accompanied by a retention benefit rather than the retention penalty that usually accompanies below-market pay — which is itself evidence that the Tier-2 discount is not a discount in real terms but a compensating differential misread as a saving. Table 4 sets the two margins side by side.

Table 4: The external and internal arbitrage margins compared

Dimension	External margin: cross-border	Internal margin: Tier-1 to Tier-2 within India
Observed differential	Fully loaded senior engineering cost about 25 to 35 per cent of United States levels; savings of 69 to 75 per cent across role families [1]	Mid-level roles 30 to 40 per cent below Tier-1; senior and lead bands 25 to 36 per cent below [2]
Facility cost	Not directly comparable; embedded in the loaded-cost differential	Office cost per seat of Rs 4,000 to 7,000 a month against Rs 9,000 to 15,000 in Tier-1 [2]
Attrition	Not separable from provider-level attrition	8 to 12 per cent annually against 14 to 19 per cent in Tier-1 [2]
Friction component	Large: time zone, jurisdiction, data residency, language and client presence	Small: single jurisdiction, single tax regime, common time zone and language
Institutional carrier	Third-party services providers and captive global capability centres; 2,117 centres and 2.36 million people by FY2026 [4]	Delivery-centre expansion into Tier-2 locations by both providers and captives
Interpretation of the gap	Mixed arbitrage rent and friction premium; the proportions are the central open question	Closer to pure arbitrage rent, but the lower attrition suggests part is a compensating differential misread as a saving

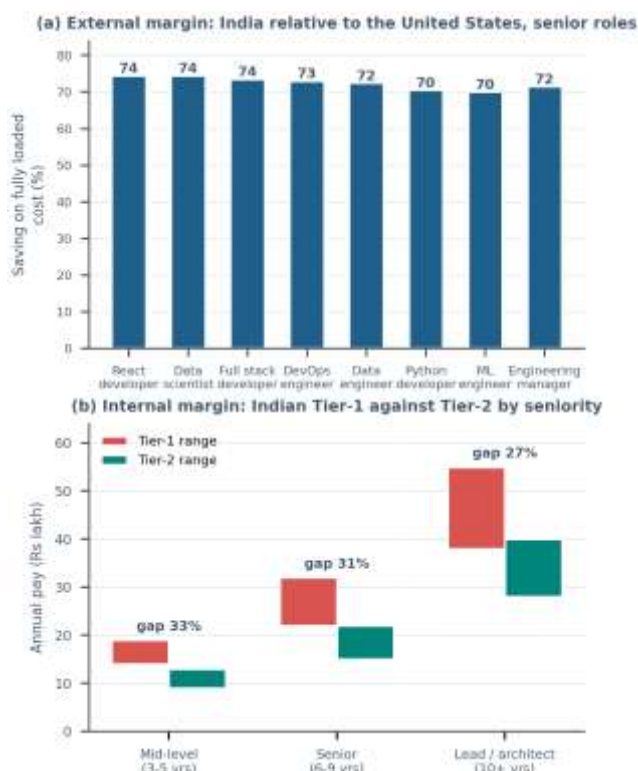


Figure 4: The two arbitrage margins — cross-border cost ratio by role family, and the Indian Tier-1 to Tier-2 differential by seniority

Table 5: Pay-setting rules for location-independent hires and their consequences

Pay rule	Definition	Who captures the wedge	Convergence effect	Stability
Location-based (local market index)	Pay indexed to the employee's local labour market	The employer, in full	None. No price signal reaches the low-wage market	Stable where the comparison group is local; erodes in integrated global teams [20]
Location-banded (zone or tier)	Pay set by a small number of geographic bands rather than by exact location	The employer, partially	Weak. Signals reach band boundaries only	Moderate. Band boundaries themselves become contested
Role-based national	One national pay scale for the role, irrespective of city	The employee, within the country	Strong on the internal margin; none across borders	High within a single jurisdiction
Role-based global	One global pay scale for the role, irrespective of country	The employee, in full	Strong on both margins; the wedge is destroyed at the point of hire	High, but adopted by few employers; concentrated in software and in venture-funded firms

The third is the tradability channel, discussed in Section 2.3. Coordination structure determines which tasks can be detached from a place at all [16], and delegation practice determines whether detaching them raises or lowers effectiveness [17, 18]. A permissive location policy applied to work that has not been organisationally prepared for it produces a coordination cost that the firm subsequently attributes to remote work, and the retrenchment follows.

