



India, an Emerging Power, But How Far?

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Not so long ago India was still perceived as a poor country and readily acted as spokesman for the Third World in multilateral organization meetings. In 1991 it was on the verge of bankruptcy, with reserves in its coffers to cover only three weeks of imports. Today it declines international aid—even flying to the rescue of its neighbours after the 2004 tsunami—and displays many of the attributes of power. In January 2007, Goldman Sachs predicted it would be the world's third largest economy in 2025,¹ after China and the United States. In military matters, India has declared itself a nuclear power and is willing to play the role of policeman in the Indian Ocean.

This expansion has been built on the economic foundations constructed over decades, starting with the Nehru years. It differs from that of China, first because industry and exports have played only a secondary role in India's recent trajectory, and second because it does not draw only on assets that can be measured in terms of hard power, but also on an above-average power of influence and attraction by comparison with other emerging countries. However, India's breakthrough remains limited and certain obstacles stand in the way of the ongoing dynamic.

An atypical emergence in Asia

The Nehru dynasty foundation

It is very fashionable today in India to downplay the contribution of the 1950s and 1960s when the government of Jawaharlal Nehru set up a specific development

1 T. Poddar and E. Yi, "India's Rising Growth Potential," *Global Economics Paper* 152, 22 January 2007, p. 5.



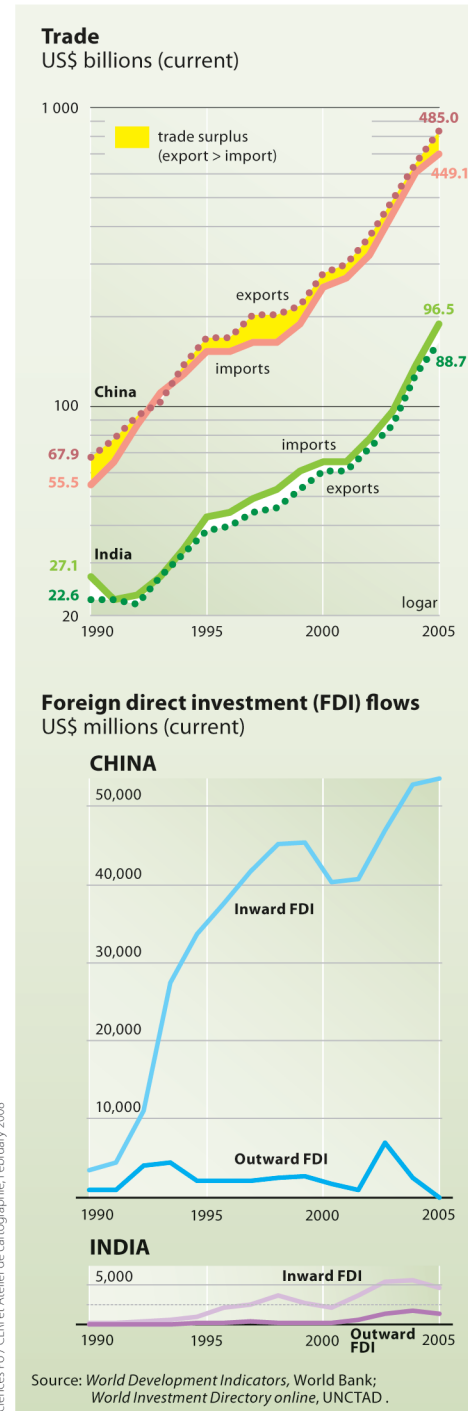


pattern to which the present successes of the Indian economy owe much. Politically, this is the time when democracy and the rule of law took root in society; the regime was to remain more stable in India than in any other Asian country, Japan excepted. The national question was also largely solved by the implementation of an accommodating federal system that defused most of the separatist forces, except in Kashmir. Economically, in addition to very substantial industrial achievements, the land reform, though limited, and the Green Revolution implemented by Indira Gandhi, Nehru's daughter, enabled India to gain food self-sufficiency. The elite institutions initiated by Nehru—especially the Indian Institutes of Technology (IITs)—trained scientists who were to be responsible for India's performances in IT. Simultaneously, state-sponsored institutions endowed the country with remarkable engineers in the fields of nuclear and space technology.

