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Article

Another great power in the room? India's economic rise in the 21st century and the dual economy challenge

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Abstract

This article's main objective is to examine the political economy of the economic reforms implemented in the 1990s and examine the main factors which explain India's economic rise in the 21st century. We argue that the productive investments and the country's opening to the global economy have contributed to economic growth, but that this rise leads to the formation of a "dual economy." Continuing reforms thereby become necessary for India in order to achieve inclusive growth and structural transformation, overcome the dual economy challenge and gain strength in the international system.

Keywords: International Economy; India; Economic Internationalization; Emerging Countries; Economic Development.

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Introduction

When it gained independence in 1947, India was still a predominantly rural country. The working-age population employed in its manufacturing sector represented only 10% of the workforce, and subsistence agriculture was still the main source of employment (Kapila 2015). The diagnosis made by the new leadership in New Delhi was that Indian underdevelopment was due to the existence of an agricultural sector with low efficiency, insufficient industrialization, and the legacy of the economic exploitation during the colonial period. In the following decades, the Indian government sought to adopt a strategy of economic growth anchored in central planning and economic nationalism with the aim of replicating the Soviet industrialization experience to a certain extent. Although private property was not banned in India, and despite the fact that, from an institutional perspective, the country remained a market economy, there were still legal and institutional impediments to the expansion of private manufacturing, and the economy was heavily regulated by the state (Tomlinson 2013).

Even though the policies pursued by the Indian government have contributed to elevating the capital stocks and the level of industrialization, the economy continued to show indices of competitiveness and economic productivity much below the developed economies or even those of other recently industrialized developing countries. The perpetuation of an essentially agrarian economy and the expansion of an industrial sector with low levels of economic competitiveness resulted in an anemic GDP growth which was referred to as "Hindu growth." Between 1950 and 1980, for example, the GDP displayed an average annual growth of 3,5%, which in terms of per capita income represents an average annual growth of only 1,4% (Kapila 2015).

More profound transformations of the Indian economy were initiated during the governments of Indira Gandhi (1980-1984) and Rajiv Gandhi (1984-1989). This saw the acceleration of economic reforms which promoted a higher degree of market deregulation within the Indian economy, through 1) increasing numbers of industries exempt from government authorization to operate in the private sector; 2) more stimulus to the participation of the private sector in telecommunications, although this remained a state monopoly; 3) lower restrictions on the production of goods already produced by other companies, which increased competition between companies within the same sector; 4) establishment of policies to stimulate service exports related to the high-technology sector (software) and; 5) tariff reductions to increase the level of internationalization and competitiveness of the Indian economy (Panagaryia 2004).

In any case, there was a limited political consensus around the deepening of economic reforms, which only accelerated with the economic crisis in the early 1990s, and was aggravated by the adverse external scenario and geopolitical tensions involving Iraq and Kuwait[1] (Mukherji 2014). Although the rise in oil prices was temporary, the Indian economy was marked by macroeconomic vulnerabilities related to high fiscal deficits from the second half of the 1980s, and the external imbalances originating in the country's current account deficits. The external vulnerability deteriorated to a point that in 1991, India's international reserves were only enough to cover three weeks of imports, which spurred the Indian government to sign an agreement with the International Monetary Fund (IMF) to avoid a default (Rangarajan and Mishra 2015).

The dimension of the crisis suggested that India's economic problems were not merely a reflection of short-term macroeconomic imbalances, but rather of more structural weaknesses related to the low levels of competitiveness and productivity, and the exhaustion of the model anchored in planning and economic nationalism (Tomlinson 2013). The agreement with the IMF was eventually strengthened and made space for internal political forces with a reformist objective. Moreover, the external scenario marked by the implosion of Soviet communism and the exhaustion of economic nationalism implemented by other countries of the old Third World

[1] After Iraqi forces invaded Kuwait in the 1990s, oil prices spiked in international markets, rising from US$ 16 in July 1990 to US$ 36 in September the same year.

resulted in the strengthening of ideas defending economic reforms in favor of a more market-oriented economy, open to international investment and susceptive to a higher degree of participation in the production structures of the global economy (Frieden 2008).

The main objective of this article is to analyze the dynamics that explain the economic rise of India in the 21st century and the inertias in overcoming the dual economic challenges. Lewis (1954) reflected upon economic underdevelopment in countries with a vast population, as is India's case. In his analysis, overpopulated developing economies could be characterized by the existence of two sectors. The first is the "capitalist" sector where workers are allocated in economic activities of higher productivity. The second sector is characterized by subsistence activities (mainly agricultural activities) where workers' productivity is very low or close to zero above subsistence. In underdeveloped economies, the subsistence sector is predominant in relation to the "capitalist" sector, which explains the low-income level in these countries. The process of economic growth in these cases would essentially depend on the transfer of workers from the subsistence sector to the modern capitalist in the context of an initially unlimited supply of labor from the subsistence sector.

