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Can India become stronger than China? Yes, it can

India has the potential to become the world's biggest economy. So what is stopping it? Kishore Mahbubani examines the reasons and offers solutions. Here are edited excerpts from his K.R. Narayanan Birth Centenary lecture earlier this month.

Motorcyclists in Jamnagar in the western Indian state of Gujarat. Generations of Indian policymakers have made a major mistake by underestimating the ability of Indians to compete, and that is why, relative to most East Asian economies, the Indian economy is relatively closed, says the writer. PHOTO: BLOOMBERG

Can India become stronger than China? What do I mean by becoming stronger? Simple: Have a bigger economy. The goal of this lecture is to explain why I believe India can have a bigger economy (indeed the biggest economy in the world) and how India can set about achieving it.

I will divide my lecture into three parts. In part one, I will explain why I am confident that India can have the largest economy in the world. In part two, I will explain the principles India can take to become No. 1.

In part three, I will also suggest some concrete steps India can take to develop an economy bigger than China's.

WHY I AM CONFIDENT

There are two reasons why I am confident.

The first is historical evidence. As British historian Angus Maddison has documented, from year 1 to 1820, the two largest economies of the world were always China and India.

What happened after 1820?

The British arrived. As Shashi Tharoor, a distinguished citizen of Kerala, has documented, when the British arrived, India's share of global GNP (gross national product, nominal) was 23 per cent. When they left in 1947, the share fell to around 3 per cent.

Today, India's share remains at about 3 per cent. India's share of the global population is 18 per cent. Hence, its share of global GNP should also be 18 per cent, if you assume that the average Indian is as intelligent and capable as the average human being.

This is the second reason why I am confident. The average Indian is clearly as intelligent and as capable as other human beings. I hope that this is an uncontroversial statement. But I would also like to make a controversial statement: The average Indian can outperform the average citizen of other communities. You can see why such a statement is inherently controversial. Hence, let me back it up with some evidence.

The most competitive human laboratory in the world is the United States. In an article I wrote for McKinsey, I said: "It's so easy to grasp the gap between India's potential and its performance because you can see the potential of what an ethnic Indian can do in the most competitive human laboratory in the world, which is the United States of America. And when the Indians arrived in America, they thought they might be No. 5 or No. 6 in terms of per capita income. They ended up being No. 1."

Today, the average per capita income of the Indian residing in the US is US$55,298 (S$75,100). If Indians in India can achieve the same per capita income, the total GNP of India would be around US$71 trillion, making it the largest economy in the world, larger than the US at US$21 trillion, or China at US$15 trillion. If this figure is unimaginable, let's imagine that the average Indian in India is half as smart as the average Indian in the US. Then India would still have a GNP of US$35 trillion, still larger than that of the US at US$21 trillion and China at US$15 trillion.

Why do I highlight all these figures? I do so because I only want to emphasise one big point: The country with the biggest gap between its economic potential and its economic performance is India. India's GNP today is US$2.6 trillion. It should be at least 10 or 20 times larger.

The argument can be made that the super-smart Indians ended up in the US. Hence, they ended up with super-high per capita incomes. Even if I acknowledge this as true, how about comparing the per capita income of Indians in India with Indians in other countries? I don't have the data for all overseas Indian communities. However, I have travelled around the world and met Indians in all corners of the world. Without fail, in almost every country I have visited, the overseas Indian communities have done well and are thriving.

So, why are they thriving? The answer could be complex but let me mention one key factor: Indians are naturally competitive economic animals and thrive in economic competition.

In this regard, they are very similar to the Chinese. The economic fortunes of the Chinese turned after the key reformist leader of China, Deng Xiaoping, asked a very simple question: Why were the Chinese people successful in every economy except in China itself? The answer was a simple and obvious one: The Chinese were allowed to compete economically in every country in the world except China.

Hence, Deng did the obvious thing: He opened up the Chinese economy and allowed all Chinese, 1.4 billion of them, to compete.

So what were the results? Deng started to open up the Chinese economy in 1980. In 1980, the size of the Chinese economy was US$191 billion and that of the Indian economy was US$186 billion. Today, the size of the Chinese economy is US$15 trillion, over five times the size of the Indian economy at US$2.6 trillion.

So how did India go from having an economy the same size as China's to having an economy one-fifth that of China?

The answer is amazingly simple. China opened its economy to global economic competition and allowed 1.4 billion Chinese to compete. Since the Chinese thrive in economic competition, the Chinese economy thrived and surged ahead.