Economic reform and capitalist underpinnings

Perfectly aware of the limitations of the statist model initiated by Nehru, Indira Gandhi and then her son, Rajiv, started to reform it in the 1980s. This policy took a more radical turn in 1991 when India had to accept IMF recommendations. The country did not adopt the export-oriented Asian pattern at the time. Certainly, the measures that were taken aimed at integrating India into the global market: customs tariffs began to drop steadily and the main obstacles to admitting foreign MNCs on its soil were gradually lifted. But that brand of liberalization did not change much in the short run. India's integration into world trade remained very tentative and foreign investors were not rushing in. The aspect of the reform that primarily accounted for acceleration of growth in India was purely domestic;

figure 19: **International trade and FDI flows from India and China, 1990-2005**





the country adopted a supply-side policy which turned out to be so successful because it was also stimulated by the middle class' eagerness to consume.

In 1991 India gave up maintaining the private sector under its control via the License Raj, a bureaucratic straitjacket through which every company had to request administrative authorization to increase or diversify its production, since the Nehruvian state was supposed to ensure the optimal allocation of resources. The License Raj had already been relaxed somewhat in the 1980s, when Indian growth in fact began to accelerate; now it was entirely dismantled. This supply-side approach, which involved measures such as the lowering of corporate taxes and taxes on the higher income brackets, gave the economy a boost because India was able to rely on a very rich entrepreneurial substratum.

Unlike China, which annihilated its middle class after the revolution, India settled for closely monitoring a business community that was heir to a long capitalist history. Some families that still dominated the business world in the 1980s and 1990s—the Tatas, the Birlas and the Bajajs, for instance—had learned how to manage a company way back in the late 19th or early 20th century. Coming from merchant communities such as the Parsis and the Jains or merchant castes such as the Marwaris, they were infused with excellent business sense that they continued to cultivate by earning MBAs in the United States. In the 1980s and even more in 1991, the state thus liberated long-bridled and specifically national energies.

The new Indian middle class and the 'demographic dividend'

This economic dynamic has been primarily supported by the domestic market. The middle class is largely responsible for the increasing level of consumption, whose rise is attested by the savings rate—26% in 2005 as against 40% in China.

In India the middle class is an old concept that for decades has been associated with the role of the state in the economy, given the huge number of civil servants in the bureaucracy as well as in publicly-owned industry. Even today, a majority of the white collar workers—and of salaried people generally—are in the public sector. In the 1990s, this middle class displayed a vigorous interest in the products that the private sector began to put on the market (finally!), the dynamism of the corporate sector itself contributing to the growth of a new, market-oriented middle class through job creation and wage increases. Fifteen years after the 1991 reform, in its survey of 240 million Indian households, the National Council of Applied Economic Research (NCAER) identified four social categories, including a large middle class. 5 million of them, the elite group, earned at least 46,600 euros a year in purchasing power parity; 75 million, the middle class, earned 28,100 to 46,600 euros a year; 82 million, the labouring masses, earned 7,200 to 28,100 euros and 78 million, the poor and the destitute, less than 4,000 euros. In terms of percentage the middle class remains a minority, but in absolute





terms, it represents a huge market. These figures, indeed, bear testimony to a demographic dynamism which has been another factor of India's emergence.

India's population growth was long perceived as a handicap. It remains one in rural areas where unemployment is endemic. But the youth of India's population has proven to be an undeniable advantage in recent years. Not only has the country escaped the decline in activity that accompanies the ageing of a population in any society, but the active minority has not had to bear the weight of its inactive population. India has in fact reaped the benefits of a strong "demographic dividend". This term refers to the difference between the working and the nonworking population in a given society: the population growth rate among people aged 15 to 59 is significantly higher than that of the total population since the late 1990s, the ratio of working age to dependent people having reached 62% in 2000. This ratio has fostered an accumulation of abundant savings, which has financed increasingly large investments: these grew at 6% per year in the early 2000s.

India's population mass has moreover contributed to maintaining labour costs at a much lower level than elsewhere, including China, where a growing labour shortage should lead to higher prices in the short term. Many foreign investors have thus been dissuaded from opening branches in the "world's workshop" to relocate more in India, even if the country's main attraction among foreign MNCs has to do with its consumer market, itself due to its population mass. This new situation contributes to higher growth rates in industry, which in 2006-7, for the first time since 1991, rivalled the growth rate in services, reaching up to 11% per year.