We argue that the process of structural transformation of the Indian economy suggested by Lewis started to accelerate with the economic reforms that began in the 1990s and resulted in the emergence of a dual economy. Despite the rise in growth rates, the Indian economy is marked by a duality within its production system which relates to the existence of a high-productivity and capital-intensive sector, which nonetheless employs a minority of workers, and another which is characterized by low levels of productivity and accounts for the largest share of the Indian workforce. Albeit with certain restrictions, the challenges posed by dualism in India's economy can also be understood with the dichotomies: rural *v.* urban, formal *v.* informal, organized *v.* unorganized sectors. This situation is a result of the structural weaknesses of the Indian economy which presents low levels of industrialization and urbanization compared to other developing countries in Asia, and of a social structure of persistent segregation, although the institutional system of divisions based on "casts" has been abolished in the country since the Constitution of 1950. India's duality has some similarities with other emerging economies of recent industrialization, but the Indian case has peculiarities that will be examined throughout the article.

For methodological and argumentative purposes, in our research, we consider the above mentioned economic reforms as a type of critical junctures in the contemporary socioeconomic development of India, as they provide an important point of departure for tracing the transformation of the main variables related to economic and productivity growth, which is fundamental to the country's rise during the following decades. Although the empirical reality is always multicausal, the decisions made by Indian authorities to pursue economic opening and the aspiration towards global economic integration defined a new political and economic trajectory from 1991 onwards, partly corresponding to that which was observed in China from 1978 with the reforms initiated by Deng Xiaoping - albeit with certain reservations, some of which will be analyzed in the last part of this article. Even though other politico-economic alternatives have presented themselves since then, the decisions made at the beginning of the 1990s contributed to the positive feedback growth mechanism, albeit producing asymmetric economic effects.

This article is divided into three sections. The first aims to analyze the transformations within the Indian economy with focus on the main variables (critical junctures) and determinants which explain the phenomenon of India's economic rise from the beginning of the 1990s. The second, with a point of departure in the productive structure of the Indian economy, aims to analyze why, despite registering high GDP growth rates, India still possesses lower income levels than the average of emerging countries, as well as the main challenges of continuing the process of modernization. In the third part, given the evidence presented, we argue for the need for inclusive growth, and we present and discuss the main contemporary factors of domestic and international politics that challenge the consolidation of India as a great power.

The "new political economy" and the economic rise of India

The beginning of the 1990s constitutes a key point for Indian economic development in relation to the first decades immediately after the country's political independence. From the 1990s on, the economic growth rate increased in comparison to previous decades, and even in the global post-crisis context after 2008, India continues as one of the main growth engines in the global economy, as can be observed in Table 1 (Prashad 2012).

Table 1. Evolution of the average annual economic growth rate (in % of GDP) in selected periods for India, emerging, and poor countries.

	1980-1991	1992-2008	2009-2018
India	5.1	6.6	7.3
Emerging markets and developing countries	3.4	4.9	4.9
World	3.1	3.7	3.4

Source: International Monetary Fund (2021) and own elaboration.

This performance significantly transformed India's position in the global economy. The share of its GDP measured in Purchasing Power Parity (PPP) as part of the global economy more than doubled during a period of less than thirty years – from 3.6% in 1990 to 7,6% in 2018. In this same period, the per capita income in PPP increased around seven times, jumping from US$ 1.164 to US$ 7.858. India's economic rise from the early 1990s on reflects important transformations at the domestic level and resulted in an improvement in indicators of economic productivity and efficiency and the increase in accumulated capital stocks. These transformations are multifactorial and related to the domestic reforms and a growing process of economic internationalization of India's economy (World Bank 2018).

The Indian government initiated a series of economic reforms which were called the "New Political Economy" with a point of departure in the economic crisis of 1991. These reforms were more extensive and profound than those instituted during the 1980s and resulted in the restructuring of the Indian economy which stimulated the private sector's participation in the production of goods and services, while also reducing public regulation considerably. The Indian economic policy-makers' main objective was to promote a competitiveness shock aimed at raising the indices of productivity and competitiveness after a long period of relative isolation between the global economy and markets formally controlled by the government (Joshi 2017).

