

India Rising

Messy, raucous, democratic India is growing fast, and now may partner up with the world's richest democracy—America.

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March 6, 2006 issue - Every year at the World Economic Forum in Davos, there's a star. Not a person but a country. One country impresses the gathering of global leaders because of a particularly smart Finance minister or a compelling tale of reform or even a glamorous gala. This year there was no contest. In the decade that I've been going to Davos, no country has captured the imagination of the conference and dominated the conversation as India in 2006.

It was not a matter of chance. As you got off the plane in Zurich, there were large billboards extolling INCREDIBLE INDIA. Davos itself was plastered with signs. WORLD'S FASTEST GROWING FREE MARKET DEMOCRACY! proclaimed the town's buses. When you got to your room, you found an iPod Shuffle loaded with Bollywood songs, and a pashmina shawl, gifts from the Indian delegation. When you entered the meeting rooms, you were likely to hear an Indian voice, one of the dozens of CEOs of world-class Indian companies. And then there were the government officials, India's "Dream Team," all intelligent and articulate, and all selling their country.

The Forum's main social event was an Indian extravaganza, with a bevy of Indian beauties dancing to pulsating Hindi tunes against an electric blue Taj Mahal. The guests joined in the festivities. The impeccably dressed chairman of the Forum, Klaus Schwab, donned a colorful Indian turban and shawl, nibbled on chicken tikka and talked up the country's prospects with Michael Dell. INDIA EVERYWHERE, said the ubiquitous logo. It was.

And everyone now is in India—most significantly, of course, George W. Bush, who will arrive there on March 1. Jacques Chirac was there two weeks ago. (So was Bill Clinton, who can't stop returning to the country.) Two weeks before that it was Saudi Arabia's newly crowned monarch, King Abdullah. The week after Bush leaves, Australian Prime Minister John Howard arrives. And that's all in six weeks. The world—and particularly the United States—is courting India as it never has before. Fascinated by the new growth story, perhaps wary of Asia's Chinese superpower, searching to hedge some bets, the world has woken up to India's potential. But does it really know this complex, diverse country? Just as important, does India know what it wants of the world?

The marketing slogans wouldn't work if there were no substance behind them. Over the past 15 years, India has been the second fastest-growing country in the world—after China—averaging above 6 percent growth per year. Growth accelerated to 7.5 percent last year and will probably hold at the same pace this year. Many observers believe that India could well expand at this higher rate for the next decade.

While China's rise is already here and palpable—it has grown at almost 10 percent since 1980—India's is still more a tale of the future, but a future that is coming into sharp focus. A much-cited 2003 study by Goldman Sachs projects that over the next 50 years, India will be the fastest-growing of the world's major economies (largely because its work force will not age as fast as the others). The report calculates that in 10 years India's economy will be larger than Italy's and in 15 years will have overtaken Britain's. By 2040 it will boast the world's third largest economy. By 2050 it will be five times the size of Japan's and its per capita income will have risen to 35 times its current level. Predictions like these are a treacherous business, though it's worth noting that India's current growth rate is actually higher than the study assumed.

Even the here and now is impressive. Indian companies are growing at an extraordinary pace, posting yearly gains of 15, 20 and 25 percent. The Tata group, the country's largest business house, is a far-flung conglomerate that makes everything from cars and steel to software and consulting systems. In this sense, it is a useful window on India's industrial and postindustrial economy. Its revenues grew last year from \$17 billion to \$24 billion and it is heading for extremely strong growth this year. At another end of the scale, the automobile-parts business is made up of hundreds of small companies. Five years ago the industry's total revenues were \$4 billion. This year they will exceed \$10 billion. In 2008, General Motors alone will import \$1 billion of auto components

from India.