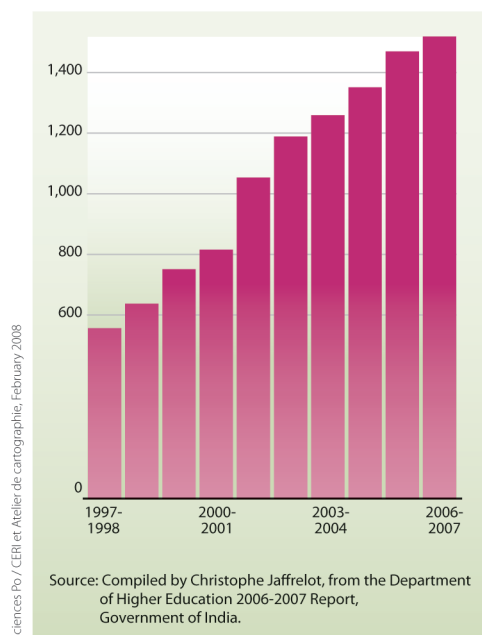
The brainpower of the 'world's office'

The emergence of India is especially atypical in Asia because it has been primarily supported by the services sector, especially back office activities for which the country has offered remarkably attractive opportunities because of the sophistication of relatively inexpensive IT engineers. The country's assets in this field can first be explained by the excellence and number of its scientists and engineers. This undoubtedly has its roots in cultural features specific to the upper caste ethos: the Brahmins—a caste of scholars and the most prestigious caste in the Hindu world—value knowledge acquired through study, not only in literary fields but also in scientific ones such as mathematics, in which India played a pioneer role. These elective affinities—to use Max Weber's terms—were fostered by the higher education policy implemented by Nehru in the 1950s, of which the IITs are still the cream of the crop; but there are other institutions, including the very prestigious Indian Institutes of Management (IIMs).

The information technology sector was the first to benefit from this brainpower in a highly favourable context. First, economic liberalization enabled new



figure 20: **Number of engineering schools in India, 1997-2007**



companies to be formed (Infosys was founded by a handful of engineers in 1981) and older ones to retool (Wipro went into computing at the instigation of Azim Premji). Secondly, India put computer services and software on the market at an excellent quality-price ratio that could be exported—here the external variable plays an important role—via telephone lines, the only infrastructure India is relatively well endowed with. The world would discover India's comparative advantage in computer technology on the occasion of the “year 2000 bug” when American corporations called on the talents of Indian engineers in great numbers, India's time difference enabling them to work by day when it was night over in the United States.

India also earned its reputation in the 1990s in other high added-value sectors such as pharmaceuticals, first with generic drugs developed by small companies, later to become multinationals such as Ranbaxy or Dr. Reddy, copying molecules

from the major Western firms before making the needed investments in R and D to have their own licenses registered. The weight of high-tech in India's economic boom explains why the services sector has gradually gained an edge over the others, to end up accounting for over half the country's GDP with a growth rate

table 2: **The Indian Population in the United States in 2006**

		Indian community	US Population
Demographics	Total population	2,482,141	299,398,485
	% of 18-34 year-olds	33.1	23.2
Education (% of 25 years and over)	High school graduates	90.3	84.1
	Bachelor's degree	68.6	27
	Graduate and professional school	36.5	9.9
Resources	Per capita income in dollars	34,895	25,267
	% of people below poverty threshold	8.2	13.3

Source : 2006 American Community Survey, U.S. Census Bureau



of over 10% since the 1980s; services are driving India's growth, ironically making India a post-industrial economy before having been an industrial one.

