Revival of "Rush to India": Will India's Economy Take Off?

The Indian economy is stirring. Under the slogan of "Strong India," the Modi administration's drive for reform is waking up the country. India will surpass China to become the world's fastest-growing country in 2015. India is young, with a median age of 29 years, and has a middle class of 250 million people and an invigorated democracy. India's growth, which signifies the emergence of a new democratic economy in the region, will have a tremendous impact on geopolitical dynamics in Asia.

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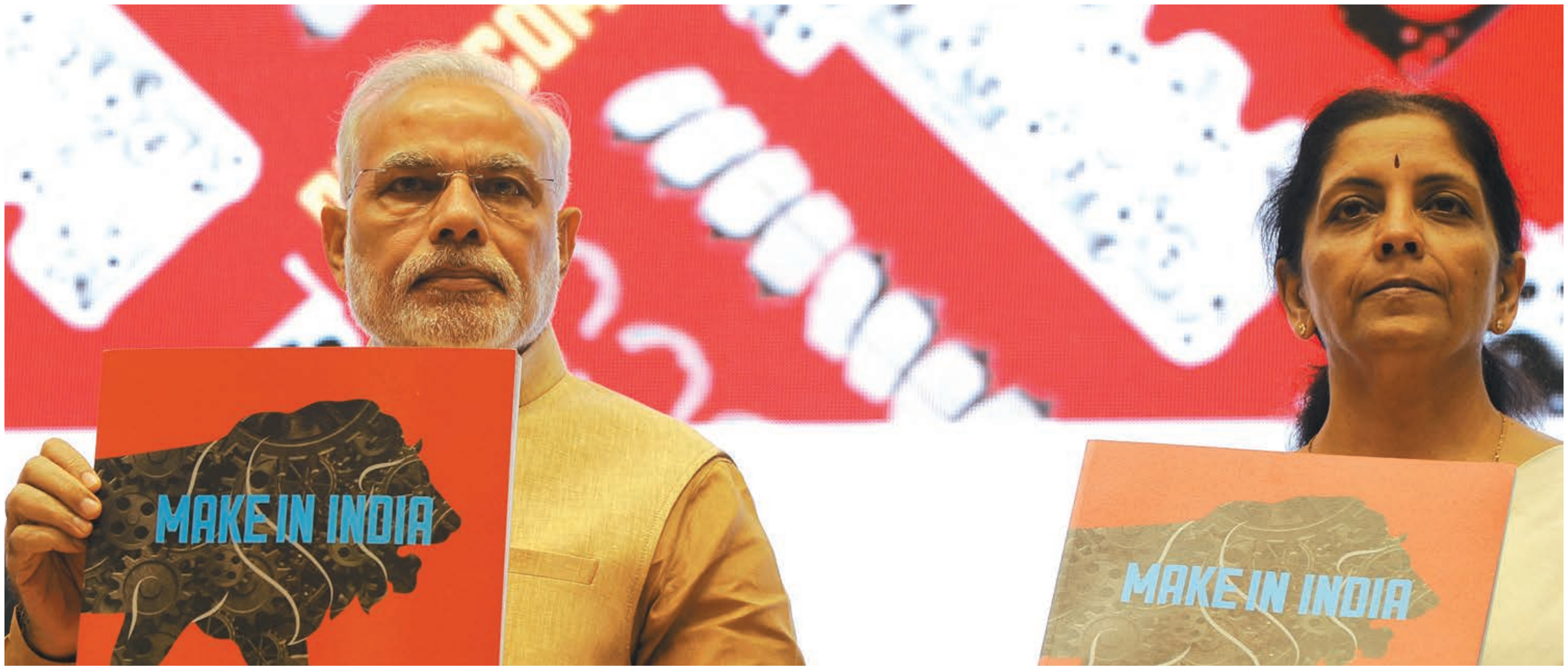
With the 3 D's of Democracy, Demography, and Demand, India will Outshine China

A decade ago, in my book *India Shock*, I asserted that India is the only country that can surpass China, and discussed the country's great potential, based on the characteristics of India's democracy, demography, and industrial structures. At that time, many people thought my argument was far-fetched, but after ten years, my prediction is becoming a reality.

