

Roadmap to Becoming a Global Economic Power

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India Unlimited – Reclaiming the Lost Glory

By Arvind Panagariya

Harper India, 2020

The debate about India in the world economy and its ability to capitalise on its advantages to emerge as a global economic power is nothing new. In the book titled *India Unlimited – Reclaiming the Lost Glory*, Arvind Panagariya brings a lifetime of knowledge and experience as a professor of international economics and, more recently, as the vice-chairman of the NITI Aayog (the new avatar of the erstwhile Planning Commission), to objectively assess India's post-independence journey as an economy – its policies and their shortfalls – and then goes on to suggest reforms across various dimensions. A closer vision of policy framing, implementation and the results thereof has given the book a unique flavour providing the right interface of economic theory, ground realities, policy analyses and plausible reforms. Given its contemporary nature, the book is a must-read for anyone interested in Indian economy and political economy of development.

The book is well organised. It first provides a historical background of India's glorious economic past which eroded due to multiple developments in India as well as the world economy. Panagariya points out that till as late as 1820, India and China contributed to half of global gross domestic product (GDP). India's contribution actually fell from 16 per cent of global GDP in 1820 to about five per cent in 1947 when the British finally quit India. The author tracks India's economic journey from Independence in light of the policies it undertook and their outcomes. A comparison with the development stories of the East Asian economies remains a constant reference point.

Panagariya notes that South Korea, Taiwan, Singapore, China and India had comparable per capita incomes in the 1950s, but over time, these countries have gone far ahead of India. A crucial difference was India's outlook towards the external economy. While all the countries more or less started with an import substitution strategy, most countries turned to a more outward policy even as China and India continued to be inward looking. China looked outward in the 1980s and transformed itself. India only undertook hesitant reforms in the 1980s with deeper reforms in the 1990s.

Panagariya claims that the decades from 1950-51 till 1980-81 were lost decades. While the typical argument of the Hindu rate of growth is held true for these years, one cannot ignore the fact that self-sufficiency for any country, and especially for large countries, is a fundamental premise on which most of the developed nations today have progressed historically, and India did the same. Over the first decade after independence, the government took distinct steps at moving towards industrialisation which was state-led. There were crucial investments in higher education, the benefits of which India reaps to this day. Hence, it would not be prudent to label the first decade as a lost decade. On similar

counts, some reforms through the decade of the 2000s were done to enable greater economic equality and empowerment. The criticism may be put towards the implementation of these policies and not necessarily the policies themselves.

Looking at various sectors in the economy, Panagariya begins by specifically looking at the agricultural sector, highlighting the low levels of per employee output and the widening gap between agricultural and industry wages. He discusses major reforms to address farmers' incomes and emphasises the need for large scale migration out of farming to increase agricultural productivity and wages. In the opinion of the reviewer, the increased productivity so envisaged may require the usage of capital-intensive machinery. The smaller land holdings to which the author also refers may make it unprofitable to engage such machinery, as the benefits are really obtained from larger land holdings. One may need to think of a plan where a farmers' cooperative could be formed for a given area and the machinery could be funded and shared. As indicated by the author, the diversification of agricultural labour into beverages, fruits and vegetables would be ideal and a much-needed step.

The lack of a vibrant manufacturing sector and the possible reasons behind the same are discussed next, with a recognition of the role of the Industrial Disputes Act and a preference for keeping businesses small to avoid the rules deterring laying off workers or deploying them for jobs to which they were not recruited. It is made adequately clear that development of a conducive scenario for larger enterprises would be the stepping stone to create employment, which would absorb the labour released from the rural agricultural sector. Along with this, a careful strategy to promote exports would be the key to sustainably develop the manufacturing sector. India's crucial advantage is its labour costs, which are a third of the real wages in China. The author warns against "Robophobia" or the excessive fear of automation. Indeed, automation while remaining a long-term threat may not be as big a danger in the medium-term to start large scale production.

Panagariya elaborates on easing out the trade regime and opening markets for exports and imports. A crucial point, which needs the attention of all trade policy experts, is that restricting imports while trying to promote exports makes little sense as foreign exchange is earned through exports to import cheaper products (and it would not make sense to earn foreign exchange otherwise). Additionally, the competitiveness of exports is crucially dependent on getting cheaper raw materials, many of which are best imported, given that most products are produced through participation in value chains.

The reforms suggested for agriculture and industry, with the need for mass movement of labour into urban centres and the need for working capital to build bigger manufacturing facilities, well places the author to focus on issues that need attention: urbanisation and growth of civic facilities as well as availability of capital from the organised financial markets. Both of these are discussed and possible solutions are offered. The specific problems ailing the financial markets in the economy today are due to the unprecedented growth of non-performing assets of commercial banks. The resolution of the same is discussed with impressive depth.

As labour and educated labour lie at the heart of propelling longer-term growth, the author discusses improvements in the higher education sector of the country. Several experiences of the United States, China and United Kingdom are discussed, laying a roadmap. Interestingly, a lot of the manufacturing employment which is crucial to absorb the large pool of India's workforce is focused on medium-educated or vocationally-trained individuals. There needs to be a concerted effort to improve the employability of new entrants to the job market. This is something the book could have discussed in greater detail. Of course, this is not to undermine the necessity of modernising higher education and revamping certain policies to ensure innovation and quality research output to improve productivity in all economic sectors. Initiatives like revisiting the University Grants Commission and reforming it in line with skill requirements of the industry are well argued. It is, however, a challenge for the government to mobilise funds to move in this direction as one notes the government's current level of debt.

In the final two chapters, the book turns towards issues of governance and other general reforms which would enable the country's economy to grow and capitalise on the current economic scenario of the world. A few crucial aspects, which could have been devoted greater attention, are corruption, legal issues, healthcare, rising economic inequality and responsible entrepreneurship. While the book talks about a shift in attitude towards the bureaucracy, the well-documented levels of corruption at various levels in the government and judiciary would need to be addressed to ensure the perfect implementation of the policies. Healthcare is another aspect which needs to be addressed with growing urbanisation. The dismal levels of public health spending in India are a recipe for disaster, which may merit a book in itself. Finally, more needs to be done to ensure an equitable distribution of the gains of growth. Hopefully, it could be addressed in part by greater employment if the manufacturing sector kicks off. However, responsible entrepreneurship, partly by taking advantage of cheaper labour (in place of more capital-intensive production), as shown with the example of Shahi exports (in the conclusion of the book) and partly ensuring wealth for all and not just for the company, is the key to India's sustainable development journey.

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