In order to reach this objective, the government introduced several changes which eliminated the need for licenses to produce goods in most industrial sectors. The emission of licenses for engaging in certain economic activities was thereby restricted to only a few sectors and the Indian government eliminated the state monopoly in most industrial and service sectors. Engagement in economic activities in most sectors did thereby no longer depend on the existence of licenses emitted by central authorities and most state monopolies were also broken. Important sectors previously subjected to exclusive economic exploitation by public entities, such as telecommunications, finance and infrastructure began to receive private and external investment (Panagariya 2004).[2]

In regard to international investments, the acquisition limit of 40% for the realization of long-term foreign direct investments (FDI) was abandoned in the case of most sectors. The Indian government instituted a new mechanism which allowed the automatic entry of FDI of up to 100% of the enterprises in most economic sectors and opened up for larger participation of international investments in telecommunications, finance, mining, insurance, the arms industry, air transport, railways and ports. Only in the case of certain specific sectors, such as the arms industry, did government restrictions remain (Ahluwalia 2002). No less important for the transformation of the Indian production structure toward a more open and competitive economy were the foreign trade policies. Indian tariffs were even higher than those in other emerging economies which implemented economic models based on the process of import substitution and trade protectionism. Data from the World Bank show that the average applied tariff to products of foreign origin, which was around 100% in the 1980s, was already at a level close to 32% at the end of the 1990s, and was reduced to around 13% at the beginning of the 2010s, reaching 10.3% in 2019 (World Bank 2021).

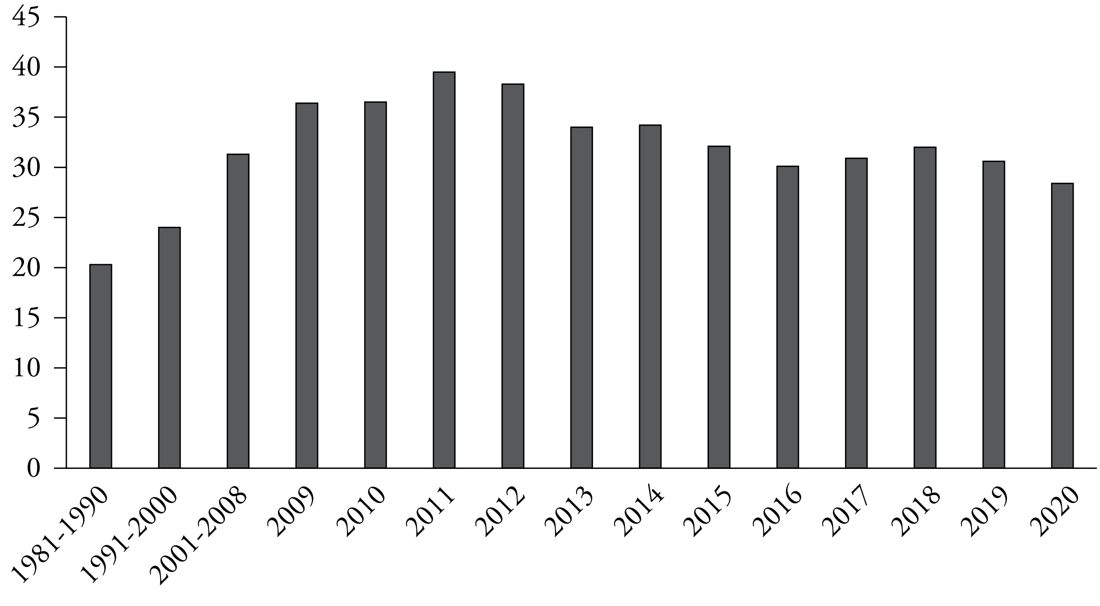
The government's efforts were not limited to reducing Indian tariff levels. An important measure adopted by the Indian authorities to reduce imports was the existence of import licenses which had to be acquired by companies interested in buying goods and services internationally. In practice, the licenses reduced the incentive to import manufactured goods. The need for a prior license was gradually eliminated, and by 2002, all quantitative restrictions have been eliminated (Rangarajan and Mishra 2015).

2 The dimension of the process can be observed through the number of sectors which were the exclusive domain of public entities. The new economic policy of 1991 limited the domain restricted to Indian public exploitation to railways and atomic energy.

The period marked by the strongest economic acceleration can be dated to the middle of the 2000s when the global economy also registered record rates of growth. The Indian performance is also distinguished by two aspects which reveal a higher degree of maturity of development: 1) contrary to what had occurred until the beginning of the 1990s, the Indian economy presented a more stable and less volatile economic performance, which strengthens the basis for structural economic growth, and 2) the Indian economic growth performance showed more resilience to external shocks rooted in the different crises which took place throughout the 1990s in emerging markets and the global crisis of 2008. Even with the slowdown of the world economy from 2008 on, India maintained annual growth rates above 6%, and together with China, became the main engine of global economic growth.