Recently, many global financial institutions, including the World Bank and Goldman Sachs, have released positive forecasts for India's economy. They predict that India's growth will outpace China's in 2016. The Indian government stated that India has already started to surpass China. According to new statistics released by the Indian government, India's economic growth in the fourth quarter of 2014 reached 7.5%, eclipsing China's 7.3% growth rate. They predict that India's economic growth will be 7.4% in FY 2014-2015, and 7.8% in FY 2015-2016, both greater than the forecasts for China's economic growth.



Indian Prime Minister Narendra Modi (L) holding a sign reading "Make in India" (Xinhua/Yonhap News Agency)

Modi's determination for a "Strong India"

Narendra Modi's party took a clear parliamentary majority in 2014 national elections. Building on his stable political ground, Prime Minister Modi is showing determination to realize a "growing India." His vision for achieving a growing India by strengthening economic fundamentals is well represented in India's latest Union Budget. From his experience in Gujarat, he is well aware that the construction of infrastructure is a basis for economic development. For this reason, much of the budget has been earmarked for the construction of infrastructure. India plans to build metro rail systems for all cities with more than 2 million people, and has unveiled its plan to invest USD 10 billion in the construction of the Mumbai-Ahmedabad high-speed rail corridor. Moreover, India has set aside USD 6.3 billion for the construction of rural roads, and allocated USD 1.2 billion for 100 smart cities, which will be integrated with state-of-the-art information technologies.

In order to achieve the goal of a "growing India," Modi has launched four campaigns: Make in India, Reform India, Inclusive India, and Clean India. When these campaigns are implemented in full this year, the effects of Modinomics will become tangible. As the Modi administration is determined to profoundly improve India's business environment, investment will increase, especially in manufacturing. This will naturally lead to more jobs and increased consumption.

The core of Modinomics is "Make in India," designed to nurture manufacturing. In an effort to boost foreign direct investment in India's manufacturing, Prime Minister Modi has released the "3D" slogan: Democracy, Demography, and Demand. India seems to be keeping its competitor, China, in mind. With this slogan, India appeals to Japan and Western countries to invest in democratic India, rather than authoritarian China. The slogan stresses that India has demand (market) and demography (a cheap but highly qualified young workforce) just like China, but unlike China, India is democratic.

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Economic growth based on democracy

India's democratic tradition is clearly a huge advantage from the perspective of continual economic growth. India is the world's largest democracy, and has a democratic tradition of resolving social conflicts autonomously rather than by government authority. Historically, the Indian military

A young workforce means that India can become the world's largest consumer market. India's middle class population is growing rapidly: it is expected to soar from 250 million in 2015 to 400-500 million by 2025.

authority maintains strict political neutrality and fulfills its military responsibilities. An independent and neutral judiciary and media, and above all, the Indian people, who have high democratic awareness, all contribute to India's democracy. The financial and education levels of Indian people are lower than those of people in advanced countries, but their level of democratic awareness is inferior to none. India has maintained grass root democracy through local self-government institutions: Panchayat Raj. This tradition has allowed Indian people to demonstrate mature democratic consciousness; they have ruthlessly voted out any politician or political party involved in non-democratic behaviors, even if they were descendants of Jawaharla Nehru or Mahatma Gandhi. The 2014 general election was no exception. The Indian people did not favor the Indian National Congress, despite its connection to Nehru and Gandhi, because it was marred by illegality and corruption.

The biggest cause of Modi's victory in the election was his strong determination to fight corruption. The Indian people have judged India's governance through democratic elections. Indian voters, who emphasize the importance of good governance, are highly likely to become increasingly strict in judging India's governance. A landslide victory for the anti-corruption Aam Admi Party (meaning "common man") in the recent state assembly elections in Delhi is expected to work as a stimulus for other political parties. A public call for good governance through democratic elections will create a solid foundation for the continuous development of the Indian economy.

The evolution of Indian democratic institutions that bring Indian society to the next level through qualitative development of society as a whole is

India's 3D Campaign

Democracy	• Sharing the common values of democracy with the West • Responsible power
Demography	• 'Demographic dividend' with an increasing proportion of economically-active people • English-fluent professionals
Demand	• The middle class population to surge from 250 million in 2015 to 500 million in ten years • The emergence of the post-reform generation, who will lead the mobile market

an important asset not only in social development, but also in foreign relations. The Modi administration is dreaming of making a "strong India." To this end, it is prerequisite for India to be acknowledged by the international community as a "responsible power." If it does this, India can receive active support from the international community, particularly the United States. A good example is the United States giving India access to civilian nuclear technology and fuel as a result of India's responsible behavior with nuclear missiles in the past.

