



View from the Beltway

On the Cusp of Superpowerdom

BY OWEN ULLMANN

India's rise would be a giant win for Washington.

Charles DeGaulle is said to have quipped: “Brazil is the country of the future—and it always will be.” The same could be said of India, which has long pursued the path toward economic superpower status without completing the journey. Indeed, a *TIE* symposium asked as long ago as 2006, “Will India Steal China’s Thunder” and become an economic global powerhouse before its Asian rival? Quite a few of the experts surveyed said yes.

Seventeen years later, we know China won that race handily. Yet it’s worth asking today whether India will finally join the United States and China in that rarefied space within the next decade. There are many reasons why that prospect is very likely. And the implications for the world economy and U.S. geopolitical interests are enormous.

Why ask that question anew now? For starters, India displaced China this year as the world’s most populous nation, according to projections by the United Nations. China held that

distinction since the United Nations began issuing population estimates in 1950. Not only is India the new Number One, with an estimated 1.43 billion people—three million more than China—but its lead is expected to grow to 350 million by 2050 be-

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cause China’s population has peaked due to its low fertility rate.

From an economic perspective, India continues to grow at a rapid pace and is widely projected to become the world’s third-largest economy by the end of the decade, while China is beset with multiple problems that include a real estate sector burdened by enormous debt, a rapidly aging population, high unemployment among young workers, and declining foreign investor confidence following heavy-handed moves by all-powerful President Xi Jinping,

who has chipped away at free-market forces guiding much of the country’s economy. True, India ranks fifth in the world based on GDP, a mere fifth that of China. And India’s per capita GDP is a paltry \$2,600, compared with China’s nearly \$14,000 and \$80,000 in the United States. Another way to look at it: India has tremendous opportunity to grow at a rapid clip, much as China did two decades ago, when it was the world’s fifth-largest economy.

Two recent events symbolize how India may finally be on the cusp of economic superpowerdom. In August, the country successfully launched its Chandrayaan-3 mission to explore an area of the moon no other spacecraft had visited, an achievement all the more remarkable because it came just days after an attempted Russian lunar landing failed, to Moscow’s great

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*U.S. President **Joe Biden** greets Prime Minister of India **Narendra Modi** as Biden arrives for the G20 Leaders' Summit in New Delhi on September 9, 2023.*



OFFICIAL WHITE HOUSE PHOTO BY ADAM SCHULTZ

embarrassment. Then in September, Prime Minister Narendra Modi hosted the Group of 20 summit in New Delhi, a gathering viewed as India's would-be-superpower coming-out party on the world stage.

Should India finally achieve its self-proclaimed destiny, Washington stands to gain a significant advantage in global affairs. India, with its long ties to the West, a large English-speaking population, and the world's largest democracy, would be a natural partner (it shuns the term "ally") on many issues with the United States at a time when Washington and Beijing are engaged in hostilities across a range of economic and military issues. While India has acted mostly as an unaligned nation in dealing with the West, it is no friend of China. The two countries have had multiple border disputes. In addition, and India's long dream of following in China's footsteps will certainly create new areas of conflict as Indian companies seek foreign investment to produce Western goods for companies in China that are less enamored with Xi's political whims

and eager to take advantage of India's lower labor costs.

India and Washington also are connected by the great Indian diaspora. Vice President Kamala Harris' mother is of Indian descent, and should former South Carolina governor and UN am-

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bassador Nikki Haley defy current political odds and win the White House next year, she would be the first U.S. president whose parents are Indian immigrants. The parents of Vivek Ramaswamy, another Republican presidential candidate, also are from India, and five current members of the House are of Indian descent.

How likely is India to achieve its ambition? "It has a great deal of unrealized potential. And the key challenge is whether that potential can be unlocked in a way that generates the

sustained high growth that India is capable of but has not quite delivered in the past," observed economist Eswar Prasad, the Tolani Senior Professor of Trade Policy at Cornell University and a senior fellow at the Brookings Institution. Prasad, a native of India, said the country's economy has been thriving in recent months even though the rest of the global economy is struggling because India is not heavily reliant on exports, growing largely on domestic demand.

Still, India is known for a crushingly regulated, highly protectionist, and hyper-bureaucratic economy that has stifled growth in a global system that rewards openness and entrepreneurial spirit. Prasad believes that is finally changing under the business-friendly Modi. "My feeling about why the economy has been doing quite well in the last couple of post-covid years is that the Modi government, to its credit, has undertaken some reforms, admittedly in a somewhat disjointed and episodic fashion, but they have made progress on a number of priorities. For instance, there is now a goods and services tax

in place that simplifies the tax system and also promotes interstate commerce. There have been attempts to change labor laws, which have prevented the growth of heavy manufacturing. And, essentially, the central government has left some of the labor deregulation to states, and some have been able to move forward with that.”

