

Presentation to the Group of 78, Ottawa, June 25, 2013

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India and the world: Rebalancing economies and power

Abstract: There is considerable attention focused on China - the new G-2 world order and responses and challenges to the rise of China. But India draws much less attention. Amitav Rath will discuss how he sees the developments in India, locating it within Indian historical experiences and world views, to develop some likely scenarios of Indian development going forward. He will situate India's emergence in several perspectives - from the national and sub-national, to the regional and global contexts. He will explore Indian developments as they are caused by and affect the rest of the world in the changing landscapes of geopolitics and the global economy.

The talk

(The text below is by and large the notes used and points made by Amitav Rath in his talk at the G78 presentation on Tuesday, June 25, 2013 at Ottawa. The notes suffer from the limitations imposed by an oral presentation, in that they do not always provide full references and details that would be appropriate for a scholarly paper)

Background - The Group of 78 has focused its 2013 Annual Conference in Ottawa in September on the rise of China over a period of two days. It also examines the responses by Canada and others to China's re-emergence as a major global power, and to maximise opportunities and minimise risks.

I see this presentation on India at lunch as the consolation prize!!

But, within our shorter time limit for the discussions on India, I start with - .

Is INDIA also an emergent power? or is it re-emergent, and what kind of power is it - Major? Minor? Global? Regional?

I will review some key developments in India, within the context of Indian historical experiences and perceptions, and provide some scenarios of Indian development going forward.

I will situate these along several perspectives – the personal, the economic, the social and also in the sub-national, regional and global contexts.

Several themes provide a context for the presentation made here – India (and also China) are the proverbial elephants – you find what you look for, and almost always, what you find is not the whole picture. Second, if we do not fully understand the past and present, we must then be especially humble about predictions for and about future trajectories. One given is the future for India is obviously also affected by and affects developments in the rest of the world, in a very rapidly changing global landscape.

My presentation is also as an Indian, carrying certain biases and perspectives; and who has been away for some years, which provide also an outsiders perspective. It will try to paint a broader picture, facts and trends that are likely to be important over the next decade or two, not deal with whether the current PM may or may not be there, or on the next election results.

For many, China deserves much greater praise and India scorn. I will try and NOT denigrate Chinese achievements but WILL TRY AND CHANGE some of the sneering assessments about Indian achievements.

I start with some quick summaries of earlier predictions and facts and ask if they are successes or failures of India or only failures of predictions!

I will start with Paul Ehrlich, Professor of Population Studies at Stanford University, who warned in 1968 echoing the best-selling 1967 book by the Paddocks that among the "hopeless countries" was India, plagued by overpopulation, low agricultural productivity, and political ineptness are headed for famine, and US aid and food was wasted. They must be left to their fate; because "to send food is to throw sand in the ocean." And by "triage" other more hopeful countries can be saved. I WAS VERY SAD at the implications for family and friends and also for many other people. On the other hand, the seventies saw the "green revolution" – rapid growth in food production. By the 90s India had very large food stockpiles, a vast public distribution system and significant food exports. India ranks second worldwide in farm output.

A little before that prediction, a political scientist had written a best seller – suggesting chaos after Nehru; most likely the end of democratic pretensions; possibly saved by a much needed military dictatorship, such as in the more successful Pakistan. For several decades, we Indians also worried about many Indian failures shortcomings, especially the "Hindu Rate of Growth" - coined by a fellow Indian, Dr. Raj Krishna of 3.5% from 1950s to 1980s, while per capita income growth averaged 1.3%. But, suddenly, from around 1990, the growth rate became around 7-8 % for 20 years, with some new forecasts estimating an average of 8-10% for another 20 years.

