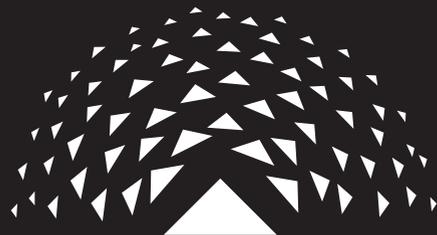


KKI

4:1



Could India Become
an Economic Superpower?



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Editor:

Péter Goreczky – Institute for Foreign Affairs and Trade

Péter Goreczky – Institute for Foreign Affairs and Trade
Anna Juhos – external fellow, Institute for Foreign Affairs and Trade
Tamás Novák – Budapest Business School
Dinoj Upadhyay – Indian Council of World Affairs

The views expressed are the authors' own.

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In the 4:1 series of the Institute for Foreign Affairs and Trade, four researchers give a short answer to the same questions concerning international politics and economics. Our aim is to launch the scientific debates in Hungary and promote dialogue among experts. In this issue, our topic is: "Could India Become an Economic Superpower?"

ANNA JUHOS

Economic and political powerhouses have the tendency to look at themselves as the main drivers of world events. Usually, leveraging one's power depends as much on successful alliance formations and negotiations as it does on material resources. Even so, having the upper hand on one issue does not guarantee continuous success, and economic and political clout often do not have an impact outside of the country's neighbourhood. When it comes to considerations about India as an economic superpower, three questions need to be examined.

First, what does it mean to be an 'economic superpower'? With European leaders, such as German President Frank-Walter Steinmeier, or French President Emmanuel Macron courting India for favourable business deals, it would indeed be erroneous to disregard the world's seventh largest economy with more than 1.3 billion people, above 7 per cent economic growth rates, and the third highest purchasing power (GDP/PPP) and market size, just to mention a few characteristics. With a median population age of 27.3 years and a large pool of working age people, it is believed that India is bound to drive the third great wave of Asia's growth following Japan and China. Forecasts tend to be optimistic about India's economy. The World Bank's ease of doing business report for 2018 ranked India 100th out of 190 economies, highlighting that it was among those 10 economies which improved the most of the areas measured. Likewise, the Global Competitiveness Report 2017–18 ranked India 40 out of 137 countries, measuring national competitiveness, highlighting improvement and the growing of Indian centres of innovation in the top 100, such as Bangalore for computer technology, or Mumbai and Pune for patents in organic fine chemistry.

But are these numbers compelling enough? There has been improvement in infrastructure and ICT indicators (mobile phone users, internet access), but corruption, access to financing, and tax rates remain a concern for investors by reducing total factor productivity and preventing efficient firms from achieving their optimal scales. Service-led growth as an 'enclave sector' provides approximately two-third of the Indian GDP, but with predominantly informal employment, rigid labour laws, low levels of technological readiness (107th out of 137 countries) and 0.2 per cent employment elasticity (the measurement of changes in employment in line with economic growth), much remains to be done in this economy of 'jobless growth'. Lack of improvement in these areas can undoubtedly endanger growth, and thus the country's position in the long run.



Possessing some of the required economic benchmarks, however, does not necessarily translate into the desired level of economic clout. Besides some possible domestic impediments, it is amid 'trade wars' and sanctions that countries have to maneuver and pursue their interests. Considering that economic interest has become the new foreign policy mantra and the defining element of both bilateral and multilateral frameworks, it is worth considering who has the real bargaining and persuasive power amid increasingly protectionist economic policies. For example, cooperation between the US and India might be useful for both sides vis-à-vis the Chinese One Belt, One Road initiative, exports, or trade disputes. However, this sort of alliance – coupled with other joint projects in the political or military sphere – could not make India exempt from the 25 per cent tariff on steel and the 10 per cent duty on aluminum imports recently imposed by the US government. While India can find common grounds for bargaining with its allies against commonly perceived threats, and can dominate the region when it comes to its smaller SAARC (South Asian Association for Regional Cooperation) neighbours, its voting power and thus weight in international financial organisations is relatively meagre. For example, India's voting power in the International Bank for Reconstruction and Development (IBRD) stands at 2.93 per cent, compared to China's 4.45, Japan's 6.89, or the US' 15.98 per cent. In the International Monetary Fund (IMF), India has 2.64 per cent of the votes compared to China's 6.09, Japan's 6.15, or the US' 16.52 per cent of total votes. While the IMF reform in 2016 brought India into the list of the top 10 members of the IMF members, it is also important to note that India's share in world total imports stands at 2.2 per cent, for exports at 1.7 per cent, and, additionally, its GDP per capita is \$1.645. In comparison, the US' GDP per capita is \$56.000, its share in world total imports is 14 per cent, exports 9 per cent. Besides domestic policies, improvement in these figures is important in order to increase India's abilities in exerting influence and exercising power over other countries, a significant benchmark of an 'economic superpower'.

