

How strong is India's economy?

It isn't the next China, but it could still transform itself and the world



April 25, 2024

In six weeks' time Narendra Modi is expected to win a third term as India's prime minister, cementing his status as its most important leader since Nehru. The electoral success of this tea-seller's son reflects his political skill, the potency of his Hindu-nationalist ideology and his erosion of democratic institutions. But it also reflects a sense among ordinary voters and elites that he is bringing India prosperity and power.

Mr Modi's India is an experiment in how to get richer amid deglobalisation and under strongman leadership. Whether it can grow fast and avoid unrest over the next 10-20 years will shape the fate of 1.4bn people and the world economy. As our special report explains, Mr Modi's formula is working—up to a point. But there are questions over whether India's success can last and whether it depends on him remaining in power. India, the world's fastest-growing big country,

is expanding at an annual rate of 6-7%. New data show private-sector confidence at its highest since 2010. Already the fifth-largest economy, it may rank third by 2027, after America and China. India's clout is showing up in new ways. American firms have 1.5m staff in India, more than in any other foreign country. Its stockmarket is the world's fourth-most-valuable, while the aviation market ranks third. India's purchases of Russian oil move global prices. Rising wealth means more geopolitical heft. After the Houthis disrupted the Suez canal, India deployed ten warships in the Middle East. Presidents Joe Biden and Donald Trump have courted it without disputing that it will remain an independent actor.

If you are looking for "the next China"—a manufacturing-led miracle—it isn't India. The country is developing at a time of stagnating goods trade and factory automation. It therefore needs to pioneer a new model for growth. One pillar of this is familiar: a massive programme of infrastructure that knits together a vast single market. India has 149 airports, double the number a decade ago, and is adding 10,000km of roads and 15gw of solar-energy capacity a year. Some of this infrastructure is intangible, including digital payments, modern capital markets and banks, and a unified digital tax system. All this allows firms to exploit national economies of scale.

A second, more novel pillar is services exports, which have reached 10% of gdp. Global trade in services is still growing and Indian firms have marketed "global capability centres"—hubs that sell multinationals r&d and services such as law and accounting. Yet despite its slick tech campuses, India is still a semirural society. That explains the economic model's final pillar, a new type of welfare system in which hundreds of millions of poor Indians receive digital transfer-payments. New data suggest the share of the population living on less than \$2.15 a day in 2017 prices, a global measure of poverty, has fallen below 5% from 12% in 2011.

How much credit does Mr Modi deserve? His most successful policies draw on the liberal agenda that emerged in India in the 1990s and 2000s, but there is nothing wrong with that. He deserves credit for forcing through stalled reforms, personally overseeing key decisions and browbeating laggards and opponents in the bureaucracy. Some say he has fostered crony capitalism. Yet although some big firms get favours, concentration in business is falling, corruption has waned and business boasts a rich diversity. A cross between a ceo and a

populist, Mr Modi relishes PowerPoint presentations as much as rallies. If he wins five more years, India will continue to grow strongly. So will its middle class: 60m people earn over \$10,000 a year; by 2027, 100m will, reckons Goldman Sachs, a bank that now has 20% of its staff in India.

Yet India faces a daunting problem. Out of a working-age population of 1bn, only 100m or so have formal jobs. Most of the rest are stuck in casual work or joblessness. Mr Modi's humble beginnings help him speak to these people. To absorb some of India's spare labour he is using a state-run incentive scheme to promote manufacturing. But even if the scheme hits its targets, it will create just 7m jobs. President Xi Jinping's plan for a Chinese export surge will only make the task harder.

India's economy must generate mass employment to sustain its growth. One path would be an even bigger IT sector, acting as a hub for a digitising world, and a cluster of export industries, including digital finance, food and defence (where stronger links with America would help). Spending by workers in these industries would in turn create more jobs in other sectors, from construction to hotels. An efficient, single domestic market would raise overall productivity and well-targeted welfare could help those who fall behind. For this, India would have to transform education and agriculture, and enable much more migration from the populous north to the big southern and western cities.

Judged by those epic standards, Mr Modi has too little to say. His Bharatiya Janata Party (bjp) has some talent and ideas but is mostly focused on ideology and Muslim-bashing. A rising illiberalism has curtailed political opposition and free speech. The fact that firms fear Mr Modi may explain why investment has yet to surge. The process of preparing the public for huge social change in the 2030s has barely begun. Remaking education, cities and agriculture will require the co-operation of state governments that are not led by the bjp and social groups that are facing disruption, but Mr Modi's rebarbative politics have left many of them estranged.



India's Lee Kuan Yew or its Erdogan?

The question for India and its heavyweight economy is not whether Mr Modi wins, but whether he will evolve. Aged 73, he may find his powers of management fade. To create a new reform agenda on a par with the one that emerged out of the 1990s, and to foster a thriving knowledge economy that rewards people for thinking for themselves, he will have to temper his autocratic impulses. To attract more local and foreign investment and to find a growth-minded successor, his party will need to curb its chauvinistic politics. If not, Mr Modi's mission of national renewal will not live up to its promise. ■

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