By contrast, the 1.3 billion Indians have been deprived of economic competition. Since they have been deprived of economic competition, they cannot thrive. Hence, India's economy has fallen behind.

Let me add another important point here. India's economy has also fallen behind other regions and countries. Of the 10 Asean states, nine have an Indic cultural base. Hence, in some ways, we are cultural satellites of India. The total population of Asean is 650 million, half of India's. But the combined GNP of Asean last year was about US$3 trillion, slightly larger than that of India (US$2.8 trillion).

In 1971, when India helped Bangladesh to become an independent country, many commentators said Bangladesh was a hopeless country which would become an economic basket case. Yet, by last year, the per capita income of Bangladesh (US$1,968) became larger than that of India (US$1,900).

So why have the Asean countries and Bangladesh outperformed India in the economic realm? The simple answer is that Asean and Bangladesh plunged into global economic competition. India didn't.

KEY PRINCIPLES TO FOLLOW

Before spelling out the principles that India can take to become more competitive, let me confirm at the outset that it will not be easy. There will be many political, economic, bureaucratic, psychological, vested interests and so on, obstacles to overcome.

Indeed, China didn't have an easy time either. I was present at the World Economic Forum, Davos meeting in 2017 when President Xi Jinping admitted that the process of opening up the Chinese economy was a difficult one. This is what he said: "There was a time when China also had doubts about economic globalisation, and was not sure whether it should join the World Trade Organisation (WTO). But we came to the conclusion that integration into the global economy is a historical trend. To grow its economy, China must have the courage to swim in the vast ocean of the global market... We have had our fair share of choking in the water and encountered whirlpools and choppy waves, but we have learnt how to swim in this process. It has proved to be a right strategic choice."

Like China, India will also struggle to swim when it plunges into the ocean of globalisation. What will make it even more difficult is that India will have to follow two contradictory principles in trying to open up its economy to global competition.

The first principle is to have a radical change of mindset and decide that an open Indian economy will do better than a closed Indian economy.

The second principle is that when opening up the Indian economy, India should do it carefully and pragmatically. It should not try either a big bang approach or shock therapy, as the experiences of Russia and Eastern Europe have shown that big bang approaches don't work. In short, India will have to follow two contradictory principles. But both are equally important. The radical change of mindset is important because the general assumption in India is that the best way to protect the poor in India is to keep the Indian economy as closed as possible. However, the record of recent history shows that poverty reduction happens faster when economies open up faster. The best evidence of this is provided by Vietnam, which had a typical Soviet-style protected economy. However, as soon as the Cold War ended, it joined its fellow East Asian countries in opening up its economy and the results in poverty reduction were spectacular.

Let me use a simple metaphor to explain why opening up India's economy helps the poor. The main reason why I emphasised the super performance of Indians overseas is to point out that we should view Indians differently. We should see them as 1.3 billion economic tigers, poised to perform well. What is the best way to get tigers to perform well? Keep them in cages where they have limited competition and limited room to grow? Or release them into a wild jungle where they can roam freely and become strong and fierce?

I am using the metaphor of economic tigers to drive home the essential point that generations of Indian policymakers have made a major mistake by underestimating the ability of Indians to compete. This is why, relative to most East Asian economies, the Indian economy is relatively closed. For those who doubt my statement that India's economy is relatively closed, let me provide some statistics: A relatively open economy trades more with the world. A relatively closed economy trades less with the world.

Here is the data: China and India have about the same population. Yet China's total trade with the world (US$4.5 trillion) is more than five times that of India (US$800 billion). Here, let me acknowledge one important point. When India opens up its economy, there will be "creative destruction". And "creative destruction" is good. It destroys the inefficient parts of the economy and strengthens the efficient part of the economy. This is exactly what happened to China. Before China joined the WTO in 2001, state-owned enterprises (SOEs) made up two-thirds of China's economy. Now it's down to one-third. In short, there was a lot of "creative destruction" of Chinese SOEs.

It will not take rocket science to make India's economy the largest in the world. It will take only simple common sense. There's no need to invent anything new. All India has to do is to copy and learn from South-east Asian countries which have had close relations with India for 2,000 years.

The theoretical direction that India should take to make its economy stronger is clear. However, as I indicated earlier, theory is one thing. Practice is another. Russia and a few Eastern European countries thought that they were doing the right thing by opening up their economies with a "big bang". They were seduced by a famous statement which said, "You cannot cross a chasm in two leaps". Janos Kornai, a Hungarian economist, said that reform would be "a good deal better if the price system had undergone one brave surgery". Wlodzimierz Brus, a Polish economist, said that China should "cross the river as fast as possible to reach the other shore". Sadly, the Russians and some Eastern Europeans fell into a chasm by trying to take one big leap.