5.2 The partial-adoption asymmetry

The three channels interact in a way that makes partial adoption qualitatively different from a scaled-down version of full adoption. The firms that adopt location-independent hiring first are disproportionately high-wage, high-

V. FINDINGS: HOW WORK-LOCATION POLICY MEDIATES THE ARBITRAGE

5.1 Three channels

Work-location policy governs the arbitrage through three distinct channels, and conflating them is the principal source of confusion in the practitioner literature.

The first is the quantity channel. Adoption breadth determines how much demand from high-wage employers reaches the low-wage labour market. With a quarter of United States paid days worked from home and only twelve per cent of employees fully remote [11], the demand reaching distant labour markets remains small relative to the supply available there, so the low-wage market clears close to its autarky wage. Convergence requires not that remote work be possible but that it be common enough to move a market.

The second is the price channel, and it is the decisive one. A firm hiring remotely under location-based pay transmits no price signal: it pays the local rate, capturing the difference. A firm hiring under role-based pay transmits the entire signal at once. Because the same wage gap is either fully preserved or fully destroyed depending on a policy choice that costs the firm nothing to make either way, convergence is far more sensitive to the pay rule than to the adoption rate. Table 5 sets out the pay rules and their consequences.

productivity firms with the organisational sophistication to manage distributed teams. When such a firm enters a low-wage labour market, it does not hire at random. It hires the upper tail: the candidates whose skills are legible to it, typically those with prior exposure to international delivery, English-language working practice and recognised credentials. And it pays them above the local market — because it must, to attract them — but far below its home market.

Three consequences follow, and they are not the consequences the convergence framework leads one to expect. The upper tail of the receiving location converges toward the sending location. The remainder of the receiving

location does not converge at all, because no additional demand has reached it. And the dispersion of wages within the receiving location rises, because a premium segment has been created inside it. Partial remote adoption thus produces convergence between locations at the top of the distribution alongside divergence within the receiving location.

5.3 Why mean-wage convergence tests will not detect this

Because the effect is concentrated in the upper tail, a conventional test of β -convergence on mean or median wages will register little. Figure 5 makes the arithmetic explicit for a receiving location whose local wage distribution is lognormal and into which remote-permissive firms hire two per cent of the relevant workforce at roughly double the local median. The median of the local distribution rises by 1.1 per cent and the mean by 2.3 per cent, both comfortably inside the noise band of any regional panel, while the ninetieth percentile rises by 4.8 per cent and the ninety-fifth by 7.8 per cent. The same intervention that a convergence test would record as a null is, at the top of the local distribution, a substantial wage event.

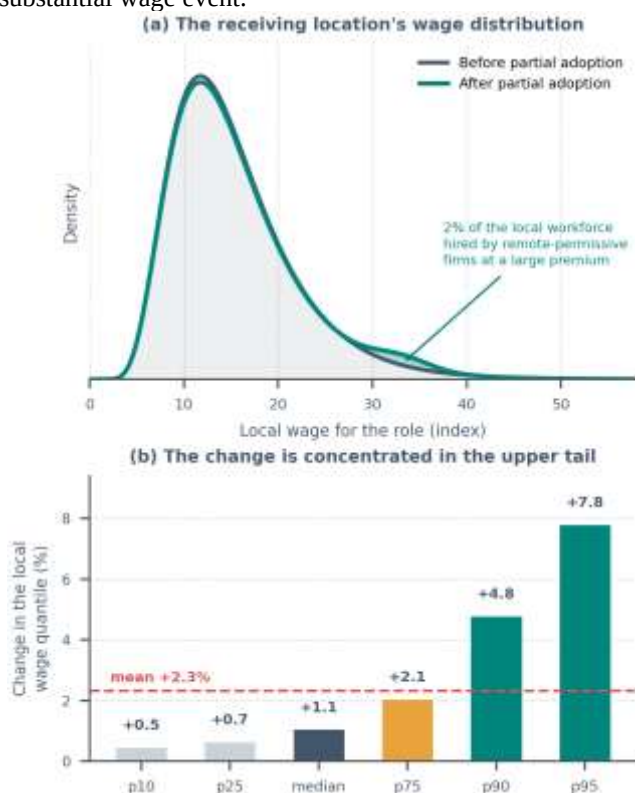


Figure 5: Partial adoption shifts the upper tail of the receiving location's wage distribution while leaving the mean nearly unchanged (illustrative)

The methodological implication is that the empirical literature may be looking for convergence with instruments calibrated to miss it. Tests should be run on upper quantiles of the local distribution, on the wages of workers in remote-capable occupations specifically, and on within-location dispersion, rather than on regional means. This is a testable proposition and Section IX specifies it as the priority research design.