From an economic perspective, this conjuncture can be examined with a point of departure in two economic variables. The first derives from the consistent rise in investment rates, mainly of the private sector. The economic reforms implemented in the 1990s considerably improved the Indian business environment and attracted new investments surging from private initiative through the deregulations and incentives which were implemented in the context of the New Political Economy.

Figure 1. Evolution of average annual investment rate (in % of GDP) in selected periods in India and in annual basis after 2008.

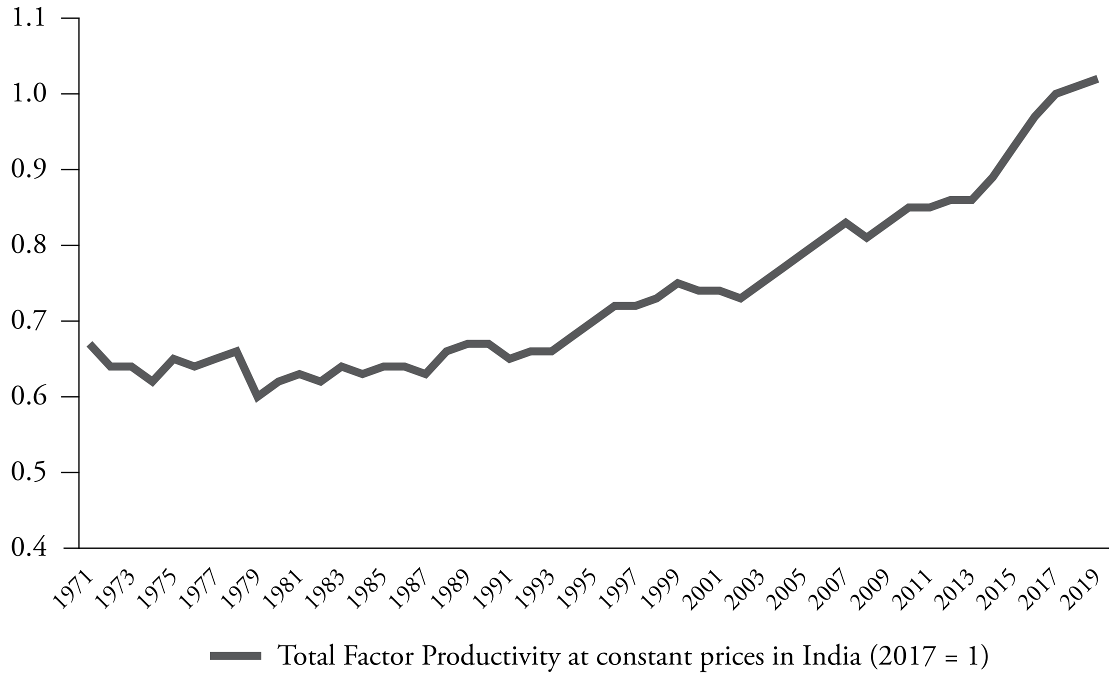


Source: International Monetary Fund (2021).

Between 1981 and 2008, the total capital stock in the Indian economy rose by 428% as domestic and international private actors increased their economic participation. The Indian public sector possessed approximately 44% of the capital stock at the beginning of the 1980s. In contrast, the investments originating from the public sector represent only 3% of new investments in 2008 (Vaidya 2013). The steep rise of investments from the 1980s can be observed in Figure 1, with rates rising from around 20% of the GDP in the 1980s to 25% in the 1990, and more than 30% at the beginning of the new century.

A second factor which played a central role in accelerating Indian GDP growth rates is related to the rise of efficiency and the allocation of factors of production measured with point of departure in productivity indicators. The rise in productivity can be observed through the Total Factor Productivity (TFP).[3] India's TFP proved stagnant between the 1960s and 1980s and began to display a more accelerated and consistent growth from the 1990s on. Between 1950 and 1990, the Indian TFP remained around 25% when compared to the United States. From the 1990s onwards, a convergence began, which resulted in the reduction of the productivity gap, with the Indian TFP reaching around 40% in relation to the United States. Figure 2 shows India's TFP until 2019 in detail. It is thereby not a coincidence that a significant part of the Indian GDP growth is related to the improvement of productivity indicators (World Bank 2018).

Figure 2. Evolution of anual Total Factor Productivity at constant price in India (2017 = 1) between 1971 and 2019.



Source: University of Groninguen and University of California (2021).

Despite the noticeable aggregate performance, this productivity growth was not the same in the agricultural, industrial, and service sectors. The improvement of economic efficiency is associated with the 2000s and the growth in service sector activities that complement the industrial sector. The complete data can be observed in Table 2 (Bosworth and Collins 2015).

[3] The TFP is calculated according to the residual of economic growth which cannot be explained through the accumulation of physical and human capital and through the variation in the number of hours worked. Hereby, the TFP evolution gauges mainly the level of economic efficiency of the factors of production.

