For India to emerge as a global force, its economy must grow rapidly while expanding benefits for its people, says economist and foreign policy expert Rajiv Kumar.

Continued global clout is a direct result of progress at home. A “downgrade” is possible but it is more likely India will continue to be a global player.

India’s seat at the high table in the emerging global governance architecture is by now well established. The process has taken about a decade, starting with its role in helping to informally steer the World Trade Organization’s Doha Round of negotiations, followed in 2007 by becoming one of the five emerging economies that were part of a dialogue on the global economy with the G-8 and finally its membership in the G-20 and the related Financial Stability Forum that responded to the 2008 financial crisis.

With its co-ordinating role in some of the G-20 working groups and more recently a two-year membership on the UN Security Council gained in 2010, India’s stature has never been higher. During an unprecedented six-month period in the second half of 2010, the heads of state from all five permanent Security Council members visited New Delhi, a sure sign that India has arrived as a global player.

It is important, however, to emphasize that a benign and actively supportive external environment does not necessarily imply that India will be effective in enhancing global welfare. This requires that Indian negotiators backed by policy-makers in Delhi are successful in reconciling national interest with the “global good,” or are at least not perceived as pursuing a narrow and short-term agenda. To do this, India must be confident of the nature, trajectory and strength of its domestic growth. Its rapid rise since the reforms of the early 1990s, particularly during the first decade of the present century, is the fundamental reason for India being recognized as a major factor in global governance. India will have to sustain rapid and inclusive growth for the next three decades for it to credibly cement its claim as a global player.

Frankly, I doubt that other global powers will give sufficient credence to India’s negotiating positions if the country’s human development and social indicators remain at sub-Saharan levels. In short, India’s rising status is derived from the perception that it may emerge as the second or third largest economy in the world in the coming decades. This perception is already generating dividends for the country as it operates in a benign external environment. However, it is not enough for the Indian economy to achieve 7-8 percent annual economic growth. With nearly 12 million new jobs needed each year for the next 20 years and the explosion in individual aspirations, the Indian economy will have to expand at double-digit rates. Moreover, this growth will have to be both inclusive and environmentally sustainable.

This is indeed a challenging objective — but it is attainable. China was in a similar position in the mid-1980s, a decade after it initiated its own reforms under Deng Xiaoping. And we now know, China made full use of its opportunity and is now accepted as a global power. If, unlike China, India squanders this opportunity and the world community begins to see India as being unable to get its domestic policy act together, its global power will quickly erode. Historical examples like Iran and then the Soviet Union should serve as fair warning that a power “downgrade” cannot be ruled out. There is simply no room for complacency.

Urgent Tasks
The four critical challenges facing India in sustaining rapid and inclusive growth are its governance deficit, human resource development imperatives, infrastructure weaknesses and rising disparities in personal and regional incomes.

Rapid economic growth is crucial to raising welfare levels, since the enhanced public revenues generated by higher growth can be used to address poverty and provide comprehensive public goods and services. This requires good governance and accountable public administration. Although India has strongly entrenched public institutions, its record since independence in restraining corruption and improving governance is substantially below par. This has meant a growing marginalization of the poor and the sad spectacle of some human development indicators — like child malnutrition — being worse than in parts of sub-Saharan Africa. This is neither acceptable nor sustainable. India will have to urgently improve the delivery of social welfare programs and direct cash transfers (when they are implemented next year) to ensure that higher rates of economic growth also yield an improvement in the lives of the poor.

We also cannot take for granted India’s vaunted demographic dividend as a nation with a young population. It could equally become a demographic nightmare if our population remains unemployed or unemployable. Despite all we may hear about India’s education system and its skilled graduates, the truth is that overall educational capacity has fallen dangerously behind demand. Only 12 percent of Indian children find a position in the higher education system. Higher education enrollment in the US is above 80 percent and in China it is nearing 20 percent. While the enrollment in primary schools is universal, the quality of the education and curriculum is poor, according to surveys by a number of civil society organizations. Vocational training is also under-developed, with only about 5,000 vocational training schools as compared to about 500,000 in China. India will have to take urgent and large-scale reform measures to overhaul its archaic and under-funded education system, including reducing the heavy burden of overregulation and easing the entry barriers to private education providers at all levels if it is going to earn its demographic dividend.

India’s physical infrastructure deficit is a well-established fact that has emerged as perhaps the single most important constraint on the expansion of a manufacturing sector that is critical for generating jobs. The government’s Planning Commission estimates that nearly $1 trillion is needed for infrastructure investment during the coming 12th five-year plan (2012-17). The constraints on expanding infrastructure capacity are many, ranging from inefficient project implementation and outmoded land acquisition laws to lack of co-ordination among government agencies and...
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a paucity of financial resources that necessitates reliance on public-private partnerships (PPP) and measures to attract foreign capital in infrastructure sectors. The accumulated experience with PPP and finally building a robust regulatory framework will hopefully facilitate improved infrastructure in coming years.

