

India's long game with China and challenges posed by a 'soft' state

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Can we transform the state and leverage strengths to attain a high-growth path and a more level playing field with China?

By virtually any metric, the Chinese economy is more than five times the size of the Indian economy. China's defence capability far outstrips that of India. China is also vying for global leadership at the cutting edge of information technology, artificial intelligence and robotics, while India is not even a major player. These vast differences in size and capacity leave India at a great disadvantage in engaging with China. But engage it must, and pro-actively, given China's recent assertiveness. In a timely volume, *Rising to the China Challenge* (Rupa, 2021), Gautam Bombavale, Vijay Kelkar, Raghunath Mashelkar, Ganesh Natarajan, Ajit Ranade and Ajay Shah have suggested that India must exercise strategic patience and play a long game, ensure a higher growth than China over the next two to three decades, enabling it to engage with China on a more level playing field. It helps that China's annual growth rate had come down to around 6%, about the same as that of India, prior to the pandemic. The key question is whether India can indeed get onto a higher long-term growth path than that of China. In attempting this, India can draw lessons from the growth story of China itself and the East Asian 'miracle' economies while also leveraging its possible comparative advantages vis-à-vis China.

India's great comparative advantage is the rising demographic share of its young working-age population, while China is facing a serious problem of ageing. This may further lower China's growth, while India's rising share of working-age population provides it with a potential high-growth window for the next two to three decades, the so called 'demographic dividend'. Whether or not India can utilize this potential window depends on how quickly it can productively employ its growing labour force, a large section of which is currently unemployed or underemployed in very low productivity jobs. Employer surveys indicate that only about 40% of the Indian workforce have the necessary skills to be productively employable (see Sudipto Mundle's 'Employment, Education and the State', *Indian journal of Labour Economics*, 11 December 2017). So far, the government's skilling

programmes have had little success. This was inevitable, since a major share of the workforce lacks the foundation of basic education necessary to acquire the required skills. Eight years of free basic education is now a legal entitlement. But the learning outcomes remain abysmal, reflecting a failure of education policies.

If the government can swiftly switch to an outcome-oriented approach to education, integrated with a massive skilling programme, as part of a larger radical transformation of the state (a big 'if'), India could possibly implement a high growth strategy similar to what was pursued by Japan, the East Asian 'miracle' economies and more recently China and Vietnam. A fundamental feature of this East Asian model is an inclusive development strategy based on high rates of growth of investment, exports and gross domestic product (GDP) and led by a strong developmental state. The institutional framework for it is state-guided capitalism, called "socialism with Chinese characteristics" in China.

A second key feature of this model is its focus on basic education, skills training and public healthcare, combined in the initial stages with land reform. Apart from making development inclusive, it has ensured the availability of a large educated, skilled and healthy workforce, which is essential for high growth. The model also entails the active nurturing of private enterprise to help firms grow and become globally competitive in selected sectors, i.e., industrial policy à la East Asia. With the state playing a leading role in development, the fourth pillar of this East Asian model is a competent and disciplined bureaucracy. Its commitment is ensured by linking career progression to performance.

India's prospects of achieving high long-term growth depend on the state's ability to implement an East Asia like development strategy, adapted to India's present circumstances. Unfortunately, the Indian state is what Gunnar Myrdal described in *Asian Drama* as a "soft" state. A highly fractionalized polity with competing interests of different regions, classes, religions and castes, has led to collective action gridlock. Instead, a large share of the state's revenues is appropriated for various transfers and unwarranted subsidies to accommodate the many competing special interests. Furthermore, declared goals notwithstanding, actual growth has not been inclusive at all. As Thomas Piketty has recently reiterated (*Capital and Ideology*, Harvard University Press, 2020), India remains one of the most unequal countries in the world.

On the private enterprise front, instead of nurturing businesses to grow to scales that allow global competitiveness, India's regulatory framework has stunted their expansion, resulting

in a highly distorted structure of a few large enterprises co-existing with hundreds of thousands of small and tiny businesses. Attempts to reform this framework has had limited success.

Finally, as for the fourth pillar of a competent and performance-oriented bureaucracy, the elitist self-image of India's bureaucracy is reinforced by lifetime job security at high salaries, relative to per capita GDP, and unrelated to performance.

So we conclude with a question: Can the nature of the Indian state undergo the radical transformation that is necessary for India to successfully play the long game? Can India successfully leverage its 'demographic dividend' to move onto a high growth path that can place it on the same ball park as China in the next two to three decades?

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