Table 2. Average TFP growth in India in selected periods.

	1960-1980	1980-1990	1990-2000	2000-2010
All sectors	0.2	2.1	1.8	3.7
Agriculture	-0.1	1.6	1.1	1.9
Industry	-0.4	0.5	0.3	2.6
Services	0.4	2.6	2.2	4.5

Source: Bosworth and Collins (2015).

As a result of this process, the sectoral composition of the Indian GDP suffered alterations mainly due to the more accelerated growth in the service sector, which also witnessed an increase in the number of individuals employed. Table 3 demonstrates the evolution of the composition of the Indian GDP from the beginning of the 1950s, where it is possible to observe the transformation of the Indian production structure with the growth in the participation of the service sector in GDP.

Table 3. Annual average sectoral distribution of GDP in India.

	1950s	1960s	1970s	1980s	1990s	2000s
Agriculture	55.3	47.6	42.8	37.3	30.9	21.8
Industry	14.8	19.6	21.3	22.3	23.3	24.5
Services	29.8	32.8	35.9	40.3	45.7	53.7

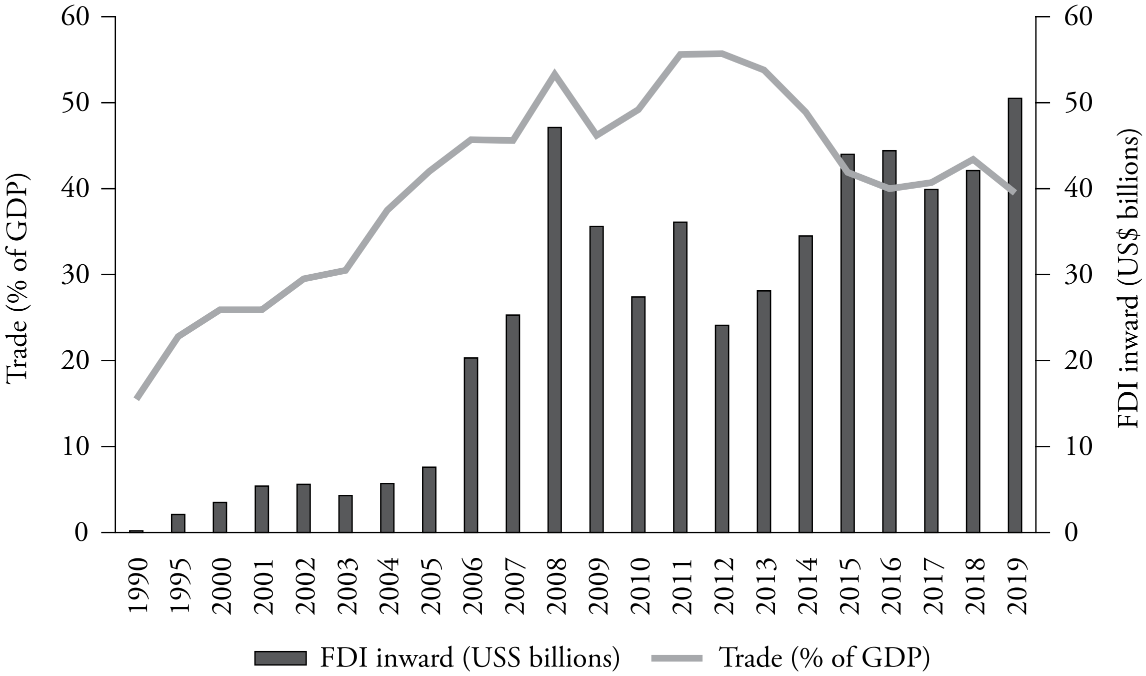
Source: Murkherjee (2013)

Although the service sector's expansion in this period is related to the growth of traditional activities (retailing, transport, hotel business, and restaurants), there was also a growth in the occupations mainly connected to the modern, and/or high value-added service sector. Areas such as telecommunications, financial services, businesses, education, and medicine can be highlighted. The modern service sector (telecommunications, banks, insurance, finance, education, and medicine) saw an average growth of approximately 11,3% throughout the 1990s and 2000s, which confirms the importance of these activities for the more accentuated acceleration of Indian GDP. Only the modern service sector, which, despite employing only a small portion of the Indian workforce, added an average 2% growth to the Indian GDP in the 2000s (Bosworth and Collins 2015).

The expansion of the modern service sector in India relates to two factors. The first derives from the partial reversal of the process of migration of Indian engineers and scientists who had migrated to the United States before the beginning of the process of economic opening in the

1990s. As they returned to India, they were dedicated to establishing companies to exploit the market of services to companies located mainly in the United States (Kapila 2015).

