

If India wants a meaningful place in the Asian Century it must act big and act now

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*The 1990s saw high and sustained growth for India but this has slowed in recent years. **Bishal Chalise** writes while that another wave of holistic reforms is required to address structural bottlenecks, India also needs to invest in its human capital and operate closer to the global technology frontier if it wants to become a high-income economy in the long term.*



The twenty-first century is widely referred to as 'the Asian Century'. Less obvious, however, is the place for India in the economically resurgent Asia. Can India harness its demographic and democratic dividends to drive the growth and rise to the prominence? Or will it be mired in mercantilist protectionism, poor infrastructure and low human capital and thus, lurk in the 'middle'?

The developments in India in the first fifteen years of the new millennia fail to offer a convincing answer.

India's miraculous growth began in early 1990s after the sweeping economic reforms transformed the Soviet-style central planning economy into a market based liberal economy. [The reform](#), led by economist-turned-politician, Dr. Manmohan Singh, then finance minister, entailed floating the currency, eliminating production and import controls and opening up the country to foreign investments among others. The result was immediate and phenomenal.

For the next two decades, the Indian economy grew at 7-8 percent on average and quadrupled per-capita income from US \$262 in 1990 to more than US \$1180 in 2010. Subsequently, India became a third largest economy in Asia and tenth largest in the world. However, the growth rate has [slowed](#) in recent years.

While [some believe](#) that the slow growth is due to the bleak global demand after global financial crisis and that India would regain the momentum, others (see [here](#) and [here](#)) flag policy gridlock as major barrier to the economic growth and doubt India can grow at pre-crisis pace. The skeptics are even pointing to the risk that the country [may face 'middle-income trap'](#).

India graduated to a lower middle-income country in 2010 and it may be too early to presume that the country would fall into the trap but there are some plausible issues to be concerned about.

As Arvind Panagariya, current chief economic advisor to the Indian government, [notes](#), reform in the 1990s was an important milestone but was it was insufficient as a policy measure to turn Indian economy into a modern globalised economy.

Unlike in China, the reform didn't focus on creating large manufacturing base and on formalising the country's vast informal service sector. While a few more educated people were working in mushrooming IT firms and service industries, the majority were stuck in less productive agriculture fields and traditional factories.

Moreover, India kept many tariff and non-tariff barriers intact and prevented foreign investment in many key sectors like telecommunication, retail and aviation for long. The reform fell short of ameliorating the notorious labour and the land-acquisition laws. As a result, the country couldn't fully obtain the benefits of integration into the global value chain.

Although the long stint of growth concealed the problem, rampant corruption, suboptimal infrastructure and bureaucratic red tape worsened over the years. On the top, complacent Indian policymakers not only failed to make any notable reform during those years, they aggravated the situation with contradictory and inimical policy

measures. Its tax row with some multinational companies ([here](#) and [here](#)) is just one example.

Taking all together, structural bottlenecks explain half of the India's growth misery.

To get back on track, India needs another [wave of holistic reforms](#) that would redress the structural cracks in the economy. Specifically, it should embrace deeper trade integration so that it can acquire much needed capital and catch-up with technology frontier. Moreover, the country should cleanup bureaucracy, strengthen inclusive institutions, and loosen the rule for input consumption.

With these policy reforms, coupled with young and low-cost labour force, India can even replace China as the world's manufacturing centre and clear the path for continuing growth.

But the story doesn't end here.

The growth generated through structural transformation would merely bring '[episodic growth](#)' that would last for a short to medium term. It may take the country from lower-end of middle income to the higher-end. But for a sustained long-term growth, a prerequisite to become a high-income economy, the country needs to operate closer to the global technological frontier.

A common denominator among today's developed countries is that they invariably facilitate innovation and offer knowledge-based produce. They have been able to determine the global technology frontier. Advanced countries design and deliver most of the new product and services that world today consumes from new gadgets to financial services to agricultural technology. For that, the countries invest heavily in human capital—on providing quality education to people and in keeping them healthy.

India, on the other hand, fails measurably in those respects. The country [lags](#) far behind average middle-income countries in creating human capital thanks to the poor education and healthcare provisions. The eminent economist and Nobel laureate, Amartya Sen, [views](#) India as 'the only country trying to become a global economic power with an uneducated and unhealthy labour force'.

The basic tenet here is, the underdeveloped human capital will cripple Indian economy in form of low productivity and inability to innovate, both so vital for a country's economic growth in modern times. Highly educated people with the ability to create high-value technology-driven products that match with the sophisticated consumer demand are the [fundamental determinants](#) of the economic growth.

The recent attempt by the new government to revamp [the outmoded economic policies](#) is welcoming news. If successfully implemented, these reforms will restart the high-growth momentum. However, India should be mindful of longer-term prospects for the economy, which again requires improving the country's healthcare system and enhancing the quality of education at all level. Undoubtedly, it is an enormous challenge for the country of 1.3 billion populace and should be supported by other institutional reforms. However, if India wants to ensure a meaningful place in the Asian Century, it must act big, and act now.

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Note: This article gives the views of the author, and not the position of the South Asia @ LSE blog, nor of the London School of Economics. Please read our [comments policy](#) before posting.

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