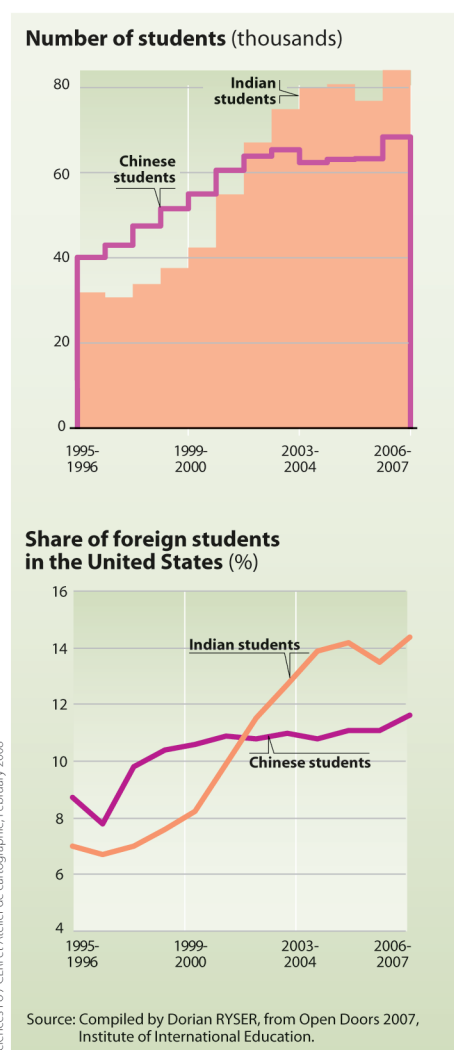
Exile as a path to development

The brain drain has long been perceived in India as a dead loss. But it has also proven to be a long-term investment. Once again India's specificity derives from its very particular elite made up of highly educated upper caste individuals, who yet have no other than intellectual capital. Many of them chose emigration because of the lack of job opportunities (in southern India, due to a policy of positive discrimination towards the lower castes) and the appeal of the West, especially since US immigration policy was relaxed in 1965. Indians have also met remarkable success in North America where they numbered over 2 million in the early 2000s.

The United States Census in the year 2000 show them to be a model minority with a per capita income substantially above the national average and with exceptional education levels. Indian students moreover make up the largest contingent of foreigners on American university campuses, with a strong presence in information technology, especially in Silicon Valley. These high-achieving immigrants were to contribute to the boom of Indian firms working in this field by placing orders with them and making technology transfers—if only by returning to the country or setting up subsidiaries there.

The massive exodus of millions of Indians has also contributed to the country's boom, through the funds they send their families from abroad. The above-mentioned elites are not the only ones to make remittances, because unskilled workers who since the oil crises of the 1970s have found industrial or domestic jobs in the Middle East or elsewhere in the world also bring in considerable sums to the country. These remittances are on the rise each year, so that India is the country that since 1994 has received the most funds from its emigrants in the world,

figure 21: **Indian and Chinese students in the United States, 1995-2007**



Sciences Po / CERF et Atelier de cartographie, February 2008



and its 25 million strong diaspora has become a significant foreign investor in the country, with \$27 billion of investment in 2007.

Multinationals are back

The diaspora is no longer the main source of FDI today, even though its contribution remains significant. The multinationals that Indira Gandhi had expelled in the 1960s-70s in keeping with her anti-imperialist agenda—Coca Cola and IBM had to leave India at the time—are back. After a long “wait and see” period in the 1990s, the big firms eventually admitted that post-1991 India was a country they could no longer ignore because of its expanding domestic market and its potential as a hub for manufacturing products to be exported elsewhere in Asia—all the more so as the government (drawing its inspiration from China) has created Special Economic Zones where taxes are low and labour laws more flexible. As a result, foreign direct investment, which was very low until the early 2000s, is flowing in. High-tech enterprises, which had been the first ones to set up R and D centres, have been joined by manufacturing firms, including car-makers. Furthermore, the Bombay stock exchange is experiencing an unprecedented rate of growth, and portfolio investments established new records until 2007.

What power ambition?

India does not enjoy the same recognition for its place on the international scene as China does. Its economic power is not comparable and, unlike China, it does not have a permanent seat on the UN Security Council, which triggered its power ambitions by combining hard power and soft power.

Military effort and quest for strategic partners

New Delhi demonstrated its desire to play in the major league by conducting five nuclear tests in the spring of 1998. India is developing an ambitious ballistic missile programme in the same spirit. The Agni III missile it has been developing for several years with a range of 3,000 km will give it a radius of action from the Middle East to East Asia, covering the area over which it intends to exercise its influence. It also purchased six Scorpene submarines. From Russia it is buying an aircraft carrier currently under restoration in order to assert its role of policeman in the Indian Ocean. The country's military expenditure has risen constantly since 1994, with a defence budget increasing from \$12.2 billion in 1994 to \$23.9 billion in 2006. India moreover plans to acquire 126 fighter planes to modernize its air capability in the coming years—one of the largest contracts of its kind ever signed.