Last, but not least, while there have been many predictions about when and why India will – or will not – become a superpower, another question to ask is whether India aspires to be a superpower at all? Furthermore, even if the answer is affirmative, should it be considered just an elite project, or a true vision supported by all Indian states with varying degrees of human development, economic growth, and various ideological convictions? Overall, as long as there is no improvement on human development and domestic policies, most probably „superpowerdom can wait“.

DINOJ UPADHYAY

India was a land of fabulous wealth, common prosperity and wisdom. Its contribution to the global GDP was about a quarter on the eve of the colonial period. Items from India were most sought after in the western markets. Colonial rule severely constrained its economy and agricultural and industrial production systems. Subversion of its economy created conditions for multiple famines and persisting social tensions. However, India's independence and the post-World War order, which was largely based on recognized international rules, created conducive conditions for the country to once again realize its economic and political potential. A mass-based non-violent freedom movement helped create a strong foundation for a vibrant democratic polity and social order based on secular ethos and scientific values. Hence, the launch pad for India's march to future and social empowerment was prepared.

After about four and half decades of independence and stabilizing the polity, economy and society, India opted for liberalization. Legislative and economic measures were taken and the country joined international trade regimes. It sped up its development on various fronts. India's GDP has increased approximately nine times since 1991. Per capita income also rose almost 15 times in terms of current price and 12 times as per constant price. India has taken a quantum leap upward in the World Bank ranking and currently it is at 100th position. Today, India is the seventh largest global economy and is the world's fastest growing major economy.

Nevertheless, India continues to face formidable economic and social challenges. A sustained annual economic growth for a long period (World Bank estimates 8 per cent or more annually for 30 years) is required to get into the league of middle-income countries. High incidence of poverty, malnutrition, socio-economic inequality, infrastructure bottlenecks, access to clean energy, only to name a few, warrant more resources to bring the fruits of development to a vast section of society. Amid increasing climate vulnerability, maintaining high growth rate with effective environmental sustainability for such a large demography is a major challenge for the country.

To face these challenges, India has taken multiple initiatives with new vigor and energy, including legislative, economic social and diplomatic. Together they will have a transformative effect on the country and make it ready for the foreseeable future. The Goods and Services Tax implemented in 2017, makes the population of 1.2 billion people a single and unified market. 'Swachh Bharat', 'Make in India' 'Skill India' and 'Digital India' etc. programmes aim to harness the demographic dividend to facilitate inclusive and sustainable development. To encourage an export-driven growth, New Delhi aims to increase the share of global trade to 40 per cent of GDP by 2025. To enhance economic interactions, India has joined and pushed forward numerous regional connectivity and energy projects, including INSTC, TAPI, Chabahar port, etc.



Combined with revolution in IT, space technology, and noteworthy resilience to global financial crises, India's development story generates academic curiosity about its status and global role in the future. The prospect of becoming a major economic powerhouse would be determined by how India internally and externally formulates and implements its policies. Domestically, it needs to continue reforms for optimal use of natural and financial resources, establish more institutions for imparting quality training and skills and improve competitiveness in exports. Externally, India should continue to contribute in creating a conducive environment and work in the multilateral framework towards addressing the pitfalls of globalization and protectionist tendencies emanating from rising populism in the West.

PÉTER GORECZKY

As China is expected to overtake the United States as the world's largest economy in the foreseeable future, analysts cannot resist the temptation to make bets on the next economy that could follow the Asian country on the route to becoming a global superpower. In most cases, India is mentioned as one of the favorite candidates for this title.

It was reported earlier this year that India had retained its crown as the fastest growing major economy and outperformed China with a growth rate of 7.2% in the second half of 2017. Nevertheless, in the case of India, high growth rates should be maintained through a long period in order to lift the country's economy to the top of the world. China was able to keep a GDP growth rate higher than 7.2% through 24 consecutive years. Therefore, strengthening the base of long-term growth looks indispensable. Demographics appear to be one of the potential engines. With the world's largest youth population, an additional million people join the country's labor pool every month. At the same time, it appears as a threat as extreme unemployment in the young population could result in a social crisis. The government's success in creating millions of jobs will determine whether the country's economy can capture this potential.

