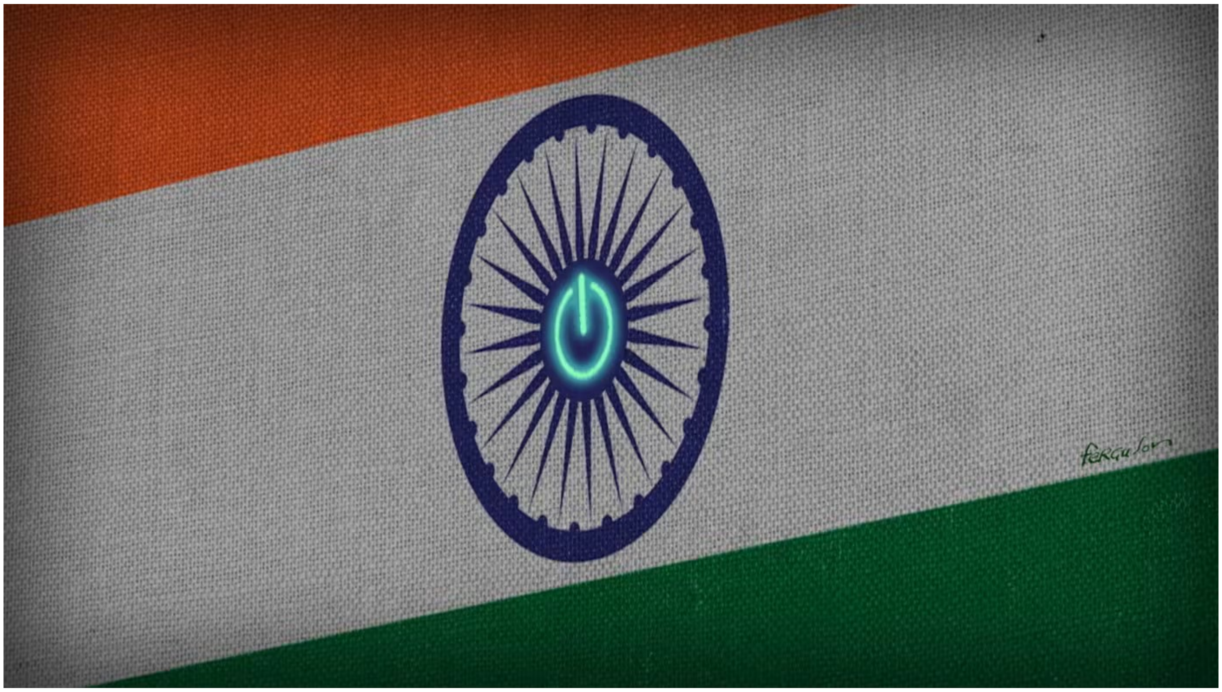
Opinion **Indian economy**

Why India will become a superpower

The nation can play a big part in shaping the world's future but its internal challenges are formidable

MARTIN WOLF



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"I have an unwavering belief that in 2047, when the country celebrates 100 years of independence, my country will be a developed India."