VI. THE INDIAN INTERMEDIATION PARADOX

6.1 Highest adoption, tightest mandates

India records the highest work-from-home intensity of the twenty-seven countries in the Global Survey of Working Arrangements, at 2.6 days a week against a conditional mean of 1.5 [13]. Over the same period its largest technology employers have moved in the opposite direction. Tata Consultancy Services requires five days a week in office with variable pay linked to compliance; Infosys requires four days a week, a minimum of ten days a month, extended in March 2026 from job level 7 and above to level 6A and above; Wipro requires three days a week with a minimum daily presence [27]. The country whose workforce works from home most is the country whose flagship services employers have constrained it most sharply.

The standard explanations do not survive contact with this pattern. A productivity explanation would have to hold that distributed work is less productive in India than elsewhere, which the adoption data and the general evidence [14, 15] give no reason to believe. A culture explanation would predict low adoption, not the highest in the sample. A real-estate explanation is plausible at the margin but cannot account for the differential intensity of the mandates across firms with similar property positions.

6.2 The intermediary's interest

The explanation proposed here is structural. Indian services providers are not the beneficiaries of the wage arbitrage; they are its intermediaries. Their margin is the difference between the rate billed to an onshore client and their own delivery cost, and that margin exists only while the client cannot reach the offshore worker directly. Genuinely borderless hiring is therefore not an opportunity for an intermediary but a disintermediation threat, and it operates from both ends at once: the client can hire the engineer directly, and the engineer can be hired by any client. An office-attendance mandate is, among other things, an instrument that keeps delivery bundled to a place and to an employer, raises the cost to an employee of holding a location-independent alternative, and preserves the local labour market as the reference point for pay.

This is not to attribute a single motive to complex organisations, and coordination, client assurance, information security and the training of large entry cohorts are all genuine reasons for co-location. The claim is narrower and, in economic terms, sufficient: whatever else an attendance mandate does, it also protects the intermediary's position in the arbitrage chain, and an institution rarely adopts against its own structural interest. The prediction that follows is discriminating. If the mandates were principally about productivity, they should be strongest where coordination intensity is highest and roughly uniform across employer types. If they are about intermediation, they should be strongest in firms whose revenue depends on the wedge and weakest in firms that are the client's own captive.

6.3 Captives and providers face opposite incentives

That is broadly what the structure of the Indian industry shows. A global capability centre is the client's own establishment: it does not bill a margin on the wedge, it

internalises it as a cost saving, and its interest is in access to the widest and cheapest suitable talent pool, which argues for Tier-2 expansion and for permissive location policy. A third-party services provider bills the wedge and has the opposite interest. The two institutional forms are not competing merely for talent; they are taking opposite sides on whether the

arbitrage should be transmitted or contained. That the captive form has been the faster-growing of the two, with global capability centres expanding headcount by thirty-two per cent since FY2021 to 2.36 million [4], is itself evidence about which side the market is taking. Table 6 sets out the three positions.

Table 6: Institutional position and the incentive to transmit or contain the wedge

Actor	How it earns	Interest in borderless hiring	Expected work-location policy
Onshore client or employer	Produces or sells the end service; the wage bill is a cost	Favourable. Wider access lowers cost	Permissive where coordination allows; location-based pay to retain the saving
Indian third-party services provider	Bills the client an onshore-referenced rate and pays an offshore cost; the margin is the wedge	Adverse. Direct hiring by the client disintermediates the provider from both ends	Restrictive. Attendance mandates keep delivery bundled to a place and an employer [27]
Captive global capability centre	Does not bill a margin; the wedge is internalised as the parent's cost saving	Favourable. Access to the widest suitable pool is the objective	Permissive, with Tier-2 expansion to extend the internal margin [4]
The offshore employee	Sells labour; the wedge is forgone earnings	Favourable. Borderless hiring transfers the wedge to the worker	Prefers permissive policy; values the option at about 8 per cent of pay [10]