Due to strong English language skills, India benefits traditionally from outsourcing. As a result, the service industry has been at the forefront of economic development. However, India cannot rely exclusively on this sector for job growth as employment in business outsourcing typically requires a degree of education that the majority of young Indians do not have. An intense expansion of the manufacturing sector can secure the millions of workplaces India needs to absorb the growing labor pool. This assumes a strong demand for products made in India, however the country cannot build solely on its huge internal market due to low level of purchasing power. Moreover, India is poorly positioned for the current global trading system in which trade of goods is much more liberalized than the trade of services, in which India has strength. Nevertheless, global trade is currently in a flux and it is unpredictable whether the outcome will be beneficial for India.

On the other hand, there is much scope for increase in economic efficiency which can be the real engine of long term growth. Due to a very low level of infrastructure in certain regions of the country, even moderate development could result in significant improvement in efficiency and the productivity of the economy. Combined with successful job creation, this can be the trump card for India on the long run.

When talking about the potential of becoming an economic superpower it is tempting to compare the two Asian giants, however, India sets out on the journey with greatly different characteristics and capabilities in its backpack. An entirely distinct political system and diversity of its society predetermines that India cannot move on the same track as China did. Purely due to its size and population the country has every chance to become one of the largest economies in the world in terms of economic output. However, this does not mean automatically a high-tech, productive and innovation-based economy, that sets the global standards for others. Becoming an economic superpower in those terms is much more demanding. If that's the vision, India surely has a long way to go.

TAMÁS NOVÁK

The renewed interest for India's rise came from the US administration's recent declaration according to which India is set up to soon become one of the major powers in the world both from an economic and a military perspective. This assumption is not at all new – the potential was mentioned several times in the previous decades, but the domestic and international frameworks have never been so supportive towards achieve this goal as they are today. There is an increasing consensus according to which India soon may become a global power in terms of economic strengths and a very important challenger or competitor against China and the USA.

India has experienced very favorable GDP growth recently outperforming the long time champion China. Demography – especially the large pool of the young –, economic growth and the country's improving attractiveness for foreign investors are all reinforcing the assumption of becoming a global power. However, given the special circumstances of India – democratic traditions – which in an overpopulated country may not be the most efficient (see the case of China, or Indonesia) and extreme poverty, the success is cannot be taken for granted.

The rapid economic development is obviously a very important resource of capital accumulation which sooner or later can be translated into power, but the rapid and sustained growth is only a minimum condition that is required for becoming one of the most important powers in a multipolar world. India stands out in the world in terms of its economic development because there have been very few countries that have experienced so rapid an economic growth and achieved so



little in terms of reducing human poverty and multiple deprivation. It also must be mentioned, however, that corruption or large inequalities may also pose a serious challenge to the country even if the government introduced several steps in the past years to transform the informal economy into a much more formal one.

Demography continues to be the most important threat and opportunity in India. In the coming years, the country is expected to become the youngest one in the world. If that young generation becomes a skilled workforce, the country's industrial development certainly would be supported greatly. This objective is also served by Digital India initiative indicating that the country wants to embark on new technologies and make the country digitally empowered. At the same time, however, because this strategy is definitely a labor replacing one, India needs rapidly improving employment opportunities, which is supported by certain degree of trade and investment regulation attracting more FDI (Foreign Direct Investments) serving domestic consumption demand.

In addition to rapid economic advancement, the country also significantly increased its military spending. Its growing defense budget placed the country the largest importer of weapons and military equipment several years ago. By putting an equally important emphasis on defense in addition to economy, the country clearly wants to become a global power – but at the same time, it also wants to grow strong enough in the region to balance against potential threats, which most importantly come from China. The regional balancing with China is unquestionably in the interest of the USA too.

Based on the above, it is justified to say that the potential of becoming a global power is given. India is the third-largest global economy measured by purchasing power parity, and the rapidly growing defense budget can make India's military spending the world's fourth largest in the coming years. Population growth, economic development, the scale of industrial and infrastructural development are pointing towards upgrading.

However, the problems are daunting. Even if the case of China is promising – it faced similar problems twenty years ago as India does today, and it has been able to rise as a global power very rapidly – we cannot forget that the political system in India is not at all like the one in China. Even if several hundreds of millions have been experiencing growing living standards, the number of people in extreme poverty is still very high. Furthermore, given the fact that economic growth is highly uneven in a regionally very diverse country, the scale of deprivation will most likely remain a big obstacle in becoming a global power soon.