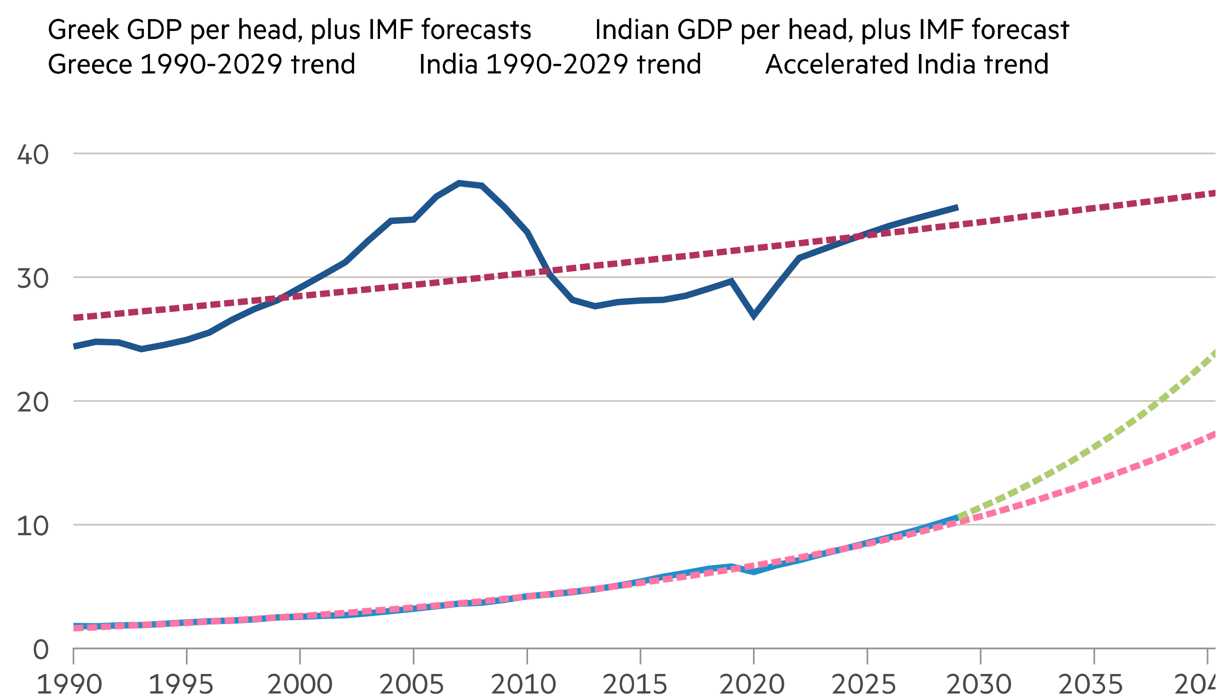
Thus did Narendra Modi, India's prime minister, address his country on Independence Day 2023. Is his aspiration a feasible one? Yes. Is it a plausible one? No. But it is still likely that India will be a superpower by that time, with an economy, on one measure, as large as that of the US. So, how might India get there? What challenges will it face? What might it mean for the world?

I addressed the topic of India's economic future in lectures last week at the National Council of Applied Economic Research and the Consumer Unity and Trust Society in New Delhi. I illustrated the challenge of becoming a high-income country by comparing India with the poorest country ranked as "advanced" by the IMF, Greece. In 2023, India's GDP per head at purchasing power parity (PPP) was just under a quarter of that of Greece. If Greek GDP per head grows at a mere 0.6 per cent (its 1990-2029 trend, with IMF forecasts) and India's grows at 4.8 per cent (its

1990-2029 trend), India's GDP per head would only be 60 per cent of Greece's in 2047. If its GDP per head were to match that of Greece by 2047, the rate of growth in GDP per head would need to rise to 7.5 per cent a year. That rate of growth would not be far below that of China from 1990 to 2012, when it achieved the astounding annual rate of 9 per cent. (See charts.)

How India might become an 'advanced' economy by 2047

GDP per head at purchasing power parity (constant 2017 $'000)