In international economic cooperation, India is making the most of being the world's largest democracy. While explaining the "Make in India" campaign during his visit to Japan in September 2014, Prime Minister Modi stressed that India is a democracy. Japan responded by further advancing cooperation with India, which shares democratic values with Japan. Emphasizing democracy, India is cooperating closely with the USA and Japan for the common goal of containing China. As part of the so-called circle of democracy led by the USA, India is overtly asking the West to invest in its manufacturing sector.

As Japan and the USA responded actively to India's requests, the two countries witnessed an investment rush into India. During a meeting between Japanese Prime Minister Shinzo Abe and his Indian counterpart Narendra Modi on September 1, 2014, Abe announced a five-year goal of investing JPY 3.5 trillion in India. Through this investment, Japan will support the construction of power plants, railways, roads, and industrial parks in India. The USA is also ready to increase investment in India profoundly, as exemplified by the fact that the USA and India agreed to resume stalled dialogue on a bilateral investment treaty during U.S. President Barack Obama's visit to India in January 2015.

India: the world's most populous and youngest country

India is expected to become the world's most populous country by 2030. Unlike China, its economically-active population will increase steadily until 2025.

Currently, more than half of India's 1.2 billion people are under the age of 25. India will become the youngest country by 2025, with a median age of 29 years, much lower than China's median age of 37. This is where India is at its strongest–the demographic dividend. This refers to economic growth facilitated by an increasing proportion of economically-active people. By contrast, China is becoming an aging society, with 9.5% of its population reaching 65 years of age and older. China's elderly population is expected to increase to 16.2% by 2030. Its rapidly aging population will likely impose a demographic tax on China's economy, dragging down its economic growth rate. India is projected to become an aging society by 2025, with the elderly population making up 7.2%.

If this vast population resided only in India, they would become a stumbling block for economic growth, as suggested by the Malthusian theory of population. In that case, India's economic future would look bleak. However, the positive factors will outnumber the negative factors. Above all, one-third of white-collar workers will be Indians. They already occupy one-third of all jobs in the IT sector. English-speaking Indians who excel in mathematics and science are steadily taking over professional jobs in Western countries.

This will have a positive impact on India's economic growth. Remittances by Non-Resident Indians (NRIs) to their home country will greatly contribute to India's foreign reserve and national economy. India is already the largest recipient of officially recorded remittances in the world. As of 2013, India received USD 69 billion from NRIs, almost USD 1 billion higher than China. "This statistic is based on bank account transfers and data from international money transfer agencies, so actual foreign remittances could be much higher," said an official at the World Bank. Furthermore, advanced technologies and management know-how transferred directly and indirectly by Indian professionals working overseas play an important role in India's economic development. This role will expand further.

The vast and limitless market

As the world's most populous country, India has a young and burgeoning working-age population that is larger than China's. A young workforce means that India can become the world's largest consumer market. India's middle class population is growing rapidly: it is expected to soar from 250 million in 2015 to 400-500 million by 2025. The Indian middle class, mostly fluent in English, is quick to embrace the latest technologies and information, leading the Indian consumer market.

Another advantage of India is that its market is limitless. With low market saturation, India has high potential for growth. For example, the number of cars per 1,000 people in India was 18 as of 2011, compared to 101 in China, 249 in Brazil, 300 in Russia, and 809 in the USA. In this regard, there is a high possibility of a significant increase in car sales in India.

The importance of the Indian market is growing with the post-reform generation emerging as the mainstream of Indian society. Indians of the post-reform generation, born after India's reform and opening-up in 1991, have become involved in many aspects of Indian society. By 2020, they will be prominent leaders of Indian society. They are totally different from other Indians in their way of thinking and lifestyle. While India's older generation has shown irrational decision-making practices, the post-reform generation will demonstrate a globalized and rational way of thinking and lifestyle. In addition, their level of education, particularly in science and engineering, will be world class.

Indian voters check a voter registration list with the names and photos of voters at a Delhi Legislative Assembly election held in February 2015. [AP/Yonhap News Agency]

Most of the Indian middle class is raised in a multi-lingual society, is fluent in three or four languages, including English, and is open-miwnded. Open-mindedness leads to new and creative ideas, which will illuminate the knowledge society of the 21st Century. Another strength of the Indian middle class is that they easily adapt to the rapidly changing mobile technology landscape. In 2020, most business affairs will be handled on mobile devices such as iPhones, and two-way exchanges and acquisition of information will take place at much faster speeds. The Indian people, who have a good command of English, will very likely lead the mobile technology landscape in the 2020s. As of 2015, there are more than 900 million mobile phone subscribers in India, and its smart phone market is growing at an annual rate of over 160%, four times higher than the global average growth rate of 40%. We should prepare for changes that will be led by the post-reform generation of India.