That's outsourcing—as it is any time an American company buys goods or services from abroad. It's also called trade or globalization or capitalism. Those who want to stop it—and it's not clear how you could do that—should remember that the United States' prosperity has come from its very willingness to open itself up to the world. Over the last 60 years, manufacturing employment in the United States has plummeted as those industries went abroad—and yet average American incomes have risen to be the highest in the world. Over the last 20 years, as globalization has quickened, American companies have outsourced first goods, then services—and American incomes have risen faster than those of any other major industrial country. Banning auto-parts factories or call centers will not save General Motors. Globalization highlights some problems for America, but the solutions are all at home. As they have in the past, Americans must—and can—make goods and services that people will pay for freely, not because the government forces them to by shutting out the competition. That is the only stable path to economic security.

At this point, anyone who has actually been to India will probably be puzzled. "India?" he or she will say. "With its dilapidated airports, crumbling roads, vast slums and impoverished villages? We're talking about that India?" Yes, that, too, is India. The country might have several Silicon Valleys, but it also has three Nigerias within it, more than 300 million people living on less than a dollar a day. India is home to 40 percent of the world's poor and has the world's second largest HIV population. But that is the familiar India, the India of poverty and disease. The India of the future contains all this but also something new. You can feel the change even in the midst of the slums.

To new visitors, it won't look pretty. Many Western businessmen go to India expecting it to be the next China. But it never will be that. China's growth is a product of its efficient, all-powerful government. Beijing decides the country needs new airports, eight-lane highways, gleaming industrial parks—and they are built within months. It courts multinationals and provides them with permits and facilities within days. It looks good and, in many ways, it is that good, having produced the most successful case of economic development in human history.

India's growth is messy, chaotic and largely unplanned. It is not top-down but bottom-up. It is happening not because of the government, but largely despite it. India does not have Beijing and Shanghai's gleaming infrastructure, and it does not have a government that rolls out the red carpet for foreign investment—no government in democratic India would have those kinds of powers anyway. But it has vast and growing numbers of entrepreneurs who want to make money. And somehow they find a way to do it, overcoming the obstacles, bypassing the bureaucracy. "The government sleeps at night and the economy grows," says Gurcharan Das, former CEO of Procter Gamble in India.

There are some who argue that India's path has distinct advantages. MIT's Yasheng Huang points out that India's companies use their capital far more efficiently than China's; they benchmark to global standards and are better managed than Chinese firms. Despite being much poorer than China, India has produced dozens of world-class companies like Infosys, Ranbaxy and Reliance. Huang attributes this difference to the fact that India has a real and deep private sector (unlike China's many state-owned and state-funded companies), a clean, well-regulated financial system and the sturdy rule of law. Another example: every year Japan awards the coveted Deming Prizes for managerial innovation, and over the last four years, they have been awarded more often to Indian companies than to firms from any other country, including Japan.

This bottom-up activity is evident not simply among entrepreneurs. The Indian consumer is also rearing for action. Most Asian success stories have been ones in which the government forces its people to save, producing growth through capital accumulation and market-friendly policies. In India, the individual is king. Young Indian professionals don't wait to buy a house at the end of their lives with their savings. They take out mortgages. The credit-card industry is growing at 35 percent a year. Personal consumption makes up a staggering 67 percent of GDP in India, much higher than China (42 percent) or any other Asian country. Only the United States is higher at 70 percent.

Statistics don't quite capture what is happening. Indians, at least in urban areas, are bursting with enthusiasm. Indian businessmen are giddy about their prospects. Indian designers and artists speak of extending their influence across the globe. Bollywood movie stars want to grow their audience abroad from their "base" of half a billion fans. It is as if hundreds of millions of people have suddenly discovered the keys to unlock their potential. A famous Indian once put it eloquently, "A moment comes, which comes but rarely in history, when we step out from the old to the new, when an age ends and when the soul of a nation, long suppressed, finds utterance."