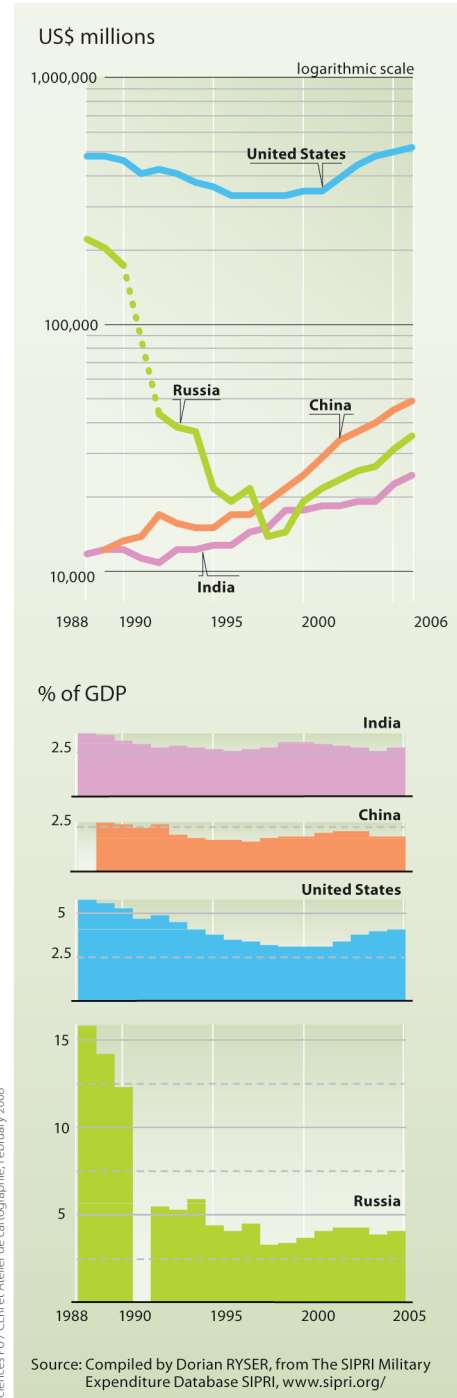




At the same time, India indicates that it knows its limits and remains true to parts of its Third Worldist past. It has joined hands with other emerging countries in the WTO and with Brazil and South Africa in the framework of the IBSA forum, a grouping formed in 2003 in order to ostensibly gather together three major market-oriented democracies of three continents. India even projects itself as spokesperson for poor countries—a category of which it claims to be part of when that suits its purposes—by arguing, for instance, that it is not rich enough to implement environmental norms.

Besides, India continues to feel the need for strategic partnerships with bigger countries, all the more so as the country is very isolated in her own region. In the 1970s and 1980s, India strayed from its nonalignment policy and moved closer to the USSR—while remaining refractory to alliances and jealously guarding its national independence—to earn protection from a superpower whose Indian leaders to some extent shared its worldview and economic model. The same type of scenario is seen today in the Indian-American rapprochement. After the collapse of the Soviet bloc, India found itself isolated and sought to build stronger ties with the United States, whose capitalist mode of development seemed moreover better suited to Indian needs. The country thus asserted its emerging power not in the shadow of the United States—it is far too attached to its national sovereignty for that—but at least with its aid. Washington is counting on New Delhi to act as a counterweight to China and to isolate Iran, an old friend of India's against which it has voted twice in the IAEA since the beginning of the nuclear crisis. In exchange, India convinced the United States to allow Israel to sell it military equipment, such as the Phalcon radar system, under American license, and to give it access to American civilian

figure 22: **Military expenditure in the United States, China, Russia and India, 1998-2006**





nuclear technology, a concession that sparked opposition from the right as well as the left in India, both being anxious to preserve the national independence of the country. The exceptional treatment India enjoys in this way in this very sensitive nuclear issue is explained partly by the effectiveness of its soft power.

On the art of wielding 'soft power'

If India has a growing weight in the affairs of the world, it is not because, like China, it inspires fear, but because it exercises a power of attraction and even fascination—something the 2008 Olympic games may have given China. Its cultural influence flows through many channels. It is first of all a great civilization with which pacifist values have readily been associated since the time of Mahatma Gandhi and the granting of asylum to the Dalai Lama in 1959. But this idealized image, which had its heyday in the 1960s, has been entirely renovated since the 1980s. First, because of the world impact of its remarkably inventive literature: Salman Rushdie, Arundathi Roy, Lahiri, Mistry, Seth, and Naipaul have all snatched up Western literary prizes. Even when they no longer live in India or were not even born there, these authors speak about their country of origin with a talent that makes it familiar to the rest of the world. To make a society and its culture penetrate the imagination of others is already to exercise power over them. On a

less elitist register, Bollywood produces a record number of films that finds an audience abroad—particularly in countries that host a strong Indian immigrant population. Although this brand of cinema cannot compete with products of the American majors, it exports better than the seventh art of many European countries.