“In addition, there have been some reforms to the banking system, to infrastructure investment, which has picked up from the government measures to open up the economy more to foreign capital,” he continued. “And on top of all of that, the digitization of the economy, in which the government played an active role, has been very important. It has given everybody easy access to a

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low-cost digital payment system. There also have been policy shifts such as giving people direct cash transfers instead of various subsidies that were distorting labor and product markets.”

While encouraging, the reform agenda is far from finished, Prasad said. He noted that Modi pushed changes to land reform laws to make it easier to develop property, but he had to pay a political price for modest changes in the laws and backed off from further reform when confronted with a massive pushback by small landowners.

Aside from land reform, Prasad pointed out other positive factors: improved infrastructure, a young population, reforms that are modernizing the broader financial system, and a government commitment to reduce its debt-to-GDP ratio, which is approaching 90 percent, a high burden for an emerging economy.

On the negative side, he noted that the economy is not generating enough employment. It has a healthy service sector but not a strong manufacturing base that most emerging economies have developed to create high-paying jobs. There is a lack of credit for small and medium-sized enterprises, and intrusive labor laws still discourage firms from creating jobs. The danger is that the young labor force, while a huge potential boon, could become disillusioned if India cannot generate enough good jobs. High unemployment among young people in China has become a growing problem, raising concerns within the ruling Communist Party about social instability. India would like to avoid that.

Developing a thriving manufacturing sector is key. Now that China has become a higher-wage economy after decades serving as the world’s manufacturing hub, Western companies looking to diversify their supply chains are turning to countries such as Bangladesh and Vietnam. India needs to be on that list. In the past, Western investors worried about government corruption, which remains a concern. And efforts by Walmart and other retailers to expand in India encountered government resistance to protect domestic companies. Those restrictions have been relaxed, but investors remain skeptical about how durable those changes will be.

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Since Modi and his Bharatiya Janata Party came to power in 2014, they have promoted a Hindu nationalist agenda that has fueled rising violence

and discrimination against the 20 percent of non-Hindu religious minorities in the country, particularly the 14 percent who practice Islam. That so-

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cial agenda often takes priority over the pressing economic reforms Modi has vowed to pursue, raising the prospect of social instability that deters foreign investment.

For Washington policymakers, India can be a valued partner on many critical geopolitical issues, none more important than deterring Chinese aggression in the Pacific. On that issue, India needs no coaxing. As a functioning democracy despite Modi’s authoritarian tendencies, India also echoes U.S. political values at a time when Beijing is casting a spotlight on the flaws of liberal Western capitalism, ranging from growing economic inequality and crime to the shredding of social safety nets for those in need.

India, with a long history of non-alignment, has refused to join the U.S.-led coalition supporting Ukraine in its fight to expel Russian invaders. It abstained from a UN vote condemning Russia’s aggression and has helped finance Moscow’s war by increasing discounted oil purchases from Moscow in violation of a Western-imposed price cap. That posture has disappointed the Biden administration but it has not disrupted a warming of relations on other matters, as evidenced by a state dinner Biden hosted for Modi at the White House in June, and a bilateral meeting the two men held at the G20 in New Delhi, where they issued a statement detailing numerous issues on which they agree.

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Even so, Jaishankar made clear that India still harbors great enmity toward China and warming ties with Washington. India's border clash with China in 2020 that resulted in the deaths of twenty Indian soldiers "has completely impacted the relationship because it's very hard to try to be normal with a country which has broken agreements, and which has done what it has done."

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Indian foreign minister **Subrahmanyam Jaishankar** and U.S. Secretary of State **Antony Blinken** at the U.S. State Department in September 2022.

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of Asia, of the world, with that degree of tension between them, it has consequences for everybody else."

By contrast, the current state of U.S.-India relations "has enormous possibilities," Jaishankar noted. "The convergences today far, far outweigh the divergences... How much can we step on the gas? How much can we take it forward? Look at the last five

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years. Our security relationship has changed and our political relationship has changed. Look at the economic side. When Prime Minister Modi was here there were some really important technology agreements which were made. Look at the human linkages between our societies. So, I think we got a lot going for us."

That attitude makes clear why Washington is rooting for India to finally make it to super-status. A new member of that exclusive club committed to

free elections, an unbridled press, and the rule of law over strongmen would make China and its system the outlier. True, India's democratic principles have been put at risk during Modi's rule, but then the same could be said about the United States since Donald Trump was elected president.

"The democratic system provides an escape valve for many of the economic, social, and political pressures in the country," said Prasad. "The notion of being able to throw out the bastards every five years, even if the new set of bastards is not that much better, I think has been very important for India. If it can achieve economic success while preserving its institutions, it could send a very powerful message about how democracy, the rule of law, a system of checks and balances can be very good in promoting growth and more equitable distribution. India still faces a very long period of sustained high growth to bridge the gap with China, but this moment is a time of great promise."

For U.S. interests in today's divisive world, that promise is golden. ♦