India in 2025: What Kind of a Superpower?
By Anil K. Gupta

India's sustained economic growth, entrepreneurial society and young population have it poised to become an economic superpower within the next 15 years, argues Professor Anil K. Gupta.

With its vibrant democracy and free press, the country provides an alternative to China, if it can overcome daunting challenges. But what kind of superpower will India become?

As recently as the early 1990s, much of the world thought of India as an exotic land full of saffron-robed priests, snake charmers, cows, beggars, maharajahs and the Taj Mahal. The last 15 years have utterly transformed the stereotypes. While India's exotic features remain a part of the country's fabric, it is the economic India that occupies much of the world's attention today.

With a GDP growth rate averaging 8 percent over the last decade, India is second only to China as one of the world's fastest-growing large economies. In this article, I reflect on the factors that have propelled India's transformation, where the country is headed over the coming decades, the challenges it must overcome to realize the hopes and ambitions of its billion-plus citizens and the kind of superpower India is likely to become.

Driving Transformation
India's economic transformation began in 1991. Faced with near bankruptcy, the government started dismantling the "license Raj" that had shackled the private sector by controlling even little things such as the price of soap. This policy shift unleashed entrepreneurship on a grand scale, a phenomenon that continues to gather momentum. A second factor was the country's global advantage in information technology and other knowledge-intensive services. Over the last ten years, India has emerged as the world's No. 1 destination for outsourcing of everything from low-end services such as call centers to high-end work such as pharmaceutical development, data analytics, financial market research and legal services. The third major driver of growth has been a major ramp-up in levels of domestic savings and investment. In the early 1990s, India's gross capital formation stood at only 24 percent of GDP. Since then, it has increased rapidly and now stands at almost 40 percent of GDP, only slightly smaller than China's and almost double that of every other large economy in the world.

A growing chorus of analysts at banks including Goldman Sachs, Morgan Stanley and Standard Chartered now predicts that, over the next 10 years and beyond, India’s GDP will grow even faster than China’s. Three main factors underlie such forecasts. First, India is now investing in infrastructure with the same vigor that China did from 1996. From then to 2005, China spent 8.2 percent of its GDP on infrastructure; India spent only 4 percent. In the current five-year plan (2007-2012), India has spent about 7.5 percent of GDP on infrastructure. The 2012-2017 plans are even more aggressive, with the goal of investing $1 trillion on infrastructure — over 9 percent of GDP. Infrastructure investment will likely boost GDP growth by ushering in a manufacturing revolution to rival China’s performance over the last two decades.

Second, India will benefit from a demographic advantage over China. With a median age of 25 years, India’s population is much younger than China’s, where the median age is 34 years. As a direct result of its one-child policy, China has now become one of the fastest-aging societies in the world. China’s dependency ratio — the number of people who are very young or very old divided by the number of those of working age — hit a plateau in 2010 and will keep rising for the next 30 years. In contrast, India’s dependency ratio will keep declining during this entire period. These twin trends will lead not only to a slowdown in China’s growth rate but a rise in India’s growth.

Third, the days of export-driven growth in China’s economy are over. During 2000-2010, China’s exports grew at over 20 percent annually, twice the pace of growth in world trade. As a result, China’s exports increased their share of world trade from less than 4 percent to about 10 percent, higher than that of any other country. If this trend were to continue over the next 10 years, by 2020 China’s export share would increase to 25 percent — a political impossibility. As the growth rate in China’s exports slows, India’s exports are likely to pick up, a direct result of the infrastructure and manufacturing revolution currently underway.

Challenges Ahead
Notwithstanding India’s promise, sustaining rapid growth will require the country’s elite — government, media, academics and other key members of civil society — to confront and overcome a number of challenges. The first will be educating the country’s masses of young people. India may be home to some of the world’s best engineering and business schools, but the overall level of adult literacy is pitifully low at about 63 percent. The bulk of the work here will need to be done by the private sector. As 3G and 4G wireless technologies get rolled out nationwide and as low-cost tablet computers become commonplace, there will be unparalleled opportunities for the private sector to bring outstanding self-learning material to even the remotest villages. The second major challenge is the scourge of corruption. While corruption always leads to misallocation of resources, in a country such as India its effect can be particularly nasty as it leads to massive exploitation of the very poor who have almost no power to pass on the costs of corruption to third parties. The third major challenge is the imperative for much greater efficiency in using resources, especially in energy. India relies on imports for a bigger proportion of its oil and gas needs than any other large emerging economy, including China. As India’s economy continues its rapid growth, the situation is likely to get worse. The consequences are clear. One possible outcome is that India hits a resource-scarcity wall and growth comes to a screeching halt. An alternative scenario is that the country’s industry, government and consumers respond vigorously to the need for greater efficiency and the development of renewable energy sources.

What Kind of Superpower?
If India can sustain annual GDP growth of 9-10 percent over the next 15 years, by 2025 it will likely overtake Japan and be the world’s third-largest economy after China and the United States.
Given the pace and magnitude of the structural transformations in the global economy, it seems appropriate to start speculating now on what kind of a superpower India will be or could be.

In looking ahead at the India of 2025, it is important to remember that complex adaptive systems cannot change their stripes once they have evolved. The rules that guide how a system evolves determine its end-state. In short, how India becomes a superpower will predetermine its structure, mindset and behavior. Thus, the question of what India will be like in 2025 is important not just for then but also how the country should manage its journey.

First and perhaps foremost, India’s emergence as a superpower will serve as a vivid showcase for the idea that it is possible to lift hundreds of millions of people out of poverty within one generation while embracing pluralism, a free press and vibrant democracy. India’s rise will put to rest the idea that a command-and-control political system is the only viable route to economic salvation and that democracy is somehow antithetical to rapid economic growth. India’s rise will provide a credible, proven and alternative model to the one currently being provided by China.

Second, India has the potential to serve as a leading example of how to combine rapid economic growth with fairness towards and inclusion of those at the bottom rungs of the ladder. In a democratic system such as India’s, where even the poorest people exercise their political rights actively, uplifting not just the better off but also the poorest will be critical for social stability. In order to keep up a rapid pace of economic growth, India will have to embrace fairness and inclusion with unprecedented gusto and commitment. As it becomes a great power, these values will likely become an enduring part of the country’s DNA.

Third, India will likely emerge as one of the world’s leaders in leveraging information technology to boost the effectiveness and efficiency of its institutions. The seeds are being planted right now. Just look at Gujarat and Bihar, one of the richest and one of the poorest states, respectively. The chief ministers of both of these states have impeccable reputations for being free from corruption and focused on economic development rather than cronyism or feather-bedding. Recent elections saw both chief ministers get reelected handily — a clear sign that voters are willing to reward economic performance.

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