The Chinese reformers were wiser. They heeded the advice of Deng, who advised that China should "grope for stones to cross the river steadily". But the most important point here is not that the river must be crossed cautiously. Instead, the key point here is that the river must be crossed and India must reach the other side.

SOME CONCRETE STEPS

There are three concrete but cautious steps India can take to start the process. The first is an easy one: Join the Regional Comprehensive Economic Partnership (RCEP) immediately.

Why join the RCEP? Many reasons. Firstly, in today's world, Europe represents the past, America represents the present and East Asia represents the future. By joining RCEP, India will be betting on the future, not the past. Secondly, with a total population of 2.3 billion and a combined GDP of US$38 trillion, RCEP can provide the biggest markets for Indian products.

Here's one statistic that explains how markets are growing faster than the rest of the world. In 2009, the size of the retail goods market in China was US$1.8 trillion while that of the US was US$4 trillion. Yet, by 2019, some two years after then US President Donald Trump's trade war began, China's market had become bigger at US$6 trillion while that of the US was US$5.5 trillion.

Thirdly, and most importantly, India spent over six years negotiating entry into RCEP. Many of its concerns have already been addressed. So, why didn't India join? I don't know the exact answer. But I would make an educated guess that some vested interests felt threatened. If this is true, it shows why a radical change of mindset is necessary in India. Is it more important for India to protect a few vested interests? Or is it more important for India to expose 1.3 billion Indian economic tigers to global economic competition? And, to put things more harshly, if India cannot even compete as well as the 10 South-east Asian states, who can it compete with?

The second concrete step that India can take is to make the South Asian region (including all the members of the South Asian Association for Regional Cooperation, or Saarc) as open as the South-east Asian region. Most countries grow by opening up their economies to their neighbours. Just look at the European Union and the North American Free Trade Agreement (Nafta). South Asia can never be as open as the EU or Nafta. These are very high-level and complex agreements. However, there is no reason why South Asia cannot be as open as South-east Asia.

In deciding how to open up the region, India doesn't have to reinvent the wheel. All it does have to do is to pick up a copy of the Asean Free Trade Area agreement and share it with all its neighbours. After doing so, India should make a commitment to work with its neighbours and agree to sign a similar agreement among all the Saarc members.

I am aware that there are problems between India and some of its neighbours, especially between India and Pakistan. Both countries don't even have normal trade with each other.

Here, too, one South-east Asian story is relevant. India and Pakistan fought their last major war in 1971. China and Vietnam (which have been suspicious of each other for 2,000 years, longer than India and Pakistan have been of each other) fought their last major war in 1979. Yet, after Vietnam joined Asean (with whom it had been quarrelling for decades) in 1995, it then also joined the China-Asean FTA in 2002. Since the mid-1990s, trade between Vietnam and China has grown 3,000 times. Therefore, trade between India and Pakistan can also grow 3,000 times. The biggest beneficiaries of this increased trade will be the poor people of India and Pakistan.

The third concrete step India can take is to open the doors to foreign direct investment (FDI) as much as the Asean countries have done so. Here is one statistic that Indians should reflect on. The combined GNP of the three dynamic North-east Asian economies (namely China, Japan and South Korea) is US$21 trillion. By contrast, the combined GNP of the 10 Asean economies is only US$3 trillion. Logically, since US$21 trillion is more than US$3 trillion, there should be more American investment in North-east Asia rather than South-east Asia. Instead, the figure is the opposite. In North-east Asia, it is US$287 billion and in South-east Asia, it is US$335 billion.

Let me add an important geopolitical point here. Given the growing tensions between the US and China, many American manufacturers are looking for a China-plus-one investment destination. Many want to invest in India for geopolitical reasons. However, as soon as they arrive in India and encounter Indian bureaucracy, they get discouraged. So here, too, there is a simple solution. Many of the South-east Asian countries, including Indonesia, Vietnam, Malaysia and Thailand, have produced simple and clear investment brochures. Each state in India should compete to produce investment brochures as good as those in Asean. Then they will find that the best and easiest way to boost economic growth is to attract FDI.

In short, it will not take rocket science to make India's economy the largest in the world. It will take only simple common sense. There's no need to invent anything new. All India has to do is to copy and learn from South-east Asian countries which have had close relations with India for 2,000 years.

Former prime minister Manmohan Singh called on India to "Look East". Prime Minister Narendra Modi called on India to "Act East". My message to you is a much simpler one: Please come to South-east Asia and learn from the East.

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