At 7% growth rates the GDP doubles every 10 years and at 10% it doubles every 7 years. So in the past 20 years the GDP roughly quadrupled from around \$500BN to \$2 trillion (now among the top 10 countries); in PPP \$ that is more at \$4.5 trillion and third in the world - US, China

and India. If all goes well, predictions hold, in only 20 years, the GDP may be 8 times larger again, at 16 trillion, unless of course, if the poor growth of 2013 becomes the new norm. **So any predictions must get this number right.**

Looking back - Stephen Broadberry and Bishnupriya Gupta (2010), in a recent paper show Indian per capita GDP declined steadily between 1600 (\$830) and 1871 (\$500). At 1600, Indian per capita GDP was already at 55% of the then British level and by 1871 it was less than 15 per cent, and roughly stagnated for another 80 years. Maddison (2003) gives estimates that for the 200 years before independence, per capita growth, savings and investments were close to zero. India was one of the poorest countries and according to Madison, agricultural yields and nutritional levels at independence were amongst the lowest in the world. Both India and China were at very low PER CAPITA GDP until 1950, (with most estimates placing China at 20-25% higher income) and no change for several hundred years. Among the questions that remain open to debate – why were they so poor? What changed and what can we learn?

Fortunately, or unfortunately, there is as yet little agreement on what changed in India to move from the “Hindu rate of growth” of around 1% to the growth rates of 7-8%. The two previous chief economic advisors to the Indian finance ministry, Kaushik Basu and Arvind Virmani, have different takes on that and so do many others (see Journal of Economic Literature 2008, pages 396–406, where Basu reviews the issues and Virmani’s two-volume book and others).

We have to leave that for now, given our time constraints, except to say that my view is that there are many factors at play and it is not as often made out, simply a move from ossifying bureaucracy to the release of raw and unfettered capitalism.

Let us look below the AGGREGATES and at POVERTY in India.

Since independence, per capita income went from \$300 (80 cents per day) by 5 times when adjusted for inflation to \$1,500 or \$4,000 using PPP. It is still at 130 - 141 in the world. In 20 years of “high growth” it could be \$30,000 at PPP. This is still considerably below OECD countries per capita incomes today.

What about some other achievements or non-achievements - At independence ILLITERACY was 88 per cent and now 24%. Then 20% of children were in primary schools now it is close to being universal. Life expectancy at birth was 32, now doubled to 66. Poverty ratios went down from 55% in 1973 to 36% in 1993 and to 26% in year 2000 (though in 2010 it went up to 30%).

Who are the poor in India in 2012 and where?

The number of poor in India is and remains staggeringly high. They are often the landless, laborers and farm workers in poorer villages, casual workers in cities, tribal people, Dalits or untouchables and often Muslims. The poorest Indians are concentrated among these groups.

Almost 60% of the poor reside in seven low-income states - Bihar, Jharkhand, Orissa, Madhya Pradesh, Chattisgarh, Uttar Pradesh and Uttarakhand (BIMARU). 85% of India's tribal people and Dalits also live in these states. The overall tribal population in India is below 20% and in many of the above they range between 50-80%.

Over time India has reduced poverty greatly - from 55% in 1970s to 29.8% in 2009-2010. But it is not happening fast enough, considering India's reasonably high rate of economic growth. My own continuing contacts with Orissa, shows that many deep-seated problems in India are not going away anytime soon. The Naxalites, indigenous, Maoist militants are most active in what some describe as a civil war in the center of the country. They represent the disaffection of a very large segment of the population, mainly in the BIMARU states, rich in commodities and forests, where the battles with security forces is most serious.

The growth rates for Maharashtra, Gujarat, Haryana, Delhi and most Southern states have been twice as high as for BIMARU states and many of their indicators now compare well with middle-income countries. Bihar, with 80 million people, is among the poorest in India. \$1 a day poverty rates in rural Orissa (43%) and rural Bihar (40%) are some of the highest in the world. But even in Orissa, half of the state along the coast, with a different socio-cultural-economic background, has socio-economic indicators almost twice that of the interior. In terms of potential good news, in 2010, economically backward states started to catch up with developed states, with Bihar with an impressive 11 percent growth rate, possibly due to better governance.

