India's Development Prospects*

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In the search for the next country that would transit from backward to advanced nation status, India's name sometimes features. This is partly because the idea has been mooted by Prime Minister Narender Modi, who promises to make India a 'developed nation' by 2047. A country is identified by official agencies and the World Bank as high income mainly based on the size of its per capita gross national income (GNI), with the threshold currently placed at just over $14,000 at 2023 prices. So the claim that India, with current GNI of around $2,500 can exceed that threshold in 2047 has been treated as mere official propoaganda. But now we have Martin Wolf, the influential economic commentator of the London Financial Times, weighing in, supporting India's development prospects in an article in the newspaper (July 9 2024).

Wolf is cautious. He is clear that India is unlikely to be in the big nation's league when assessed in terms of per capita GDP measured in international lycomparable purchasing power parity (PPP) dollars. Even comparing prospects relative to the poorest of the 'advanced' nations, Greece, and assuming that the latter's GDP grows at 0.6 per cent a year and India's at 4.8 per cent a year, India's per capita GDP in 2047 would equal only 60 per cent of Greece's in 2047. That discounts India's potential to make the transition.

But that says Wolf does not take away from what India's potential influence may be. Because, given population size, even with that lower per capita GDP India would be among the largest countries in the world in terms of overall GDP in PPP dollars. That would give it global influence of a kind that the per capita figure does not signal. Illustratively Wolf notes: "if India's GDP were to grow at only 5 per cent a year to 2047 …, and US GDP were to grow at 2.3 per cent …, India's economy (at PPP) would equal that of the US." India is unlikely to match China's manufacturing prowess or catch up with the US in terms of productivity, but since size matters, India would be "unquestionably a great power."

This, however, is an assessment based on a play with numbers in the form of GDP growth rates. The real issue is what the drivers of growth that take it to 'advanced nation' status would be. At Independence in 1947, India was the one among the backward, ex-colonial nations of the 'Third World' that showed much promise of recording rapid development under a national government. Yet, despite rapid growth in the early post-Independence years, that potential remained unrealized. India did not diversify into manufacturing, as many other less developed nations did, even though the government invested large sums in basic industries and infrastructure. It lost growth momentum in the 1960s and 1970s. And despite the subsequent revival in growth it is not a player of any significance in the global market for goods.

Among the many factors that contributed to this failure, four stand out. The first was the inability of post-Independence governments to address income and wealth inequality to create a mass market that could underpin growth and industrial advance. The second was that the institutional changes and policies needed to galvanize agriculture and raise rural incomes were not adopted and implemented. Whatever development occurred delivered limited benefits to the majority. The third was that the government did not mobilise a part of the surpluses accruing to the wealthy to finance its expenditures and relied instead on inflationary financing, which worsened inequality. And fourth, the State failed to discipline the powerful industrial class to ensure investment and innovation in manufacturing and exports that would earn foreign exchange needed to finance the cost of essential imports.

These however were not the issues that were addressed by governments since the 1970s, when promising to correct India's developmental failure. Rather all blame was placed on the decision of the earlier governments to restrict the role of the market mechanism, pursue growth based on the domestic market, and not provide foreign capital an adequate role in India's development trajectory. That was seen as both limiting India's industrialization and development as well as undermining its capacity to export and earn foreign exchange. The net result is that, starting in the mid-1980s and especially following the balance of payments crisis of 1991, successive governments opted for domestic deregulation and the opening up of foreign trade and capital movements.

It has been four decades now over which such policies have been consistently implemented. While that has been accompanied by some acceleration in GDP, as measured by the official statistics, India has not recorded any increase in the share of manufacturing in its economic structure, has not emerged as a major exporting nation, and is still host to a large population afflicted by poverty and social deprivation. The need for a turn away from the neoliberal policies of the last 30-40 years and the return to bringing about major structural changes in the economy is clear.

But that is not what Wolf recommends as the route to realizing India's promise of becoming an advanced nation and even superpower. Rather he seems to keep his faith in exports coming to India's rescue. In fact, he seems to suggest that there is no option, because contrary to the view that: "India is a large country with a large market", "the true market size for tradeable goods and services is somewhere between 15 and 45 per cent of GDP, given the widespread poverty." The presumption is that that cannot be changed to expand the domestic market, but exports can be boosted, despite evidence to the contrary during the last four decades.

In support, Wolf points to 'redeeming features' that favour India's export growth. India's share in world merchandise exports was a mere 2.2 per cent in 2022, against China's 17.6 per cent, providing headroom for expansion. But that has always been true. He also notes that given India's strategic importance to the world's leading players and its close relations with the West, India "is an obvious 'plus one' in a world of 'China plus one'", holding out promise of an export boom based on relocative foreign investment shifting from China to India.

That is wishful thinking that wrongly attributes China's success to its being 'chosen' by the West to be the world's manufacturing hub, ignoring the role played by the Chinese State and and the high investment ratio it engineered. Based on that assessment, it is held that since China has lost its attractiveness in Western eyes, India is an obvious alternative. There is no evidence that India is a beneficiary of the turn away from China, with countries like Vietnam stealing the benefit. India still lags as an exporter. And the developed world, worried by its own slow growth, clearly has no appetite for one more country of India’s dimensions serving as a source for cheap manufactures.

There is little reason to believe that India today shows promise of emerging as a potential ‘superpower’.

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