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India's Rising and Shining: Will It Prove a False Dawn?

Ramesh Thakur

In 1997, I wrote that "50 years after independence, India is neither rich enough to bribe, powerful enough to bully, nor principled enough to inspire." How things have changed! Over the past fifteen years India has finally overcome its "Hindu rate of growth," while its diplomatic influence and prestige has increased commensurately. Using purchasing power parity, India is now the world's fourth largest economy. According to a recent survey by the Economist Intelligence Unit, its economy is expected to grow by almost 6 per cent annually and to account for over 12 per cent of world economic growth in the next fifteen years. India will jump from 24th to the 10th biggest trading nation in the world (The Hindu, 2006).

Nor should we overlook the fact that within the political framework of democracy, federalism and secularism, India stands as an exemplar par excellence of power-sharing and political accommodation in a multi-ethnic, multi-religious society. This is a country where 80 per cent of the people are Hindus, while the heads of government, state and army are a Sikh, Muslim, and Sikh respectively, and the real power behind the throne is an Italian-born Catholic widow. Diversity and pluralism have no better champion.

An Indian Economic Model?

There has been something of a revival of the enterprise of liberal imperialism in the industrialized world which rests on nostalgia for the lost world of Western empires that kept the peace among warring natives and provided sustenance to their starving peoples. This is at variance with our own memory and narrative of our encounter with the West. In the fifty years before independence, the Indian economy was stagnant: per capita growth from 1900 to 1950 was zero. From 1950 to 1980 it averaged 1.3 per cent - not much to write home about perhaps, but at a level considerably better than under the British. More critically, it laid the foundations for subsequent high growth. India's economy grew annually by 6 per cent from 1980 to 2002, and by 7.5 per cent after that. Its annual population growth has slowed from 2.2 to 1.7 per cent, thus accelerating the rise in per capita incomes. About 1 per cent of Indians have been lifted above the poverty line every year.

India's economic success has varied from the standard East Asian model of state directed, export-led growth built around labour-intensive and low-priced manufactured goods. India's success is built primarily on domestic markets rather than export markets, domestic savings rather than foreign investment, high-tech services more than low-



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skilled industry, and rising productivity more than increased labour, land and capital inputs. Most importantly, at the heart of the Indian success is the private entrepreneur, not the state. This was dramatically visible at the annual Davos forum in January 2006: the Chinese delegation consisted almost entirely of government officials, while half India's delegation consisted of members of the corporate sector (who generated most of the excitement).

Yasheng Huang of MIT and Tarun Khanna of Harvard (2003) argue that foreign investment has been directed at exploiting the export potential of China as a branch-plant economy, based on its low cost inputs and quality infrastructure. Consequently, China's economy is geared to serving the needs and demands of overseas markets through goods produced and exported by foreign-owned firms. Thus foreign investment serves as a substitute for domestic entrepreneurship. Where is the Chinese firm that operates in the global economy and markets its own product? Many Indian companies compete successfully in the global marketplace, especially in the cutting edge, knowledge based industries.

India's economic performance is rooted in indigenous funds and enterprise and is therefore likely to prove the more resilient, self-sustaining, and less vulnerable to exogenous shocks. Its success reflects the vigorous shoots of a bottom-up strategy where domestic entrepreneurs have been pushing at the bureaucratic and political gatekeepers in New Delhi to step aside and let a thousand flowers of commerce bloom. In sharp contrast not just to China but to almost all the mature economies with an ageing population, India's demographic profile is of a large working age population entering the labour market to boost production, consumption and savings.

As India changes its attitudes toward its own sprawling diaspora, it might further reinforce the country's comparative advantages in professional, managerial and entrepreneurial skills. China's diaspora has helped to make it the world's factory. India could become the world's technology lab with the help of overseas Indians. The 2 million Indians in the United States comprise a meagre 0.2 per cent of India's population, but earn the equivalent of an astonishing 10 per cent of India's national income - and are beginning to flex their muscles in US politics. They were critical, for example, to Congressional approval of the India-US nuclear deal.

Characterizing China and India as economic rivals may prove to be as mistaken as it is popular. Just as Japan's economic miracle after 1945 was the engine of growth for the rest of East Asia, so robust and sustained growth and sizable middle classes in China and India would provide almost unlimited growth potential for the rest of the world.

A Journey Begun, but Not Yet Ended

The Indian entrepreneur is backed by a thriving stock market and a disciplined financial sector. The state has helped by continuing the financial reforms begun by the Oxford-trained economist Dr. Manmohan Singh, whose policies as finance minister back in 1991 have been maintained to the present by successive governments of different parties. Though they might differ on pace, sequencing and social safety nets, the nation's leaders have agreed on the goal: rapid and sustained growth made possible by the unleashed productive genius and energy of the Indian businessman. The government hopes to facilitate this enterprise by reforming the tax structure, lowering tax and tariff schedules, dismantling state controls and monopolies, prom-

oting and investing in infrastructure, softening labour market rigidities, curtailing subsidies, and by generally adopting business-friendly policies and, most importantly, a business-friendly state of mind.