I mentioned that India still remains the country with the largest numbers of poor - those living on less than \$1.25 a day or around \$500/year is 30% or 400 million people. What is not often realized is that most of the country's population is still relatively poor – those earning less than \$2.50/per day or below \$1,000 per capita, is 80% or one billion people!!

Even here – does the word COUNTRY apply to India or should India be compared with the EU?

INDIA AND CHINA

Given many facts - both very large countries, 1.2-1.3 billion people, Asian neighbours, and with some striking similarities and differences, and the fact such comparisons are common and often facile, it is worthwhile to examine them together briefly.

"China has its problems but at least China isn't India" is a common view. China is more orderly and India is chaotic. Lee Kuan Yew says - if China became a liberal democracy, it would collapse. A common perceptions, India favours freedom and China order. But some analysts suggest there is more social disorder and violence in China than India. In 2011, leaked official figures revealed that there were at least 128,000 instances of 'mass unrest' throughout China or 350

each day, rising from just a few dozen a decade ago. And Beijing spent over \$US115 billion on the People's Armed Police, a 1.5 million strong and military-trained organisation whose sole purpose is to control domestic unrest throughout the country. Indian forces are estimated to be smaller.

Certainly, the most widely known fact – the Chinese GDP has been growing at 8-9% annually since 1980 (or an increase of 16-20 times in 30+ years), but India has grown at only 7-8 % since 1990 (for only 20 years). China's performance is both praiseworthy and spectacular. Less well known is that Indian averages have been similar to China's but with a lag of time, before which Indian growth rates remained low. So for many estimates of economic activities, India's numbers often are similar to that of China between the periods 2000 to 2005.

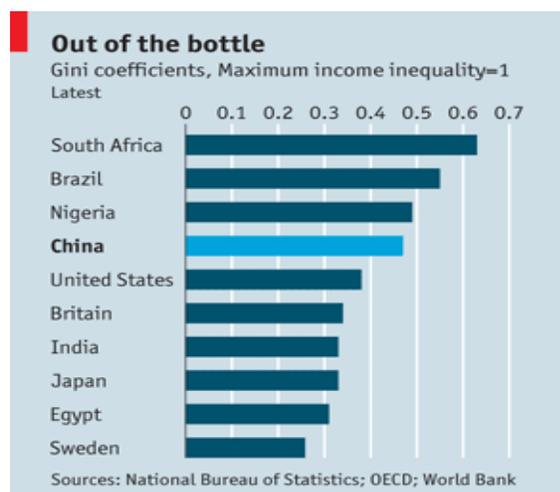
POVERTY

A common suggestion is that given that the Chinese poverty rate is half of India so the Chinese model is better at poverty reduction. Until the 1960s, the percentage of those in poverty in both countries was roughly equal and so it is true that China has done better.

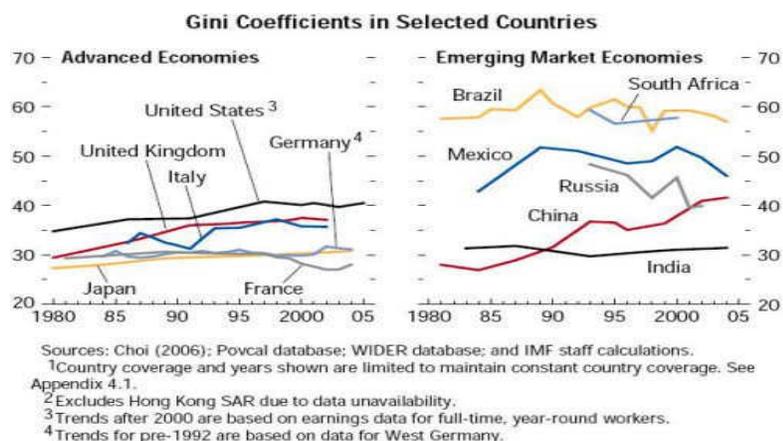
BUT 80 per cent of the poverty reduction in China took place in the first decade of reform (1979-1989) to levels similar as in India today. Since the 1990s, poverty reduction in China is at less than 1 per cent each year while in India it is slightly more than 1 per cent each year. Since 2005, absolute poverty in China has actually increased from about 10 per cent to 13.5 per cent now. In India also poverty went up from 25 per cent to 29 per cent after 2007. In both countries more people have fallen back into poverty over the past few years. The point is neither country shows clearly superior performance by this measure over the past twenty years.