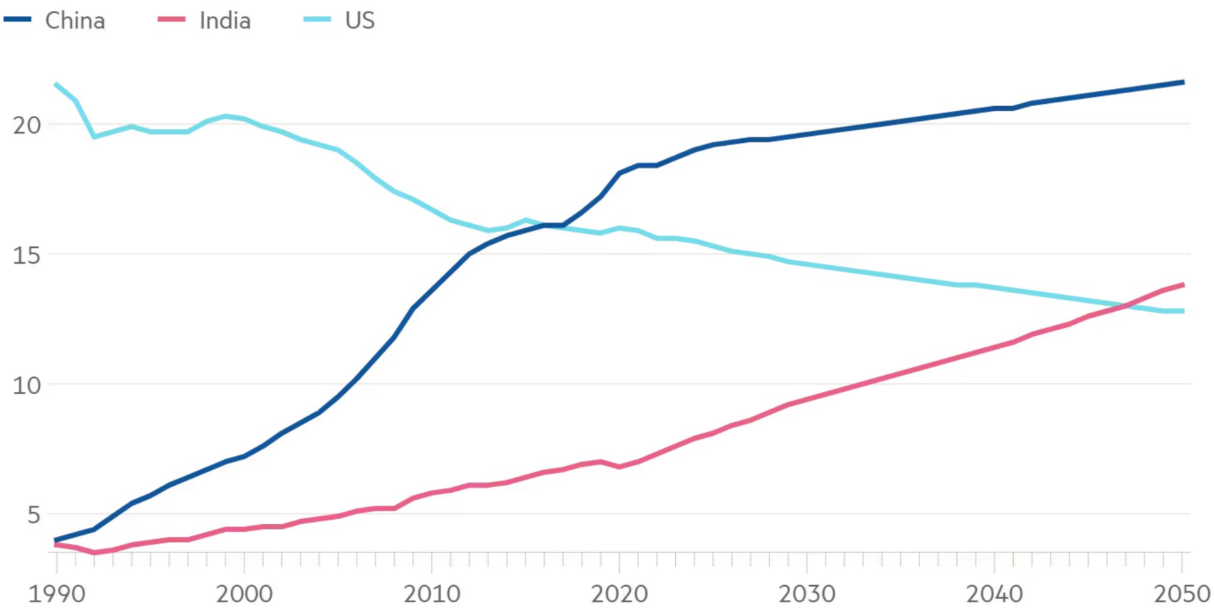
FINANCIAL TIMES Source: IMF; FT calculations • Growth rate of 0.6% for Greece, 4.8% for India. Accelerated growth rate of 7.5% for India

The picture of aggregate size is rather different. UN forecasts indicate that by 2050, India's population will be 1.67bn, against 1.32bn in China and 380mn in the US. With more than four times the population, it will not be hard for India to match total US economic output. Indeed, if India's GDP were to grow at only 5 per cent a year to 2047 (well below its 1990-2029 trend annual rate of 6.3 per cent), and US GDP were to grow at 2.3 per cent (its 1990-2029 trend rate, on a similar basis), India's economy (at PPP) would equal that of the US.

The US would still be more technologically advanced and have far higher productivity. India's manufacturing prowess is also unlikely ever to match that of China: the share of its industrial sector in GDP is not only far smaller than China's, but is already in decline. Yet size matters: with its huge population and a big economy, India would be a superpower, not fully matching China or the US, but unquestionably a great power.

India's GDP at PPP could plausibly match that of the US by 2050

Share of global GDP at purchasing power parity (%)