Yet much remains to be done. India languishes in the bottom third of the human development index. Poverty levels are horrific, illiteracy is still a major problem, access to safe water and sanitation remains a pipedream for most people, and disease is endemic. Life is nasty, brutish and short for far too many Indians. The public sector is too large and parasitical, public debt too high, and the labour market far too rigid. Decades of socialist dogma and policies left India with debilitating infrastructure, injurious political legacies and a mindset where 'profit' remains a dirty word. Political and bureaucratic hurdles are many, labyrinthine and substantial; in the chain of decision making required for businesses to get government approval, corruption is rampant at multiple levels; markets are split from suppliers, with transportation networks that are far too antiquated and ultimately inadequate to link them effectively; communications and electricity are risible for a country that claims to be an information technology powerhouse; and the debilitating twin cultures of entitlements and subsidies constrain rewards for enterprise, initiative, and merit on the one hand, and the operation of the price mechanism on the other. Economic growth has yet to translate into significantly rising employment. Even the silver clouds of successes have their dark linings; a telling human cost has been the sad saga of suicides by bankrupt farmers. Additionally, Prime Minister Singh (2006) has been critical of the prevailing 'good enough' attitude in India. Without masking his thoughts, he has questioned why the Indian-born tycoon Lakshmi Mittal needed to go abroad and establish an overseas base of operations to create his spectacular globe-spanning steel empire.

Democracy: Strength or Weakness?

The mobilization of voters in light of the spectre of farmer suicides, due to falling support for the agricultural sector, was one of the factors contributing to the defeat of the previous BJP government in 2004. The smooth transfer of power to the Indian National Congress was testament to the enduring strength of India's robust and resilient democracy. Democracy and civil society, the foundations of good governance, are preconditions for successful markets and financial dealings. Democracies also facilitate the achievement of the necessary social compromises between capital and labour, efficiency and equity, and growth and equality. The most important attributes of democracy - political freedoms, civil liberties, religious pluralism, minority rights, rule of law - are intrinsically important, not just utilitarian instruments. They are worth fighting and dying for. But it does no one any harm that they should also promote and sustain market-based prosperity.

Yet electoral calculations can put a premium on sectarian interests overriding the national interest, and short term political compulsions trumping long term strategic vision. Democratic volatility also makes it difficult for governments to make decisions that are timely, forceful and final. As such, so many different constituencies and interests must be appeased and so much time devoted to getting 'consensus' that what is necessary for national advancement gets progressively whittled down to the bare minimum of what is possible for political survival.

But on balance, democratic governance grants greater assurance of long-term stability to India. This is underpinned by efficiency and transparency in the legal system,

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capital markets and corporate governance. The prerequisites of political pluralism - liberal democracy and a liberal economy - are mutually reinforcing. The post-independence economic sluggishness was due to bad policies, not democratic weakness. Policies of economic autarky, import substitution and industrial licensing; fear of foreign investment; and rejection of market principles were conscious choices made by the ruling elite. They had nothing to do with liberal democracy. Rather, the ideological suspicion of foreign firms was a product of history: the entry of the East India Company was the springboard for the British colonization of India. India's former fascination with the state occupying the commanding heights of the economy, and with state planning as the instrument of choice for economic growth, pursued at the cost of the price mechanism in a free market, produced the greatest program of poverty persistence and multiplication in human history.



A long queue of women waiting to cast their votes during the Assam Assembly Election-2006, in Guwahati on 3 April 2006. (Photo: Press Information Bureau, India)

Continuing Drags on India's Prospects

Democracy per se is an asset more than a hindrance to growth and modernization. But there are three significant drags on India's long-term prospects, and all are exacerbated by the rough and tumble of democratic politics: preferential set-asides, corruption, and coalition governance.

Reservations for the scheduled castes and tribes were written into the constitution in 1950, but only for a fixed period. Had they worked, they would have fallen into desuetude by now. Instead they keep multiplying and expanding, which in itself is proof of their failure. In recent times the success of the Indian economy has rested on the entrepreneurial flair of the private sector. Now the vibrant and dynamic success stories risk being colonized by the dead hand of the state.

The government is threatening to extend to the private sector and the prestigious Indian institutes of technology and management the requirement of setting aside half the jobs and places for lower castes and untouchables. The pathology of caste quotas includes many other pernicious and perverse consequences. Indians today are more caste conscious than at independence. Where the British divided and ruled, Indians have subdivided and misruled their own society. Predictably, benefits are captured by the better educated, more articulate and more politically skilled elite among the "disadvantaged" groups receiving preferential treatment.