Those words, which Indians of a certain generation know by heart, were spoken by the country's first prime minister, Jawaharlal Nehru, just after midnight, on Aug. 15, 1947, when independent India was born. What Nehru was referring to, of course, was the birth of India as an independent state. What is happening today is the birth of India as an independent society—boisterous, colorful, open, vibrant and, above all, ready for change. India is diverging from its past, but also from most other countries in Asia. It is not a quiet, controlled, quasi-authoritarian country that is slowly opening up according to plans. It is a noisy democracy that has finally empowered its people economically. In this respect India, one of the poorest countries in the world, looks strikingly similar to the world's wealthiest country, the United States of America. In both places, society has triumphed over the state.

The Indian state has been a roaring success on one front. India's democracy is a wonder to behold. One of the world's poorest countries, it has sustained democratic government for almost 60 years. And this is surely one of the country's greatest strengths when compared with many other developing countries. If you ask the question "What will India look like politically in 25 years?" we know the answer: like it does today—a democracy, probably with a coalition government. Democracy makes for populism, pandering and delays. But it also makes for long-term stability. (In case President Bush is looking for some answers for Iraq, he should recall that the British were able to stay in India for 200 years and built lasting institutions of government throughout the country, and that India got very lucky with its first generation of leaders. Men like Nehru may not have understood economics, but they deeply understood political freedom.)

If the Indian state has succeeded in one crucial dimension, it has failed in several others. In the 1950s and 1960s, India tried to modernize by creating a "mixed" economic model, between capitalism and communism. This meant a shackled and overregulated private sector, and a massively inefficient and corrupt public sector. The results were poor, and in the 1970s, as India became more socialist, they became disastrous. In 1960 India had a higher per capita GDP than China; today it is less than half of China's. That year it had the same per capita GDP as South Korea; today South Korea's is 13 times larger. The United Nations Human Development Index gauges countries by income, health, literacy and other such measures. India ranks 124 out of 177, behind Syria, Sri Lanka, Vietnam and the Dominican Republic. Female literacy in India is a shockingly low 54 percent. Despite mountains of rhetoric about helping the poor, by any reasonable comparison, India's government has done too little for them.

Is this a problem with democracy? Not entirely. Bad policies fail whether pursued by dictators or democrats. But there are elements of democracy that have hurt, certainly in a country with rampant poverty, feudalism and illiteracy. Democracy in India too often means not the will of the majority but the will of organized minorities—landowners, powerful castes, farmers, government unions and local thugs. (Nearly a fifth of the members of the Indian Parliament have been accused of crimes, including embezzlement, rape and murder.) These groups are usually richer than most of their countrymen, and they plunder the state's coffers to stay that way. It is ironic, for example, that India's Communist Party does not campaign for growth to lift the very poor but rather works to maintain the relatively privileged conditions of unionized workers. As these power plays go on, the great majority's interests—those 800 million who earn less than \$2 a day—often fall through the cracks.

But democracy has its own way of rebalancing. The wave of Hindu nationalism that raged through the country in the 1990s is on the wane, for now, and a thoroughly secular government is in power. Headed by Manmohan Singh, the former Finance minister who opened up India's economy in the summer of 1991, it is also committed to economic reform. In an act of great wisdom and restraint, Sonia Gandhi, who led the ruling coalition to victory in the polls, chose to appoint Singh as prime minister rather than take the job herself. As a result, quite unexpectedly, India's chaotic and often-corrupt democratic system has yielded as its head of government a man of immense intelligence, unimpeachable integrity and deep experience. Singh, an Oxford Ph.D., has already run the country's central bank, planning ministry and Finance Ministry. His breadth, depth and decency are unmatched by any Indian prime minister since Nehru.

But Singh has disappointed many of his fans. They had hoped for another set of large-scale reforms, but the government has been cautious and is implementing programs that look suspiciously like another round of subsidies (programs that have had such little success in the past). These are the constraints of democracy. Singh heads a fragile coalition government without a strong mandate for economic change. He is not himself a powerful politician, depending on Mrs. Gandhi for his clout. But his quiet determination to keep moving forward—on economics, politics and foreign policy—has been underestimated. His Economic ministers are all reformers. They work within the political limits, but they work. For example, infrastructure in India is slowly getting better and will be funded through public-private partnerships. India's two major airports will be privatized and improve dramatically. Every week you read of a set of regulations that have been eased or permissions that have been eliminated. These "stealth reforms," too small to draw vigorous opposition from the unreconstructed left, add up.