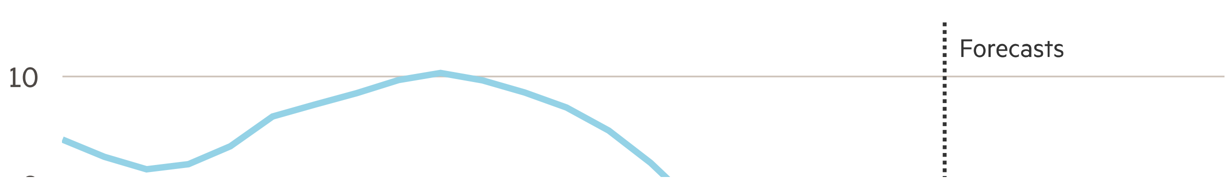


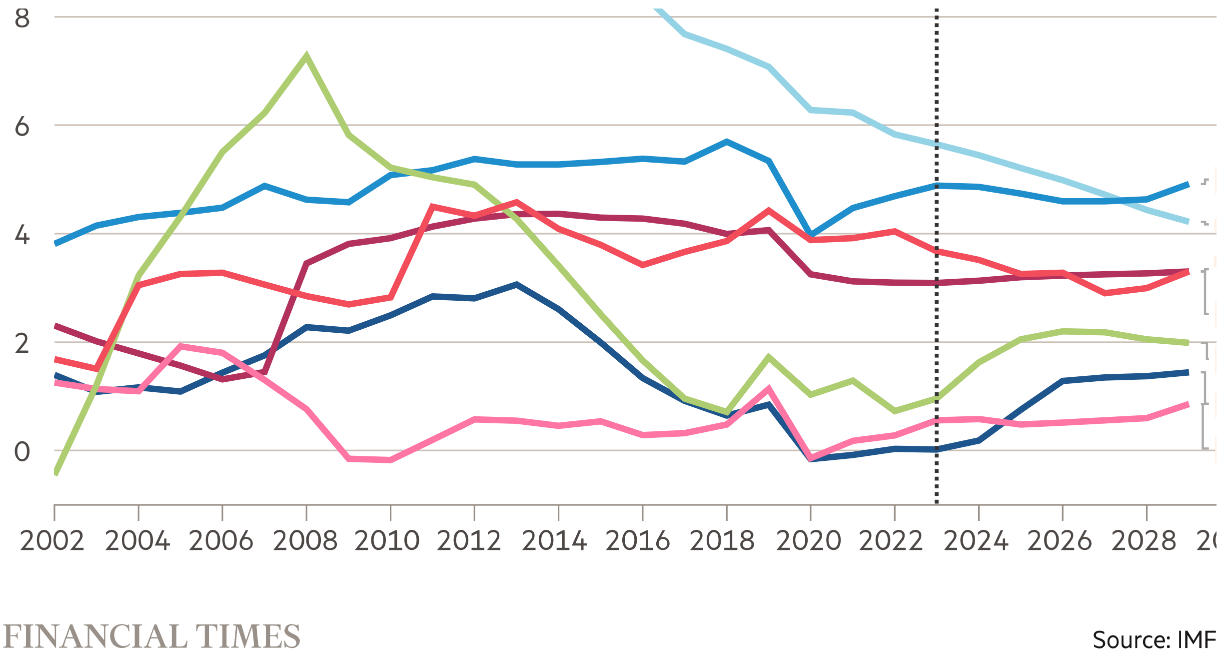
Assumed annual growth rates after 2029: 3% for world economy, 3.5% for China, 5% for India and 2.3% for US
Source: IMF, FT calculations

What might prevent this from happening? One reason might be the slowdown in global economic growth noted in the IMF's April 2024 World Economic Outlook. The impact and extent of this structural slowdown (with China's deceleration and demographic change elements in the picture) could be worsened by a big jump in protectionism triggered by Donald Trump's possible re-election. In the longer term, the climate crisis might affect economic growth, as well as human welfare more broadly, as I argued last week. Also far from unimaginable is war among the superpowers. Against this, some hope artificial intelligence will reignite economic growth. But that is questionable.

India's growth in GDP per head now surpasses China's

Growth in real GDP per head of seven largest emerging economies (average annual growth over previous 10 years, %)