A culture of caste-based entitlements cuts across the ethic of merit-based efficiency. Corruption distorts markets and encourages inefficiency. The biggest cost is political. It would be difficult to exaggerate the revulsion of ordinary people to the ubiquitous and institutionalized venality of public life. Petty corruption is especially endemic at the lower, clerical levels of administration - precisely the point at which the ordinary citizen comes into daily contact with officialdom. Corruption is first and foremost a governance issue: a failure of institutions and stewardship of public life, a lack of capacity to manage social, economic and political affairs by the rules of the game and with the help of effective checks and balances.

The reality of coalition politics makes it difficult to curb corruption among political allies. Since 1989, the federal government has been either a minority or coalition government, dependent for continuance on the support of a number of minor parties whose political base rarely extends beyond one province or region and whose image

of probity is risible. Even with a dream team of reformers in this administration, limp coalition politics repeatedly trumps hard economic logic. Some parties exploit caste identity as the most potent tool of mass mobilization. Others are caught in an ideological time-warp and resist foreign investment as a threat to sovereignty, when foreign capital entry is essential for buttressing and augmenting national sovereignty. Foreign investment brings with it not merely the requisite capital to invest in productive enterprises, but also modern technology and management expertise to maximize efficiency and productivity. Conversely, economic failure will leave a country vulnerable to external manipulations and unable to afford a modern and robust defence force.

The good thing is that Indians themselves debate the shortcomings and merits of alternative options openly and vigorously. Indeed in his annual Independence Day speech (15 August) from the ramparts of the historic Red Fort where Jawaharlal Nehru kept the nation's tryst with destiny, Prime Minister Singh could have been forgiven for adopting a triumphant tone in what in many respects had been India's year. Instead, he dwelt on how far the nation still has to go before the government could rest its weary legs.

India in the World

In its immediate neighbourhood, India asserts political primacy - wielding an unofficial veto over any direct role by outsiders. Relations with Pakistan are less tense than they used to be, but are still subject to eruptions of a startling suddenness on the most unexpected of provocations. Having navigated their way through the thicket of nuclear rivalry as novices in the immediate aftermath of the 1998 symmetric nuclear tests, both have slowly come around to some sort of mutual deterrence. But the Kashmir conflict still festers. It will feed grievance, fuel bouts of terrorism, prevent normalization of relations with Pakistan, drain resources and diplomatic-political energy, and cumulatively act as a drag on progress, albeit more so for Pakistan than for India.

Recent relations with China are the most cordial they have been in decades, as the long-standing border dispute has been shelved, having not been resolved to mutual satisfaction. Although both countries maintain a watchful eye over each other's intentions, capability and actions, each has shown a willingness to cooperate. Seeing the benefit of a strong South-South collaboration, leader and cabinet level visits have become regular occurrences.

India has invested more energy in its 'near abroad' than at any other time since independence, and is receiving more attention and respect from its neighbours in East Asia. The combination of geography, demographics, military power and political weight confers onto Delhi multiple responsibilities in safeguarding sea lanes, dampening Islamic militancy, combating terrorism, and taking the lead in disaster relief operations around the Indian Ocean. Moreover, along with China (to which it provides a welcome counter-balance in some respects), India has, through robust economic expansion, helped to cushion regional economies against global volatility.

Further afield, and against the weight both of its own history of animosity since independence and current global trends of rising anti-American sentiment, India enjoys excellent relations with the United States. In addition to economic and trade liberalization and growth and democratic attractiveness, the nuclear factor has an ironic manifold relevance. First, the 1998 tests forced Washington to focus on and

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appreciate India's geostrategic position. As a result, India received more sustained high-level attention than in the previous five decades, culminating in the first US presidential visit in 22 years by Bill Clinton in March 2000. Second, with time India's potential as an economic, political and military counterweight to China has begun to register in Washington. And third, the civil nuclear cooperation deal, signed during President George W. Bush's visit to India in March 2006, is itself symptomatic of the changed relationship and testament to US acceptance of India's responsible behaviour as a nuclear power. What used to be a clash between two self-righteous countries convinced of their own rectitude has been replaced by a deepening friendship between two peoples convinced of their exceptionalism.



President Bush and Prime Minister Singh shake hands after a joint press conference at Hyderabad House in New Delhi on 2 March 2006. (Photo: Press Information Bureau, India)

Conclusion

India is a land of fabled resilience and inner strength. No disease exists that has not afflicted it, no catastrophe not experienced, no disaster not befallen. Yet it carries on with the will to fight another day. Even in the face of the July 2006 train bombings that brought the country's financial capital to a traumatic halt, Mumbai picked itself up. Stories of courage and perseverance trumped those of disaster. Slum dwellers by the railway tracks are told to have been on the spot with sheets and beddings as makeshift bandages and stretchers, well ahead of ambulance services. The following day the city was back to full normalcy, busy making as much money as quickly as possible. Celebrated Indian author and former CEO Gurcharan Das (2006) had dubbed India "an infuriating democracy." Unlike most societies, the Indian solution to an infuriating impasse is to have an equanimity-restoring tea break. Life goes on, and things will take care of themselves. So too will India.

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