

## Jairam Ramesh is wrong: Becoming third largest economy is not easy, it needs leadership

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India's journey from the 10th to the 5th largest economy in nine years under Prime Minister Narendra Modi challenges the notion of luck and emphasises the importance of sound policies and proactive leadership to propel the nation towards its goal of becoming one of the top three economies

“Back in 2014, India had the 10th largest economy in the world. Today, it has the fifth largest. In my third term, I give you my guarantee that India will become one of the top three economies,” Prime Minister Narendra Modi said at an event in Delhi last week. This may be one of the most significant promises ever made by an Indian prime minister. Who is the best to lead India as we aim to enter the club of top three economies? This should give the people a sense of purpose, as we weigh our options before the next general election.

Rather surprisingly, the opposition does not seem to think that this matters. India becoming the 3rd largest economy is an “arithmetical inevitability”, tweeted Jairam Ramesh. And that it makes no difference who forms the next government. Yes, you read that right. Apparently, it does not matter who is leading the country. Apparently, India can just sleepwalk its way to the high table of world economies. It is even more puzzling that many liberal commentators seem to share this view. How did India go from 10th to 5th in the last nine years? In a column written a few weeks ago, former finance and economic affairs secretary Subash Garg, who really should have known better, seemed to suggest that it was kind of “fortuitous”. Maybe India just got lucky.

It is difficult to wrap one's head around such magical thinking. If this was all so easy, why was India going backwards for 41 years? From being the 6th largest economy in 1950, India slipped to the 12th position in 1991. This is what can happen when you have bad policies. Even after the reforms forced by the IMF and World Bank in 1991, why did it take 23 years to climb just two ranks? We went from 12th in 1991 to 10th in 2014. Now India jumps five ranks in the last nine years and you think it was due to luck? There should be a Panchatantra type story along these lines. Like that of the fox and the sour grapes.

Only in the world of intellectuals could someone have said such a thing. No real entrepreneur talks like that. Climbing the global economic power table is hard, each step more difficult than the last. It is also hard to hold on to your position. Countries make mistakes and can go tumbling down. It happens all the time. Success is not an arithmetic inevitability, Mr Jairam Ramesh. It is all about the choices you make.

### India's big decline between 1950 and 1991

Is the average Indian richer than the average person in sub-Saharan Africa? Most Indians would say yes. But since when? In which year did India's per capita GDP cross that of sub-Saharan Africa? Did it happen under Nehru, Indira or Rajiv? None of them, actually. Because it happened only in 2016, under Narendra Modi. Why so late? None of the usual excuses made by the usual suspects would work here.

Sub-Saharan Africa has been ravaged by war, colonisation, poverty and famine – as badly or worse than India.

That may seem surprising, but only until you realise that the economic history of independent India follows a stark V-shape. During the four decades of painful Nehruvian socialism, India's GDP went from being 6th largest in 1950 to 12th largest in 1991. It has only now bounced back to 5th position. The per capita GDP shows a similar V-trend. In 1950, India's per capita GDP was roughly 18 per cent of the world per capita GDP. Around 1991, it fell to just 6 per cent. In other words, the average Indian became three times poorer over 40 years. Since then, India has managed to pull back. By 2014, this figure had reached 14 percent. In 2023, it now hovers around 19 percent. And so the theory of "arithmetic inevitability" of success falls apart. The only guarantee we have is that bad ideas will lead to bad outcomes.

### **Remember BRICS?**

We are not joking. In the early 2000s, someone thought that the four economies of Brazil, Russia, India and China were set to dominate this century. So they took the first letters in the names of these countries and coined a neat little acronym: BRIC. The term caught on. Or as we would say today, it went viral. Then someone noticed that South Africa was growing rapidly as well. And possibly that an "S" would fit nicely at the end of BRIC. And so we had BRICS. Like the acronym, it was sure to work.

How are these countries doing today? China has become an economic superpower. India has made it to the top five economies. But what about the rest? Believe it or not, the economies of Brazil, Russia and South Africa are now smaller than they were in 2011. In other words, they have not moved ahead an inch in more than 10 years. At one point, Brazil had become the world's 6th largest economy. Today it is down to 10th. As we said, success is not an arithmetic inevitability.