Take the Gini-coefficient (GN) - China's official score is 0.47 and Chinese Academy of Social Sciences, believe that the true figure is between 0.5 and 0.57. China's GN had been steady at around 0.33 until the mid-1990s onwards and has steadily worsened.

In contrast, India's is Gini coefficient was 0.325, and has remained in that range for several decades – suggesting that economic growth is raising the incomes of median households at rates similar to the national economic growth.



The two pictures taken from different sources suggest India has lower inequality.



So the idea, that India enjoys more freedom but “freedom” comes at the price of economic growth and inequality compared to China, is not totally clear. In terms of inequality, the recent pattern of growth has been disequalizing in both economies. A single contingent event - the revolution of 1949, the China - sweeping land reforms that dramatically altered asset distribution in the country, the dominance of landlordism was eliminated and economic policies had very different results than in India.

China’s economic and social achievements over the past few decades are praiseworthy. The point is so too are India’s. Among a policy success in India is the more rapid decline in rural poverty in recent years with increased spending on rural welfare programmes, especially the employment guarantee scheme targeted at landless labour.

EDUCATION AND HEALTH

In comparison with China India’s educational inequality is one of the worst in the world, according to World Bank estimates. This is partly because of India’s large overhang of illiterate population at independence and certainly due to bad governance, misplaced priorities that have resulted in lower investments in health and education in India as Amartya Sen has argued.

Amartya Sen states that inequality is high in both countries, but China has done far more than India to raise life expectancy, general education and health care. India has elite schools of excellence but too many other schools are of low quality. According to him, India has failed to learn from the examples of Asian economic development, in which rapid expansion of human capability is both a goal in itself and an integral element in achieving rapid growth.

URBANISATION

Urbanization and growth have a high correlation. China is ahead of India in terms of urbanisation numbers: 48 per cent to 35 per cent. But the rate of urbanisation is actually neck-and-neck at about 1 to 1.5 per cent for both countries. So India is 10-15 years behind.

Chinese urbanisation numbers tend to overestimate actual urbanisation - since urban Chinese include the estimated 250 million migration workers from rural areas, who have limited rights to education, health and other government services presented to registered urban residents, cannot afford urban housing, are subject to restrictions on purchasing urban property, so many of the apartments in China without tenants.

EXPORTS

The average annual growth rate in global merchandise export over the last decade has been highest for China. In the case of services has been highest for India. Both have more than doubled their global market share in merchandise exports in the past decade. India's growth and its earnings from exports have tended to depend more narrowly on selected sectors - information technology, pharmaceuticals and specialized auto parts, which rely more on the inputs of highly trained personnel from more well-educated classes.

DEMOGRAPHICS

Over the next 20 years, China's population of 35-55s will fall from 32% to 29% of the population, but in India this age group will rise from 22 to 27%. India's old-age dependency ratio of 8%, grows to 12% in 2030, and 28% by 2050. India's more youthful population may or may not mean stronger economic performance – it depends on the policies adopted for human capacity.

MILITARY AND SECURITY

Many in this audience will have strong views and interest in this topic, but as with many others we can only touch on some issues.

India defence budget is about \$50 billion, seventh-largest in the world. Within 5 years it is estimated to overtake Japan, France and Britain to come in fourth - after US, Russia, China.

Indian pre-occupations are primarily based on its geography. It occupies 70% of the SAARC region, both geographically and economically, and the remaining six nations of the SAARC borders only with India and not with each other. It is the biggest, and the most industrialised trading partner among the SAARC. Thus India sees itself as a regional power with expanding security arrangements with neighbours and expanded interests in Central Asia including Afghanistan and Tajikistan. UNLIKE many other Asian countries—and in stark contrast to neighbouring Pakistan—India has never been run by its generals.