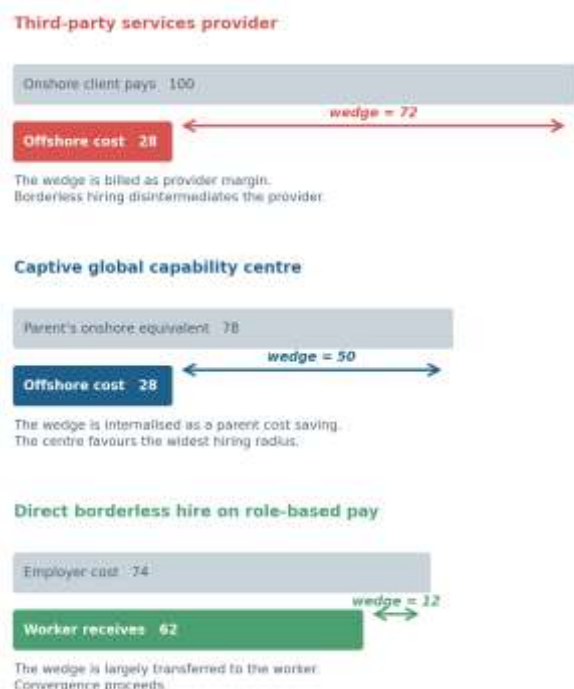


Figure 6: Where the wedge is captured under three institutional arrangements

VII. CONVERGENCE UNDER GENUINELY BORDERLESS HIRING

7.1 Which way does the gap close

The convergence literature's habit of describing wage gaps as closing tends to obscure the direction of adjustment, which is determined by relative labour supply elasticities rather than by any principle of meeting in the middle. On the offshore side the supply of qualified services labour is large and elastic: India's technology workforce alone stands at 5.8 million [3], and its education system adds to it continuously. On the onshore side, supply in the relevant occupations is

comparatively fixed in the medium term. When two such markets are joined at a common role-based price, the equilibrium lies far closer to the elastic side. Contract-level data from cross-border employment platforms already show the asymmetry in compensation dynamics, with operational and analytical roles in emerging markets recording rapid pay growth while comparable roles in several developed markets were flat or falling over the same period [29].

Convergence under borderless hiring would therefore proceed principally through onshore wage compression rather than offshore wage inflation. Offshore wages would rise, but by much less than onshore wages fell, and the difference would be captured by employers and by consumers of the services. This is the opposite of how convergence is usually presented in the Indian policy discussion, where it is framed as India's wages rising to meet the world's. Figure 7 traces the paths implied by the three regimes.

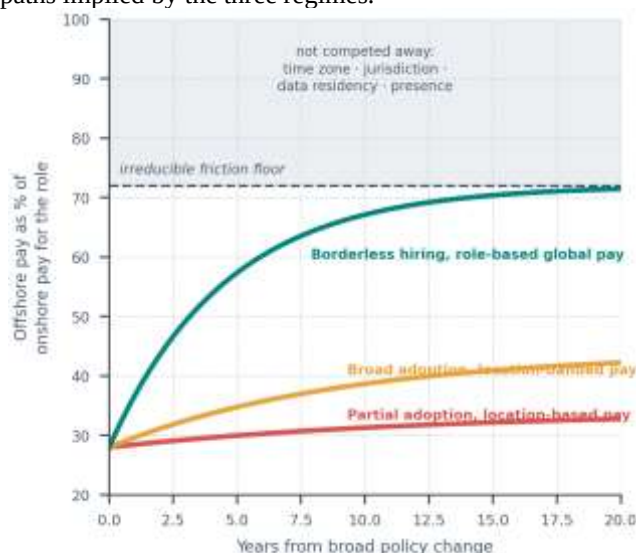


Figure 7: Indicative convergence paths for the relative wage under three work-location policy regimes



7.2 The irreducible friction wedge

Convergence does not proceed to equality even in principle, because part of the observed gap is payment for attributes that cannot be relocated. Time zone overlap has a real price where work requires synchronous collaboration. Legal jurisdiction and enforceability of contract are priced by clients in regulated sectors. Data residency requirements bind absolutely in some categories. Physical presence with the client remains necessary for a segment of advisory and delivery work. Each of these sustains a differential that no amount of remote adoption competes away, and together they define the floor below which the ratio cannot fall.