The fact that India is a democracy and a constitutional state is naturally a significant resource in terms of soft power. The country exploits this vein all the more readily since the Bush administration put “regime change” in the Middle East and elsewhere on the top of its priorities in the 2000s. India makes use of this whenever the opportunity arises. For instance, it put forward its democratic qualities to justify its demand for special treatment in nuclear affairs, and the West acquiesced: if India enjoys particular goodwill even if it is not a signatory to the NPT, and if Iran on the contrary awakens great suspicion although it is, this is because one is a democracy

figure 23: **Film production in India, the United States, and France, 1996-2003**

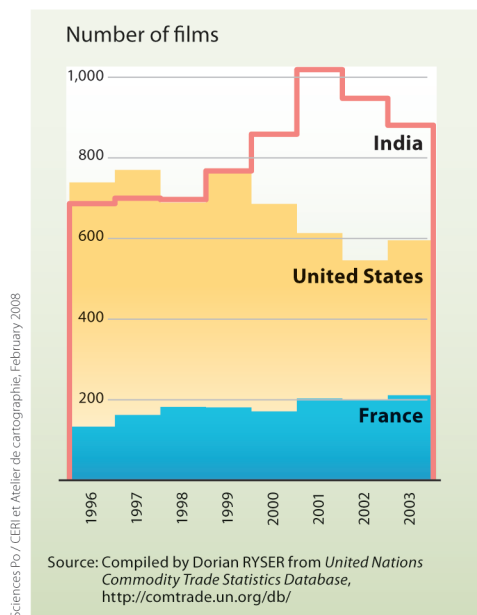
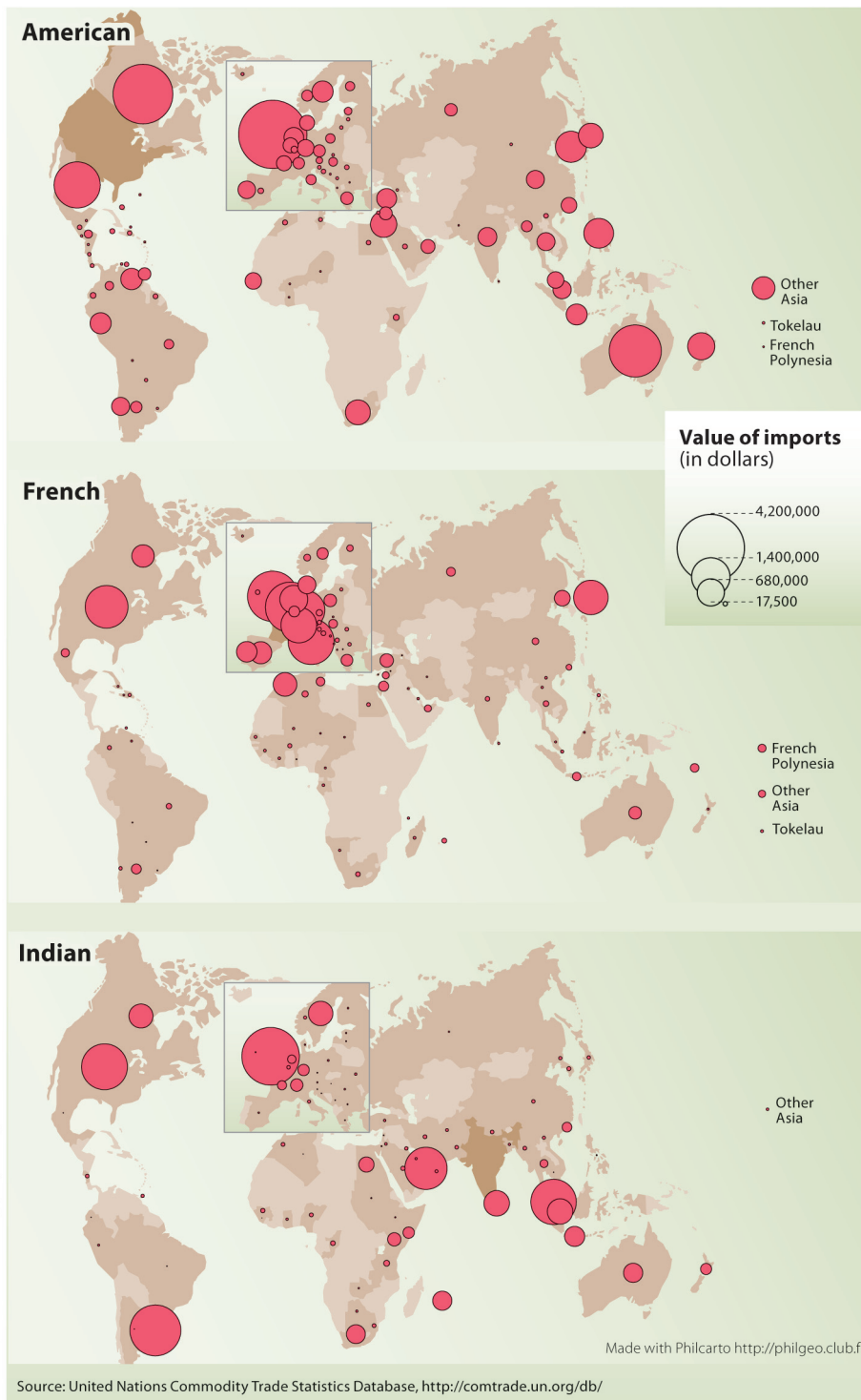