What about India? Could we have slipped down the ranks as well? Perhaps. Some analysts at Morgan Stanley had put India in the fragile five by 2013, along with Brazil, Indonesia, Turkey and South Africa. Such predictions come and go, but this one proved remarkably on target. Three of those five, namely Turkey, Brazil and South Africa, now have economies smaller than they did in 2011. Without change in 2014, could India have been the fourth? Could we have been struggling right now with a collapsing economy and 80 per cent inflation like Turkey? We don't know. Ask Raghuram Rajan. He had advised the incoming Modi government in 2014 that it was time to start printing Rs 10,000 notes! Because the Rs 1,000 note was set to lose value rapidly due to inflation. Nine years later, nobody uses even the Rs 2,000 note. What caused this big turnaround?

### **The global economic power table shifts constantly**

By the 1980s, the Japanese economic miracle had spooked even the Americans. Rising from the ashes after World War 2, Japan had become the second largest economy. And it seemed like they could surpass even the United States. But then, decades of stagnation followed. Now, Japan has been overtaken by China. Germany might do the same. If all goes well, India will overtake both Japan and Germany in the next few years. The global economic power rankings change all the time.

Just ask Manmohan Singh. By 2010, India had made it to the list of the top 10 economies. But India dropped from 9th in 2010 to 10th in 2011. By 2012, India was again out in the cold, no longer in the top 10! Canada used to be in the top 10, but dropped out in 2010. They clawed back to the 9th position in

2020, but the IMF says they would fall behind Italy in the next two years. Or see the plight of Brazil. Once the 6th or 7th, they did not even make the top 10 in 2022! India which used to struggle to stay in the top 10 is now firmly established in the top 5. How could anyone take such an achievement for granted?

### **1966: India's missed opportunity**

The 1991 moment could have come a lot sooner. Twenty-five years earlier, to be exact. Indeed, by the mid-1960s, India's socialist command economy was falling apart. The big hopes after 1947 had not materialised. The GDP was growing at only around 2 per cent. There were shortages of everything. The government in Calcutta had to outlaw the sale of *rosogolla* because milk was scarce. The government in Bangalore had to do the same with idli and dosa, to save rice. Then, in 1991, the IMF began putting together a plan of economic reform as a condition for aid. Prime Minister Shastri, as well as Indira Gandhi in the first few years, agreed to open up some parts of the economy.

But then came the general elections of 1967. For the first time, they showed serious anti-incumbency against the Congress. In order to turn this around, as well as increase her own grip over the Congress party, Indira Gandhi decided to make a hard left turn. In order to explain away the failures, there was a new enemy every day. First, it was the private banks – these were all seized and nationalised in 1969. Then, all the rich were the enemy. So the top tax rate was raised to over 97 per cent. Then, all the middle-class people were the enemy. So the government brought a “compulsory deposit scheme” and forced people to deposit a portion of their income for a lock-in period with the government. Incidentally, this was the time when Indira Gandhi teamed up with Manmohan Singh. He was brought in as an economic adviser in 1971. By 1972, she had promoted him to chief economic adviser. Then, foreign companies were enemies. So they were all but banned in 1974. Then, all the domestic traders were enemies. And so the government took over the wheat supply.

None of this made things better, of course. By 1974, GDP growth fell to just 1 per cent. On the other hand, inflation soared to 28 per cent. Public anger exploded on the streets. The final act of this was the Emergency, in 1975. Yes, nations do fall apart due to bad decisions. At least one generation of Indians could have been saved if India had not missed the opportunity in 1966. Roughly speaking, India of 2023 could have been where we hope to be 25 more years down the road - in 2048! Can you feel the sense of loss?

### **Our choices will make us great**

It is depressing to hear leading political figures speak of the future as a sequence of events that would happen no matter what. Perhaps a dynastic outlook on politics promotes such thinking. It is even more depressing when thinkers and intellectuals join them. Things happen for a reason. And the superpower of the future will be the country that makes things work.

Becoming one of the top three economies is a big national goal. As the 2024 elections approach, we should be actively debating who and what policies can help fulfill that dream in the near future. This is clearly not the time for a fate-based outlook.

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