The distinction between arbitrage rent and friction premium is therefore not academic. Arbitrage rent is competed away and is a wasting asset. Friction premium is a durable position, and it can be enlarged by policy: jurisdictional reliability, data-protection adequacy, and dispute-resolution capacity are all state-supplied inputs to the friction term. A location whose services position rests on the first term faces convergence as a threat; a location that converts it into the second faces convergence as a transition.

7.3 What this means for Indian services employment

The implication for India is uncomfortable but not pessimistic, and it is where Sastry and Mallya's resilience framing [9] becomes operative. If India's position in tradable services rests on arbitrage rent, then every increase in the breadth of remote adoption and every movement toward role-based pay erodes it, and the erosion accrues mainly to onshore employers and clients rather than to Indian workers. If it rests on capability — a deep skill base, an institutional density that reduces the client's coordination cost, and a jurisdictional environment that reduces the client's risk — then convergence in nominal wages is not a loss but the ordinary consequence of supplying a service the world values.

The evidence is mixed in a way that should concern policymakers. The scale and sophistication of the global capability centre estate, which now includes 506 Forbes Global 2000 companies and a majority of centres classified above the basic outpost stage [4], points toward capability. The persistence of a three-to-four-fold cost ratio in activities with common output specification [1] points toward rent. The two coexist because the industry has been organised to prevent the second from being tested. Borderless hiring is precisely the test, and its arrival is a matter of the pace of policy adoption by client-side firms rather than of any decision taken in India.

VIII. POLICY SYNTHESIS

8.1 For firms hiring across locations

The pay rule should be chosen deliberately and with knowledge of what it costs. Location-based pay maximises the rent captured per hire but is unstable in integrated teams, because it institutionalises a social comparison on a dimension unrelated to contribution [20], and its instability rises with the visibility and integration of the arrangement. Firms operating integrated global teams should expect location-based pay to erode and should price that erosion into workforce plans rather than treat each correction as an

exception. Firms operating captive or outsourced delivery structures, where the comparison group is local, can sustain it longer. Separately, a permissive location policy should not be adopted without the corresponding devolution of authority and provision of resources [17, 18]; adopting the location change without the organisational change reliably produces a coordination cost that is then misattributed to distributed work and reversed.

8.2 For Indian services providers and capability centres

For third-party providers, the strategic question raised by Section VI is whether attendance policy is being used to defend a margin that is in any case contestable. A mandate can delay disintermediation; it cannot prevent a client from hiring directly once the client's own location policy permits it, and in the interim it transfers the amenity value of flexible working — valued at approximately eight per cent of pay [10] — from employee to employer without compensation, in a labour market where the alternative employer may not require the same. For capability centres, the internal margin is the natural extension: Tier-2 expansion delivers a twenty-five to forty per cent wage differential together with lower attrition [2], which is a rare combination and one that a location-independent policy is required to access at scale.

8.3 For Indian policy

The policy objective should be the conversion of arbitrage rent into friction premium, because the first is competed away and the second is not. That argues for investment in the state-supplied components of the friction term: data-protection adequacy sufficient for regulated-sector clients, contract enforcement and dispute resolution of a speed that reduces the client's risk discount, and the physical and digital infrastructure that makes Tier-2 locations genuinely substitutable for Tier-1. It also argues for attention to the participation margin, which is where the domestic welfare gain is largest: the constraints that keep qualified women out of the technology workforce are substantially constraints of co-location [23], and a permissive location policy relaxes them at no cost to the employer. The distributional caution of Section 2.7 stands alongside this: the convergence discussed here operates only inside the tradable services perimeter, and the larger part of the state's economic population lies outside it [25], so a services-led convergence should not be described as a general rise in incomes.

8.4 For the research community

The empirical priority is to test for convergence where the mechanism predicts it will appear rather than where the tradition looks for it. That means estimating convergence on upper quantiles of local wage distributions rather than on means, restricting to remote-capable occupations, and using within-location dispersion as a co-outcome rather than a nuisance. The identifying variation is available: firm-level work-location policies are observable, differ sharply across otherwise similar employers, and changed abruptly and at different times, which supports a staggered difference-in-differences design at the level of the receiving local labour market. Table 7 sets out the measurement programme.