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Growth-focused China vs. Distribution-oriented India: Indian Youths Craving Change Will Lead Long-term Growth

Since returning to Korea after four years at the POSRI India Office, I have often been asked, “Why is India unable to grow like China?” It is common knowledge that both countries have more than 1 billion people and recorded growth rates of over 9% from 2005 to 2007. In my opinion, India cannot follow China’s growth trajectory due to the stark differences between the two countries’ growth patterns. Taking a close look at these differences would be helpful in understanding the strengths of India’s growth patterns and its growth potential.

Economic growth vs. distribution of wealth

In 2013, investment represented 32.3% of India's GDP, while consumption expenditure represented 71.1%. Given the fact that private consumption accounted for 84% of consumption expenditure, it is fair to say that private consumption leads India's growth. With exports being higher than imports, and net exports being in the red, trade contributes little to GDP growth. By contrast, investment accounted for a whopping 49.8% of China's GDP, while consumption accounted for 47.8%. Net exports amounted to 2.4%, contributing to GDP growth to some extent.

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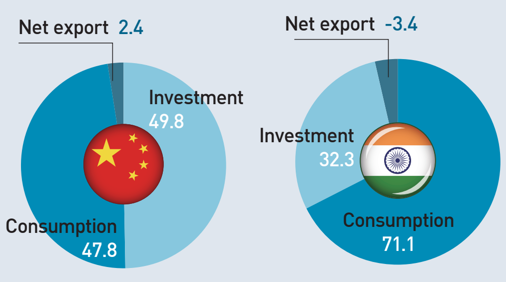
In establishing economic policies, the two countries have different priorities. Traditionally, China's economic policies have prioritized growth. Deng Xiaoping introduced and implemented a "Getting Rich First (先富論)" policy, which encourages some people and some regions to get

China's Consumption, Investment, Net Export (% of GDP) (2013)
(Unit: %)

India's Consumption, Investment, Net Export (% of GDP) (2013)
(Unit: %)



Source: Reserve Bank of India

Comparison of Economic Growth Between China and India

China	India
State-led	Private-led
Growth-oriented economic policy (past)	Distribution-oriented economic policy (past)
Investment-led growth	Consumption-led growth
Manufacturing-centered growth	Service-centered growth
High FDI	Widespread anti-foreign sentiment

rich first, then lead other people and regions to become rich. In allocating resources, China has been prioritizing growth rather than fair distribution. As a result, investment in infrastructure and economic development have been concentrated in coastal areas.

Meanwhile, infrastructure development, a key foundation of economic growth, has always been put on the back burner in India's budget allocation. The country has placed a high priority on improving the standard of living of people below the poverty line and those in lower income brackets. Because an absolute majority of Indian people live in poverty, it is easier to win the hearts of Indian voters by implementing policies that quickly alleviate poverty than by promising to develop infrastructure, which has gradual effects.

Despite India's emphasis on distributing wealth, poverty persists. Statistics on poverty vary by institution and are often subject to controversy, but the number of Indians who live on less than USD 1.5 dollars a day reached nearly 584 million in 2010, nearly half of the total Indian population, according to recently updated statistics by the Asian Development Bank. Poverty rates decline as time goes by, but an overwhelming number of people still live in poverty.

Industrial structure and anti-foreign sentiment

India and China are starkly different in industrial structure. China has achieved economic growth based on manufacturing, whereas India has pursued growth mainly through the service sector. However, one can hardly conclude that India's

India has achieved private-led economic development with high emphasis on the distribution of wealth. India has lower dependence on FDI than China; rather than investment, consumption has driven growth.

service sector has been profoundly improved in quality or quantity. It is necessary to look closely at the phenomena behind the statistics. In India, distributors with their own equipment produce many goods rather than purchasing finished products from manufacturers. Products manufactured largely by small and medium-sized companies, including bags, apparel, furniture, household goods, and office supplies are in this category of goods.