And India's pro-reform constituency keeps growing. The middle class is already 300 million strong. Urban India is not all of India, but it is a large and influential chunk of it.

Democracy is India's destiny. A country this diverse and complex—17 major languages, 22,000 dialects and all the world's major religions—cannot really be governed any other way. The task is to use democracy to India's advantage. In some cases this is happening. The Indian government has recently begun investing in rural education and health, and is focusing on ways to make agriculture more productive. Good economics can sometimes make for good politics, at least that is the Indian hope. Another change is that, since 1993, democracy has been broadened to give villages greater voice in their affairs. Most important, village councils must reserve 33 percent of their seats for women. As a result there are 1 million elected women in villages across the country. They will now have a platform from which to demand better education and health care. It's bottom-up development, with society pushing the state.

Will the state respond? Built during the British Raj, massively expanded in India's socialist era, it is filled with bureaucrats who are in love with their petty powers and privileges. They are joined by politicians who enjoy the power of patronage. And then there are some journalists and intellectuals who still hold on to some romantic idea of Third World socialism. There are many in India's ruling class who remain deeply uncomfortable with the modern, open, commercial society that they see growing around them.

But the state fills a vital role. Look at India's great success—its private companies. They flourish because of a well-regulated stock market and financial system that has transparency, adjudication and enforcement—all government functions. Or consider the booming telecommunications industry, which was created by intelligent government deregulation and re-regulation. Or the Indian institutes of technology—among the world's best—all government-run. But that's just a start. The private sector cannot solve India's AIDS crisis or its rural education shortfalls or its environmental problems. If India's governance does not improve, the country will never fully achieve its potential.

This is perhaps the central paradox of India today. Its society is open, eager, confident and ready to take on the world. But its state—its ruling class—is far more hesitant, cautious and suspicious of the changed realities around it. Nowhere is this tension more obvious than in the realm of foreign policy, in the increasingly large and important task of determining how India should fit into the New World.

Most Americans would probably be surprised to learn that India is, by all accounts, the most pro-American country in the world. The Pew Global Attitudes Survey, released in June 2005, asked people in 16 countries whether they had a favorable impression of the United States. A stunning 71 percent of Indians said yes. Only Americans had a more favorable view of America (83 percent). The numbers are somewhat lower in other surveys, but the basic finding remains true: Indians are extremely comfortable with, and well disposed toward, America.

This may be because for decades India's government tried to force-feed anti-Americanism down people's throats. (Politicians in the 1970s spoke so often of the "hidden hand" when explaining India's miseries—by which they meant the CIA or American interference generally—that cartoonists took to drawing an actual hand that descended every now and then to cause havoc.) More likely it is because Indians understand America. It is a noisy, open society with a chaotic democratic system—like theirs. Many urban Indians speak America's language, are familiar with the country and often actually know someone who lives there, possibly even a relative.

The Indian-American community has been a bridge between the two cultures. The term often used to describe Indians leaving their country is "brain drain." But it's been more like brain gain, for both sides. Indians abroad have played a crucial role in opening up the mother country. They returned to India with money, investment ideas, global standards and, most important, a sense that one could achieve anything. An Indian parliamentarian once famously asked the then prime minister, Indira Gandhi, "Why is it that Indians seem to succeed everywhere except in their own country?" The stories of Indians scaling the highest peaks in America have produced pride and emulation in India. Americans, for their part, have embraced India in some measure because they have had a positive experience with Indians in America.