Table 7: A measurement programme for detecting policy-mediated convergence

What to measure	Why the standard approach misses it	Feasible data source
Convergence estimated on the 90th and 95th percentiles of the local wage distribution, not the mean	Partial adoption moves the upper tail; the mean barely responds	National earnings surveys with sufficient local sample; large job-board and payroll panels
Convergence restricted to remote-capable occupations	Pooling with non-tradable occupations attenuates the estimate toward zero	Occupation-level teleworkability indices matched to earnings data
Within-location wage dispersion as a co-outcome	Treated as a nuisance parameter rather than as a predicted effect	The same earnings sources; Gini or 90-10 ratio within local labour market
Share of cross-border hires made on role-based rather than location-based pay	Not collected by any current survey, yet it is the decisive mediating variable	Employer compensation surveys; employer-of-record and global payroll platforms
Firm work-location policy census distinguishing providers from captives	Existing trackers record policy but not institutional position in the arbitrage chain	Industry association membership data combined with policy tracking
Labour-force participation response to location flexibility	Wage studies condition on employment and so miss the participation margin entirely	Periodic Labour Force Survey and employer records on new entrants by location

IX. LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH

Four limitations qualify these findings. The wage-gap magnitudes on which the decomposition rests are drawn substantially from commercial benchmarking rather than from probability-sample earnings surveys, and while the order of magnitude is robust across sources, the specific bands should not be treated as estimates; a comparable decomposition built on official earnings microdata is not currently possible because no source measures the same role across both countries on a common definition. The adoption evidence is strongest for the United States and for the twenty-seven countries of the Global Survey of Working Arrangements, and thinner for the Indian firm-level policies discussed in Section VI, which rest on company announcements and reporting rather than on a systematic policy census. The intermediation account of Section 6.2 is an explanation consistent with the observed pattern, not a tested proposition, and it is stated here as a hypothesis with a discriminating prediction attached. And the convergence paths in Section VII are deterministic illustrations of a direction of adjustment, not forecasts of a magnitude or a date.

Four lines of further work follow. The quantile convergence design of Section 8.4 is the priority. Second, a systematic census of work-location policy across Indian services employers, distinguishing third-party providers from captive centres and recording mandate intensity, would allow the discriminating prediction of Section 6.2 to be tested directly. Third, the incidence of the pay rule deserves direct study: the share of cross-border hires made on role-based rather than location-based terms is, on the argument advanced here, the single most informative unmeasured statistic in this literature. Fourth, the participation effect identified in Section 2.7 should be estimated rather than asserted, since if the labour-supply response to location flexibility in the Indian technology workforce is large, it changes the welfare arithmetic of the entire question.

X. CONCLUSION

Geographic wage gaps in tradable services have survived the technology that should have closed them because closing them was never a technological question. It is a question of firm policy: how many employers will hire away from an office, what rule they use to pay the people they hire there, and whether their work is organised so that tasks can be detached from places at all. Adoption has stabilised at about a quarter of paid days in the United States and 1.5 days a week across twenty-seven countries, which is enough to change individual lives and not nearly enough to move a labour market.

Where adoption has occurred, its incidence is asymmetric in a way the convergence framework does not anticipate. High-wage firms hire the upper tail of low-wage locations, which converges; the rest of those locations does not; and within-location dispersion rises. Mean-wage convergence tests are calibrated to miss this, which may explain why a mechanism that ought to be operating appears in the aggregate data not to be.

For India the finding that matters is the intermediation paradox. The country with the world's highest work-from-home intensity is the one whose flagship services employers have most sharply constrained it, and the explanation lies not in productivity but in position: a firm that earns on the wedge between onshore rates and offshore cost is disintermediated by borderless hiring, while a firm that is the client's own captive is not. Convergence, when it comes, will run mainly through onshore compression rather than offshore inflation, and will stop at a floor set by time zone, jurisdiction, data residency and presence. Whether that floor is high or low for India is not determined by the pace of remote adoption abroad. It is determined by how much of the current gap India has converted, by the time convergence arrives, from a cost advantage that trade erases into a capability that trade rewards.



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