figure 24: **American, French, and Indian film imports, 2006**





and the other is not.

Growth without development?

“The sky is the limit” is probably the most often heard cliché on the lips of the Indian elite today, even among the urban middle class. But several obstacles jeopardize the country’s rise in power—to the point of raising the question of whether India can continue developing at such a pace.

Advocates of the ongoing liberalization see it as the best way to stem poverty. But figures taken from the National Sample Survey—the most reliable survey conducted among thousands of households each year—show that the pace of poverty reduction has slowed since the shift of policy in 1991. In ten years, between 1983 and 1993-94, the proportion of poor in the population dropped by 11 points, but it only dropped by 6.7 points over the following ten years. This is why the 1990s have often been described as a lost decade in the fight against poverty. Although liberalization may have led to several extra points of growth, it does not ensure real development, especially because it fails to create jobs in rural areas. The fruits of growth are in fact very poorly distributed.

There is nothing surprising about this: liberalization has enabled those who already owned capital—be it financial, social and or intellectual—to grow richer while those who had none (or not as much) stagnated. The percentage of households living on less than 90,000 rupees (i.e. 1,800 euros) per year continues to affect over 70% of the population. This proportion dropped by 7 points between 1995-96 and 2001-02, but still characterizes the large majority, whereas the number of households earning more than one million rupees per year (i.e. 20,000 euros), who can be considered rich, multiplied threefold, from 268,000 to 807,000.

Growth primarily benefits regions that already have some degree of urban and industrial fabric. A line can be drawn from Punjab to the north of Andhra Pradesh, cutting the country in two as regards standard of living. The southwestern half represents prosperous India, whereas the northeastern half lags behind. Monthly per capita income is over 22,000 rupees in the first area whereas it is below that level in the second.

The disparities are also growing larger between city and countryside within the Indian states themselves. In 2004-5, those who spent more than 1,100 rupees per month represented 38.3% of city dwellers and only 6% of the rural dwellers, according to the most reliable source on this issue, the National Sample Survey.

Agriculture in crisis

The condition of farmers reflects an agricultural crisis that has been too long neglected. In the 1980s, the average annual growth rate of primary agricultural product was 4%. It dropped to 3.5% in the 1990s and 2% in 2000-7, at a time when the





secondary and tertiary sectors were experiencing growth rates of over 9%. The Planning Commission today foresees that the country's food security requires an agricultural product growth rate of 4% to 4.5% per year. This relative decline is largely explained by the steady drop in agricultural prices since 1991, and more generally, by the state's growing disinterest in the agricultural sector. Fertilizer subsidies fell by 20.18% between 2000-1 and 2004-5. Subsidies to ensure the supply of electricity—vital for running irrigation pumps—dropped by 21.3% in 2002-3, bringing them below their 1996-97 level.

Widening gaps could prompt more farmers to adopt revolutionary tactics promoted by the Naxalites. This Maoist movement takes its name from the Bengali city of Naxalbari where the first insurrection broke out in 1966. It experienced an upsurge in activity in the early 2000s in a regional context marked by the success of the Maoists in Nepal, but also, especially, an international context dominated by the pauperization of rural areas. For millions of farmers overburdened with debt—to the extent that they have committed suicide by the thousands—in a number of districts the Naxalite discourse is finally the only one that makes sense to them. The Naxalite landslide coming from Bengal and Bihar today flows through Jharkhand, Chhattisgarh, Madhya Pradesh, Orissa, Andhra Pradesh and even Karnataka. In 2006, for the first time attacks on police stations and other ambushes, claimed more victims than the Kashmiri guerrilla war.