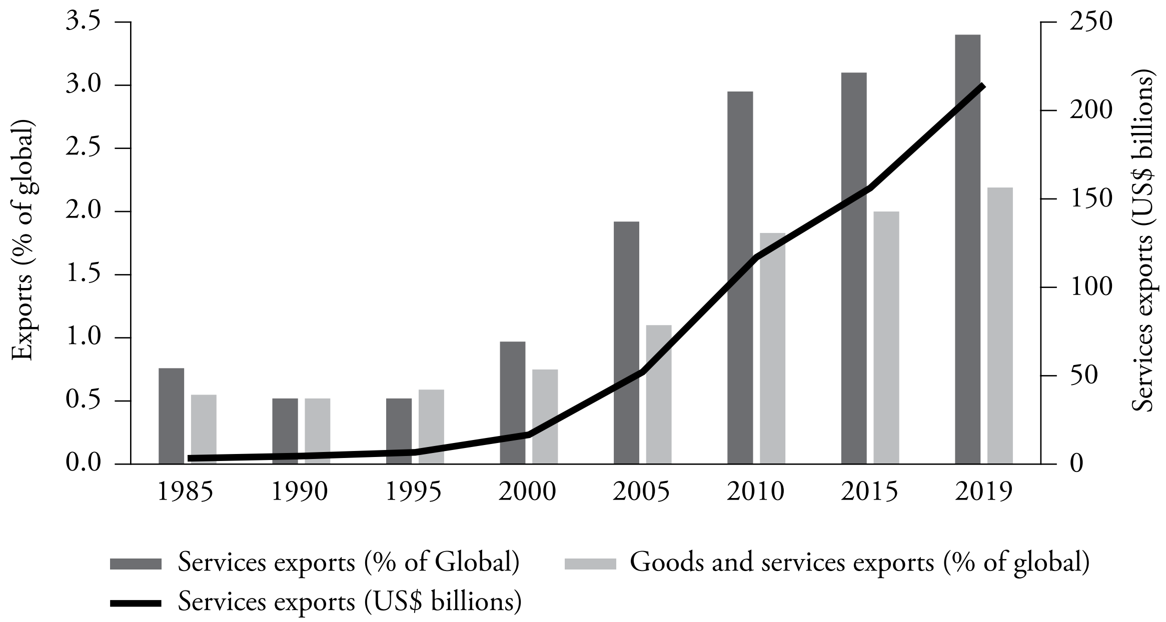
Figure 3. Evolution of the entry of FDI and the coefficient for commercial openness.



Source: UNCTAD (2021) and World Bank (2021). Own calculation.

A second factor relates to the process of economic opening that reduced barriers to long-term foreign investments in India, which occurred in the context of growing economic integration with the world economy. The process of internationalization of the Indian economy – both from a productive and commercial perspective – becomes evident from the information in Figure 3 which illustrates the FDI entry and the coefficient for commercial opening from the beginning of the 1990s. The service sector was responsible for approximately 50% of the FDI entry in India which was aimed mainly at financial services, telecommunications, and the production and commercialization of software and hardware. The sector registered a spectacular growth from this period and transformed India into one of the main high value-added service providers in the global economy (Mukherjee 2013). As Banik and Pavodani (2014, 72-73) highlight, apart from India having become a large global software exporter (around 20% of the world market), the technical services outsourced by large companies have undergone a diversification into other areas, such as accountability services, reservation centers, juridical and legal services, medical diagnostics, corporate administrative processes, back-office services, including data management, or even call centers.

Figure 4. Evolution of Indian total exports and service exports and services exports.



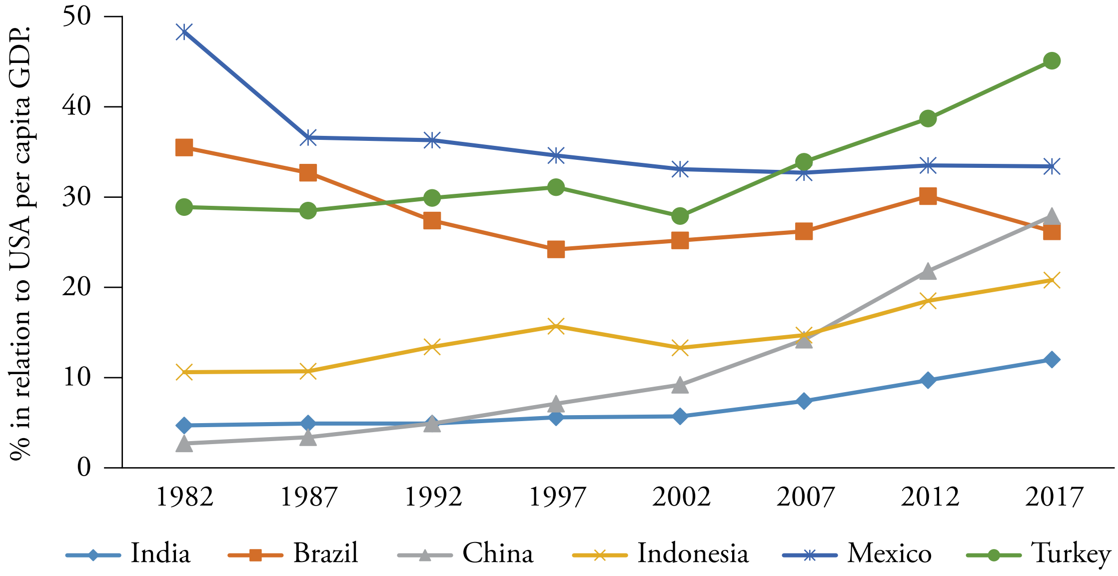
Source: World Bank (2021) and UNCTAD (2021). Own elaboration.