Outside the region – India sees BRICS as an important grouping, for economic cooperation and security. The new Development Bank proposed by BRICS is an interesting development to be watched. The IBSA Dialogue Forum is another grouping of only India, Brazil and South Africa that also focuses on reforms of the UN Security Council and trade concerns. Virmani sees a new tri-polar world and not one with only the United States and China. Eschewing all temptations to make predictions, I will simply say here, India as a major global player, is not far fetched and much will depend on how it performs in the next decade.

CONCLUSIONS

India trails China on many indicators. But both countries and a number of other previously poor and colonised countries, there are huge achievements that must be recognized. And the angst and dismay of some, especially in US and Canada, over the loss of power and authority, and calls to return to some nostalgic golden past where enlightened foreign administration provided fairness and justice, upheld democracy, must be resisted.

India will have a number of positive influences on the world. But it is crucial to recognise also limits that arise from the fact that it is a relatively poor country. India's greatest success together with economic growth and potentially its most valuable export are the experiences of elections, federalism, democracy and freedom. Economists often do not talk about the institutional requirements for this. Democracy has been accompanied by the evolution of practices, increasingly stringent, supervised by an independent Election Commission, that can provide lessons to many countries. It is possible that these are only the continuation of its long "argumentative tradition" and unique to India, but I do not think so. Growing up in India I often heard, sometimes agreed too, that parliamentary democracy was a poor choice and the example of Lee Kuan Yew, was often seen as an attractive option. May be Mrs. Gandhi lacked his capacity but she left India with a huge benefit, inoculating it against individual autocracy after her small experiment in ruling under emergency powers.

Indian democracy is clearly very far from being perfect. India may soon vote on the great grandson of its first Prime Minister as the new leader. A news report said the government will provide a dedicated commando squad to protect its wealthiest man, Mukesh Ambani, in case he is targeted by terrorists. He lives in a billion dollar single family skyscraper, with a personal fortune of \$21.5 billion. Increasingly a series of corruption scandals, deal with enormous amounts of money, often billions of dollars lost. In many countries, China included, the depredations of dynastic elites and the corrupt are sometimes hidden and popular anger contained by force. In India also the police and army have many arbitrary powers and extrajudicial killings. The Naxalite movement is a positive backlash by the poor against their dispossession and the anti-corruption movement is another struggle led by the middle class for justice with greater democracy. Such tensions will remain, but with an ongoing struggle for improved democracy and social justice. The lags in public health and education are most likely a function of and show the limits of democracy, within the elitist concepts in Indian traditions, which are also changing rapidly over time.

At the end I give a few different scenarios -

One view from someone in Pakistan - India has never been a cohesive state, always been ruled by foreigners. India is a basket case with 800 million abject poor starving people living on less than 50 cents a day and a sick caste system that is worse than slavery. best (sic) option for India's starving people (UN yesterday stated that India has worst (sic) malnutrition than Africa) is to break-up the failed Indian "union" and create viable small states linked to China and Pakistan.

Another from an Indian Minister - *India has no interest in destabilising any of her neighbours. India is nurturing its economy to sustain growth rates in the 9-10 per cent range. India needs to overcome instability in its neighborhood AND instability in India.*

My view is that ASSUMING ALL CONDITIONS REMAIN THE SAME – in the worst case India is 5-15 years behind China. It could overtake China in 10-20 years if the demographic, economic and political constraints discussed manifest themselves in China, while India can capitalise on its strengths and deal with its weaknesses. India faces many challenges and unknowns, which include our lack of full knowledge of why and how growth takes place and what makes it slow down or stop. India, as well as others, also faces additional challenges (and opportunities) from globalization, technology and climate change, which remain unpredictable. India has great potential to improve the lives of its people and for soft power globally, because of its history of living in a diverse and pluralistic society, which require India to continue its experiments in democratic participation and governance, with the social experimentation leading to learning and higher capacities –both individual and collective.