Americans also find India understandable. They are puzzled and disturbed by impenetrable decision-making elites like the Chinese Politburo or the Iranian Council of Guardians. A quarrelsome democracy that keeps moving backward, forward and sideways—that they know. Take the current negotiations on nuclear issues. Americans watch what is going on in New Delhi, with people inside the government who are opposed to a nuclear deal leaking negative stories to the media, political opponents using the issue to score points, true ideological

opponents being utterly implacable—and this all seems very familiar. Similar things happen every day in Washington.

Most countries have relationships that are almost exclusively between governments. Think of the links between the United States and Saudi Arabia, which exist among a few dozen high officials and have never really gone beyond that. But sometimes bonds develop not merely between states but between societies. Twice before the United States had developed a relationship with a country that was strategic but also much more—with Britain and later with Israel. In both cases, the resulting ties were broad and deep, going well beyond government officials and diplomatic negotiations. The two countries knew each other, understood each other and as a result became natural and almost permanent partners. America has the opportunity to forge such a relationship with India.

This is not a matter of strategic "balancing" against China. The world is not that simple. The United States should not create a self-fulfilling prophecy of a conflict with China. The American relationship with China is complex, with many elements of cooperation. China, after all, is one of America's chief creditors, and Americans in turn buy Chinese goods, fueling its growth. Nor will India want to play along as a counterweight to China, since its own relations with its powerful neighbor are crucial. Beijing will overtake America as India's largest trading partner within a couple of years. Both India and America will want to retain their independence in dealing with the Middle Kingdom. That said, the rise of China is the fundamental strategic shift that is altering Asia's—and the world's—landscape. And the United States and India will be glad to have each other's company in that circumstance.

This doesn't mean that the United States and India will agree on every policy issue. Remember that even during their close wartime alliance, Roosevelt and Churchill disagreed about several issues, most notably India's independence. America broke with Britain over Suez. It condemned Israel for its invasion of Lebanon. Washington and New Delhi have different interests and thus will inevitably have policy disputes. But it is precisely because of the deep bonds between these countries that such disagreements would not alter the fundamental reality of friendship, empathy and association.

Such a relationship between the United States and India is almost inevitable. Whether the nuclear agreement goes through or not, whether the governments sign new treaties, the two societies are getting increasingly intertwined. A common language, a familiar world view and a growing fascination with each other is bringing together businessmen, nongovernmental activists, journalists and writers.

I say *almost* inevitable because there are pulls against it on both sides. In America, there is always the danger that politicians will turn to populism and protectionism as a cheap way to get votes. So far the pandering has been limited and temporary, but as elections approach and politicians grandstand, it's always convenient to find foreigners upon whom to blame your ills. Additionally, Washington is still learning the art of treating other countries with the respect and deference they expect—and India can be prickly and proud.

But the real stumbling block to a deep Indo-U.S. relationship will come not from Washington but New Delhi. While Singh and some others at the top of the Indian government see the world clearly, and see the immense opportunities it opens up for India, many others are blinded by their prejudices. For many Indian elites, it has been comfortable and comforting to look at the world from the prism of a poor, Third World country, whose foreign policy was neutral, detached (and, one might add, unsuccessful). They understand how to operate in that world, whom to bargain with, whom to beg from and whom to be belligerent with. But a world in which India is a great power, in which it moves confidently across the global stage, and in which it is a friend and partner of the most powerful country in history—that is an altogether new and unsettling proposition. "Why is the United States being nice to us?" several such doubters have asked me repeatedly. Even now, in 2003, they were searching for the hidden hand. China's Mandarin class has been able to rethink its country's new role as a world power with skill and effectiveness. So far, India's Brahmins have not shown themselves the equals of their neighbor.

The danger for India is that this moment might not last forever. The world turns and India will have its ups and downs. But today it is India's moment. It can grasp it and forge a new path for itself. Along that road lies a genuine and deep relationship between the planet's largest democracy and its wealthiest democracy. Until now, this has merely been a slogan. It could actually become a reality, and who knows what such a world might look like?

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