In Figure 4 it is possible to observe the growing internationalization of India's economy in the past four decades. The service sector is the principal factor that explains this phenomenon. The participation of Indian service exports in the world market grew fourfold in the last 35 years (from 0.76% of the global total in 1985 to 3.4% in 2019). In the same period, India's services exports increased from US$ 3.3 billion to more than US$ 214 billion. In this regard, India's rise from the beginning of the 1990s is mainly associated with the realization of economic reforms which significantly reduced regulation and the role of the public sector in the Indian economy, contributed to the rise in domestic investment and promoted a higher degree of integration of the country in global trade flows. Unlike China, India's economic integration was based mainly on expanding the service sector (Chai and Roy 2006).

Inertias and limits to India's economic rise in the 21st century

Although India's economic performance from the beginning of the 1990s, and mainly the 2000s, was significantly higher than the previous decades, the country still presented lower income indicators than the average in other emerging economies. The difference of income in relation to these economies can be observed in Figure 5, which demonstrates the evolution of per capita income in India and other important emerging economies in relation to the United States.

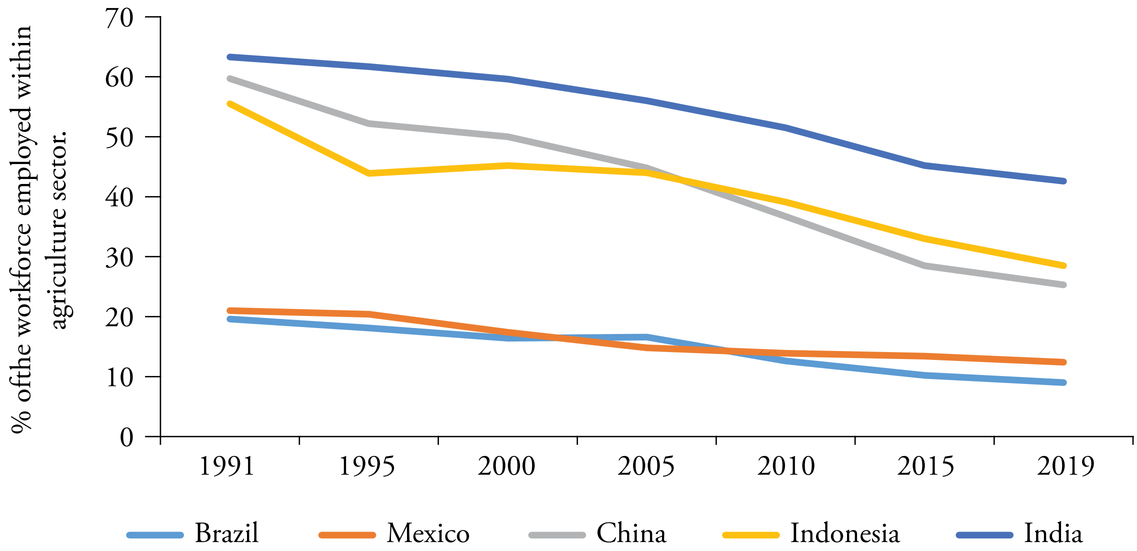
Figure 5. Evolution of the percentage of per capita GDP in PPP (in constant US$ of 2011) of India and other selected economies in relation to the United States.



Source: IMF (2021). Own calculation.

The process of income convergence began in the 1990s and accelerated mainly during the 2000s. In 2017, the Indian per capita income reached its highest value in comparison to the United States (12%) in the period after the Second World War.[4] In any case, the process of Indian income convergence in relation to developed countries is slower than that of other Asian economies, such as China and Indonesia. Moreover, the Indian per capita income continues to be lower than Brazil, Mexico, and Turkey.