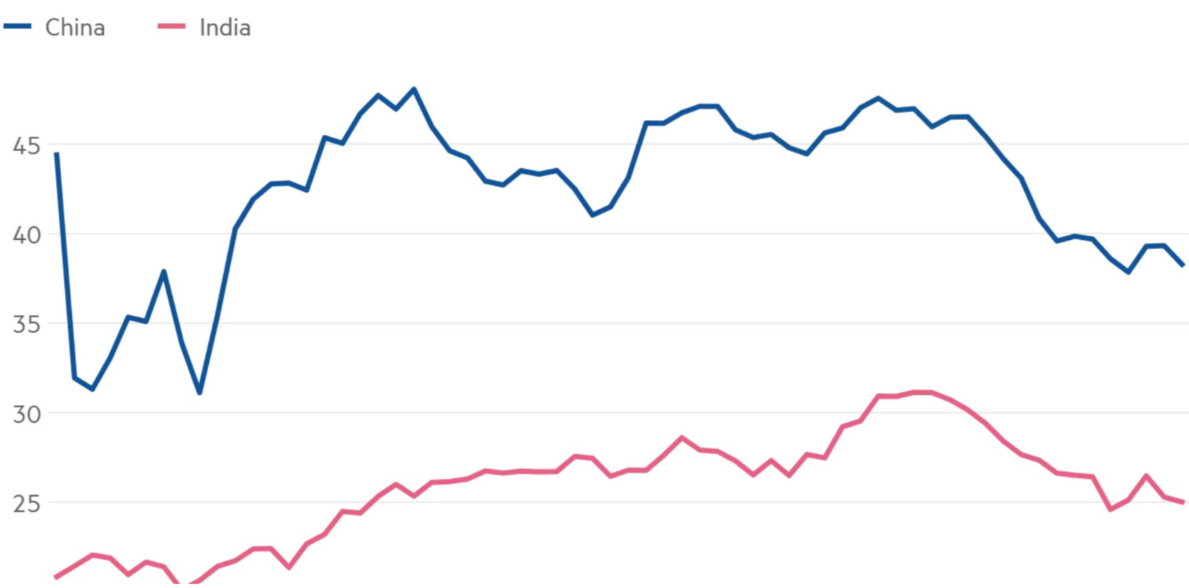


A crucial point is that Indians will need their economy to grow at least twice as fast as global output. This means that its exports will also have to grow at least twice as fast as global output if the trade ratio is not to fall: otherwise, the economy would become ever more closed.

In a recent paper, Shoumitro Chatterjee and Arvind Subramanian argue against any renewed bout of aversion to trade. They note the widespread belief that "India is a large country with a large market". But the true market size for tradeable goods and services is somewhere between 15 and 45 per cent of GDP, given the widespread poverty.

India has been far less industrialised than China

Industry as a share of GDP (%)



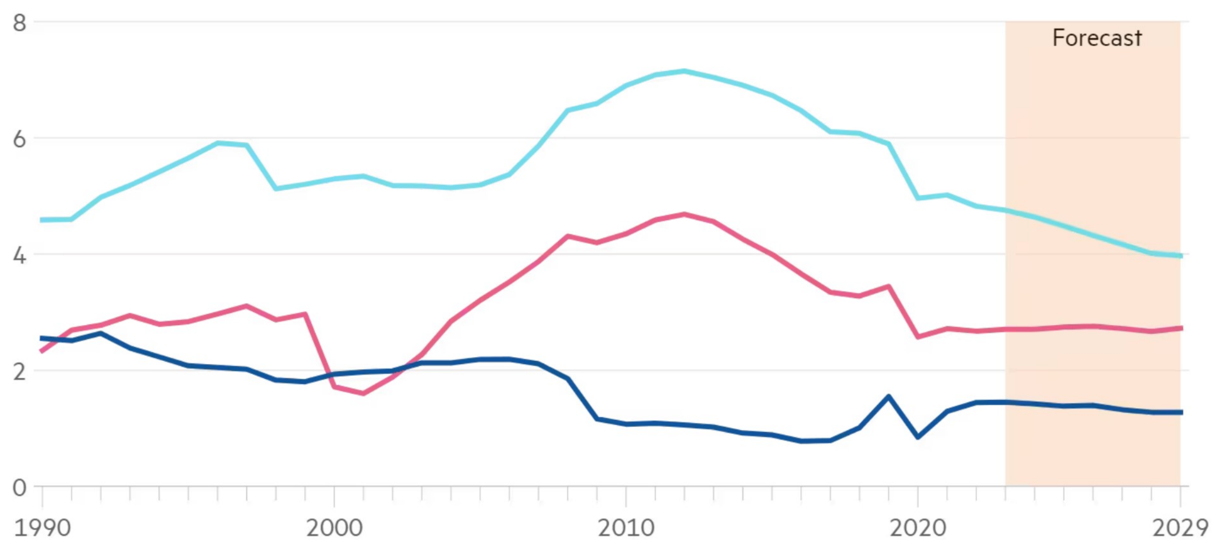
Source: World Bank

Again, some argue that "exports have not been important for Indian growth". But exports have in fact been crucial, not least because they pay for necessary imports, increase competition and offer access to global knowhow. Finally, people argue that "global opportunities are disappearing". But India's share in world merchandise exports (excluding intra-EU trade) was a mere 2.2 per cent in 2022, against China's 17.6 per cent. Even its exports of commercial services were only 4.4 per cent of the world total, far below the US share of 12.8 per cent and China's 6 per cent.