INDIA VERSUS BHARAT
Rising income disparities could well widen if growth is left entirely to market forces, as more advanced regions and sectors tend to benefit disproportionately from growth. This divergence is best reflected in the large wage differentials that exist between organized labor, which employs just 8-9 percent of the total labor force, and unorganized workers, whose wages and productivity levels are many times lower. Regional disparities are captured by the catchy phrase, India versus Bharat, which is shorthand that sees “India” as individualistic and Western oriented, while “Bharat” (the Sanskrit word for the Indian subcontinent) is rooted in the inner life and traditions of the land. This long-standing split between advanced urban centers and the rural backwaters that cover large parts of the country could pose a threat to the very integrity of the nation if it is allowed to worsen beyond repair.

The way forward, though not easy, is to implement measures such as the universal goods and services tax (GST) and to lower current barriers to inter-state movement of goods and raw materials to create a unified domestic market. In addition, labor laws must be more flexible in order to blur the distinction between the organized and unorganized workforce. These policies require substantial political will and may not be easy in an era of coalition politics. But there are some encouraging signs that state governments are beginning to see the benefits of such measures and could converge on a common set of policies. The set of four challenges and the measures to address them will provide the basis for sustaining rapid and inclusive growth in India during the coming decades.

It is clear that India will have to push its reform agenda forward if it is to sustain high growth and generate sufficient employment to continue playing a meaningful global role. It is fruitless to debate whether a benign external environment or robust economic growth is more important, because the two are inter-connected. But if a priority needs to be set, India would do well to focus on its domestic reform agenda. Indian policy-makers can safely assume that India’s external environment will become increasingly benign as long as the country can sustain its economic growth in an inclusive manner.

INDIA’S GLOBAL CONTRIBUTION
Assuming that India is on a trajectory to emerge as one of the world’s three largest economies, it is useful to try to anticipate India’s role and possible contribution to global governance architecture. There are three somewhat distinct but closely inter-related areas here.

First, India will take on the responsibility for establishing a stable and prosperous South Asia, which is crucial for global stability and prosperity. By 2040, the region will have more than two billion people — nearly a fourth of the world’s population. An economically vibrant South Asia will be premised on a dynamic Indian economy and will imply the alleviation of poverty for nearly three-quarters of the world’s poor. India will have to work hard to earn the trust and confidence of its smaller neighbors, especially Pakistan, if it is going to ensure that the region becomes peaceful and reversible present trends towards religious fundamentalism and extremist left wing or ethnic violence and rebellion.

Second, an economically resurgent India will necessarily be more globally integrated. Since the beginning of its reforms in 1991, external transactions as a share of the economy, including trade, service flows and remittances, increased from about 20 percent to nearly 60 percent in 2009. This is likely to increase even more as India’s domestic markets become more accessible to both imports and foreign investment through a series of free trade and comprehensive economic cooperation agreements. Furthermore, Indian firms are already venturing abroad in search of markets, resources and technologies, a trend that is sure to accelerate. India’s economic interests thus will emerge as the primary driver of its foreign policy. As a result, India can be expected to co-operate in maintaining a stable and open economic order governed by universally accepted standards. In the realm of global security, India can be expected to join multilateral coalitions that aim to check actions that undermine a stable and consensus-based world order.

Third, given its past record and future stake in the world, India will also continue to support non-proliferation and work towards the “zero option” of achieving a nuclear weapons free world. This is not mere rhetoric — Indian culture does not prize overt destructive power, and the concept of a central harmony uniting both human society and nature is deeply ingrained in the Indian ethos. This is reflected in the Sanskrit notation vasudeva kutuk-bum (the earth is one family). India is thus a natural opponent of nuclear adventurism and, more importantly, an inherent supporter of environmental protection. The country’s leadership will surely continue to oppose attempts to inequitably distribute the burden of environmental protection in global warming negotiations to developing nations, but its people and firms have already initiated conservation measures that will intensify over time.

Finally, we can hope that India will become richer while not becoming less moral or humane in its social behavior. If successful, and this is an even probability at present, India should take a leading role in fighting against the trafficking of persons and narcotics, for example. The optimism arises not from current social behavior that is unfortunately rife with rank materialism and conspicuous consumption, but from a much longer tradition of moderation in all aspects of life. This should prevent India from being trapped in a materialistic and hedonistic morass that could be its undoing. Given its traditional wisdom, which acts as a constraint on any particular ideology or fashion becoming too strong, India will hopefully emerge as a democratic, pluralistic, prosperous and ethical global player.

Rajiv Kumar is Director of the Indian Council for Research on International Economic Relations.