Because companies in India are so small, specialized manufacturing companies do not develop. Instead, small private distributors jump into manufacturing. In this case, tax invoices categorize sales not as goods sold, but as services provided. In other words, India's service sector generates added value on behalf of manufacturing, not so much because the service sector is strong, but because manufacturing is weak.

India and China have totally different national sentiments toward foreign investment. By foreign direct investment volume, China is one of the top two nations together with the USA. According to a report released by the United Nations Conference on Trade and Development (UNCTAD) in January 2015, China attracted USD 127.6 billion in foreign investment in 2014, overtaking the USA to become the top destination for FDI for the first time since 2003. In the meantime, India received only USD 28 billion in 2013, just 21% of the amount China received.

China has actively utilized FDI for economic growth, but India has had relatively low interest in FDI. A case in point is the repeated delays in opening the market for multi-brand retailers such as Carrefour and Walmart. Anti-foreign sentiment often spreads across India, because Indian people associate foreign companies with the British East India Company. China has similar national sentiments; however, former Chinese governments tried to attract foreign investment by implementing policies favorable to foreign companies. By contrast, India does not grant any special benefits to foreign companies.

In conclusion, China has sought state-led, growth-oriented economic policies, and utilized FDI actively. Economic growth has been led by investment, rather than consumption. On the other hand, India has achieved private-led economic development with high emphasis on the distribution of wealth. India has lower dependence on FDI than China. Consumption rather than investment has driven growth. For these reasons, India has maintained lower growth than China.

India's sustainable long-term growth

In 2003, Goldman Sachs released a report on

GDP growth of BRICs economies until 2050, and predicted that India would become the world's third largest economy after China and the USA. This report sent shock waves across the world, as it was before India had received global attention. The report heightened the interest of foreign investors in India, resulting in a surge of FDI. In the report, India was projected to record an annual average growth rate of 5.8% for the next 40 years. China's annual GDP growth forecast for many years was over 8% or 9%, but India's forecast did not exceed 7% for a single year, reflecting the limits of India's growth method. Goldman Sachs predicted that China's GDP growth would dwindle to around 6% in the 2030s and to around 4% in the 2050s, but India would maintain stable growth rates of between 5% and 7%. Goldman Sachs did not see high short-term growth for India's economy, but steady long-term growth.

India's growth propelled by democracy, dynamic private firms, and shifting national consciousness

Three factors contribute to India's potential for steady long-term growth. First, India has a stable democratic structure. Although it is a developing country, India has never experienced a military coup d'état. It has a stable political system that forms constitutional governments through elections. Simply put, India has few political risks. This is a critical factor for stable economic growth.

Thanks to India's democratic political system, it is able to reflect the varying opinions of every sector of society in policymaking. While the National Democratic Alliance (NDA), led by the Bharatiya Janata Party (BJP), achieved economic growth while in office, the benefits were concentrated on certain classes, intensifying the disenfranchisement felt by the common people. For this reason, the Indian National Congress (INC) took power on the promise of distribution of wealth. This process of political evolution shows that India has a political system that respects the will of the people.

Second, India's private companies are competitive and dynamic. China has a large proportion of state-owned companies, while India's private companies are globally competitive and brimming with entrepreneurship. It is not easy to distribute resources effectively under the strict structure of state-owned companies. With private companies, on the other hand, resources are distributed according to market principles. India's conglomerates are known for their skill at global M&A as well as maintenance and management. Since its acquisition of Ssangyong Motor Co., Mahindra & Mahindra has been operating the Korean company fairly well. If Indian companies are equipped with physical infrastructure, as well as social and institutional infrastructure, they will work as a driving force for economic growth.

The third reason is a shift in the consciousness of the Indian people. The Modi administration was able to take power thanks to the young generation's craving for change. The youth called for employment opportunities, veering away from the conventional logic of previous Indian elections, which prioritized the caste system. Politicians who create jobs get votes. With a larger proportion of young people than advanced countries, India enjoys the advantage of the population dividend; however, if the youth are jobless, they create social anxiety. They know both the opportunities and the risks of the situation. Therefore, they ask politicians to create jobs and put policies into practice.

Based on these distinct advantages, India looks poised to achieve gradual and sustainable growth, if not high growth. I hope that the Modi administration will break new ground through reform.

Female workers at a spinning mill in Hebei Province, China

Walmart in Chengdu, China

A tile factory in Madurai, India

A clothing factory in Delhi, where many small factories are located