Economic growth has decelerated across the world economy

Growth in real GDP per head (average annual growth over previous 10 years, %)

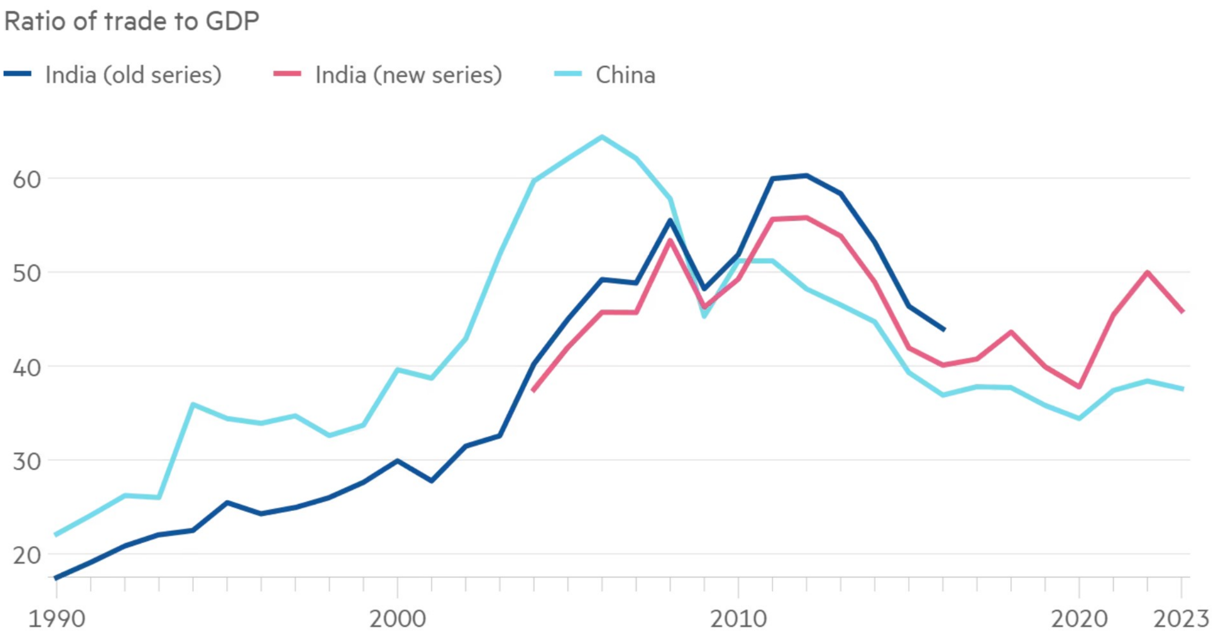
Advanced economies
Emerging market and developing economies
Emerging and developing Asia



Source: IMF

Moreover, and crucially, India has strengths. It is an obvious "plus one" in a world of "China plus one". India has good relations with the west, to which it is strategically important. But it is also important enough to matter to everybody else. It could be what the IMF calls a "connector country" in the world economy. Indeed, it can and should lead in the liberalisation of trade, domestically and globally. India also has the advantage of its diaspora, which is enormously influential, especially in the US. Not least, India's human resources give it the capacity to diversify and upgrade the economy over time. It must exploit this. Size, in short, gives the country weight. India is not just constrained by the world: it can and must shape it.

India's ratio of trade to GDP needs to stay up if it wants fast growth



Methodological break in Indian series. Earlier series based on factor cost calculation of GDP, later on market price method
Source: World Bank

What will matter most, however, is how India manages itself. Its biggest challenges are internal: maintaining stability; improving education; defending the rule of law; upgrading infrastructure; providing a first-class environment for investment; encouraging inward investment; and accelerating its shift towards clean energy.

The recent elections have made me more optimistic. The country should continue to have a stable government. But Modi's BJP has been humbled. I hope this will persuade the government to focus its efforts on the economy and welfare of the population, rather than on India's very own culture wars. India can be an influential and immensely important stabilising force in the world. We must all hope it rises to this occasion.

martin.wolf@ft.com

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