Bottlenecks

Infrastructure is one of the traditional weaknesses of the Indian economy. The roads and railways are in such a bad shape that the average speed, for passengers as well as freight, is less than 20 km per hour (so far as roads are concerned, this is also due to the remains of the old octroi system). Modernization of these two means of transport should be boosted soon by the "Golden Quadrilateral" project, which is planned to create a new network of roads and railways connecting Delhi-Calcutta-Chennai-Mumbai-Delhi. The 5,846 km of motorway under construction should allow cars to reach 80 km/h.

The dearth of energy resources may present another of the greatest predicaments India will have to overcome in the coming decades. With a strong annual rise in growth rate and population, the country's energy consumption is bound to explode—its electricity needs are expected to increase 3.5 times by 2025. Its coal consumption should go from 311 million tons in 1997 to 540-690 million tons; depending on the scenario, oil consumption is likely to go from 83 million to 195-245 million tons; and gas consumption from 21.5 billion to 65-71 billion cubic metres—and this when its production is expected to develop very little. Unless there is an unlikely discovery of a particularly rich oil field, India will see its black gold self-sufficiency rate, which was 59% in 1990, drop to 13% in 2020. As a result, the



lowest estimates—banking on an average yearly economic growth of 6%—predict that the share of energy in the country's imports should rise from 16% in 1990 to 33%-38%, depending on whether the country optimizes its energy use or not. The upper figure in this bracket would mean that the country had to devote \$39,500 million per year to its energy bill, which would amount to between one-fifth and one-fourth of its export revenue.

These forecasts will be proved wrong, however, if India reforms its system of electricity production and distribution. Its State Electricity Boards are well known for their nepotism, low productivity and populism—which explains why peasants do not pay for the power they use. Political parties might have the courage to change this, but it is a very touchy issue.

India's trajectory is thus different from that of other emerging countries of Asia. Today's growth relies on an exceptional "demographic dividend" and a capitalist milieu which is long-standing but which has been reactivated by the recent reforms. It owes much to the dynamism of domestic consumption supported by an expanding middle class, and to the services sector which is very well integrated into the global market because of the skill of relatively cheap IT engineers and the diaspora. Yet, massive investment in industry—from both foreign and Indian firms—will boost India's position in areas where China dominates, largely because its labour will gradually become cheaper than Chinese labour.

Emergence, but how far?

India's emergence is also atypical from the point of view of international relations. The country asserts itself in the world because of its military-strategic assets, but also in terms of soft power. Secondly, India is jealous of its national independence, but has found a new partner (after the demise of the USSR) in the US, who is likely to help it find short cuts to power—even though Washington may not get much in return. Thirdly, India is trying to obtain a global status—by knocking at the door of the UN Security Council, for instance—without being a regional power first, a rather unusual strategy but a logical one given the fact that the country is isolated in South Asia, a region where it is so much bigger than its neighbours that they cannot accept its leadership without considerable apprehension.

As an emerging power, India may join hands with its peers at the WTO within the IBSA group, but it often reverts to its Nehru legacy to become once again the spokesperson of the poor countries that it was at Bandung. Behind the apparent contradictions of the Indian trajectory, one constant can be found: a strong nationalist sentiment which is fostered today by new economic assertiveness. As a result, like China, India sees its emergence as a return to the position it occupied in the 18th century and as revenge over the West. In that sense, India's emergence is truly postcolonial and breaks from the Nehruvian universalist perspective. More-





over, India is tending to forget the message it had for the world thanks to Nehru—and Gandhi—*just when* it is acquiring the influence it once lacked to impose that message. India's mindset is so nationalistic that its foreign policy may only consist today in a quest for power *per se*, a policy where even its soft power attributes are supposed to support a Realpolitik striving for respect and international status.

India has not arrived, though. Its growth is affected by major bottlenecks and generates dramatic inequalities. The informal sector—90% of the working population—offers no social security. The state's investments in health and education remain low. At the receiving end, poor peasants might be tempted by revolutionary movements, while some Muslim youth, victims of discrimination, might be tempted by Islamist groups.

Besides, India is under great ecological threat. India's rising consumption of fossil fuels not only poses a balance of payments problem. It also raises a burning topical environmental question. If nothing is done to reduce CO₂ emissions, they will double in 20 years to go from 11.33 million to 22.32 million tons between 1997 and 2020. The Indian authorities have demonstrated their ability to react in this area as soon as the problem is brought before the Supreme Court: the judges for instance made the use of Compressed Natural Gas mandatory for the highest polluting vehicles in Delhi, buses and taxis. The obvious lack of ecological awareness demonstrated by the political class is, precisely, such that most of the pressure will have to come from the country's legal apparatus and NGOs, which may not be sufficient.

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