Figure 6. Percentage of the workforce employed within the agricultural sector in selected countries (in % of the total workforce).



Source: International Labour Organization (2021).

[4] In this comparison, we use the PPP income indicator as it is more suitable to reflect the purchasing power of each country.

One important factor is that India is still a largely agricultural country. Even with the accelerated urbanization process, and the productivity rise in the industrial and service sectors, the agricultural sector continues to employ around 40% of India's workforce. Figure 6 shows a progressive decrease of agricultural employment in the past decades in India, but this process is slower when compared to other emerging markets in Asia and Latin America. The most important factor with respect to the agricultural sector is that despite having benefitted from the green revolution in the 1960s, production growth proved insufficient to raise the income in most agricultural sector. In other words, even with the productivity growth in the agricultural sector and the higher production of mainly cereals, the country still presents lower levels of productivity compared to the industrial and service sectors. In the words of Joshi (2017, 69) "In the early 1980s, output per worker in industry was three times higher than in agriculture, and in services it was four times higher. By 2011, the former multiple had risen to four times and the latter to seven times."

Dwivedy (2011) argues that low productivity in Indian agriculture relates to the existence of a series of deficiencies, such as: the small average size of rural properties obstructs the development of more extensive and productive agricultural production; to a large extent, agricultural techniques are rudimentary and technology is used inefficiently; water resources are used unsustainably, which lowers water availability for agricultural irrigation; the country is vulnerable to natural disasters (earthquakes, flooding, cyclones) which results in lower productivity of planted areas; because modern cultivation and irrigation techniques are still not available to all rural properties, Indian agriculture depends much on the rains and the monsoons, which due to the extreme weather events reduce the productivity of planted areas.

In emerging economies, the main vector that spurred the acceleration of growth rates beginning in the 1950s generally derives from the intensification of the industrialization process, supported by the transfer of a significant share of the workforce employed in agriculture to the industrial sector (Amsden 2009). In the case of India, industrialization played a secondary role in spurring the GDP growth rate in the 1990s. Unlike the process of industrialization, which is labor intensive, the expansion of the high value-added service sector did not lead to a substantial rise in demand for labor, especially regarding low-skilled workers, which represent the largest share of the Indian labor force. In this respect, the urbanization process in India and the migration of labor from the agricultural sector occurred at a slower pace compared to the Latin American and Southeast Asian economies. In India, industrialization played a secondary role in the process of economic modernization, which makes India a singular case if compared to the major emerging economies (Sharma 2016).

This inertia in the agricultural sector eventually resulted in a duality of the Indian production structure, which was marked by two distinct sectors: one of high productivity which employs a minority of the workforce, and another characterized by low productivity, which employs the absolute majority of the Indian workforce. This duality of the productive structure is aggravated by the fact that in the process of urbanization, workers from the rural sector do not have, for the most part, enough education to be integrated into higher productivity activities in the urban sector.

Thus, this mass of workers who emigrate from rural activities become informal workers in the service sector where productivity is lower, which increases inequality within cities (International Labour Organization 2019).

As Sharma (2016) observes, the Indian high technology sector employs only around 2 million workers. This represents less than 1% of the country's workforce. This expansion is hereby insufficient to raise the income level of the majority of the Indian population which is employed in the production of low-productivity goods and services. The Indian productive sector is also marked by a duality rooted on the fact that a majority of companies operate in the unorganized sector, and a minority which is formally registered in organized sector (Kulshreshtha 2011).[5] In general, the organized sector encompasses large companies that adopt the most advanced and capital-intensive production processes while the unorganized sectors are composed of small companies that employ few workers without public registration and operate in the informal sector of the economy.

The vast majority of the Indian workforce is allocated in small companies with low productivity. Even in the service-providing companies, which mainly accounted for the acceleration of more robust growth trends if compared with the agricultural and industrial sector, it is possible to identify an increased number of small businesses with low levels of competitiveness and productivity. The larger a company or industry, the greater tend to be the benefits of economies of scale, which refer to the average cost reductions per unit produced as production increases, making the company or industry more efficient and competitive, with access to the financial markets. In the words of Joshi (2017), the virtual islands or enclaves of the dynamic sectors such as manufacturing, telecommunications, banking, and commercial services were not able to absorb the most abundant resource in India: unqualified labor. This hereby constitutes the main obstacle for the country to pursue inclusive growth.

Table 4. Percentage of workers employed in companies by variable size in selected Asian economies

	Micro and small (1-49 employees)	Medium (50-199 employees)	Large (+200 employees)
India	84%	5.5%	10.5%
South Korea	46.5%	23.9%	29.6%
Taiwan	38.9%	21.3%	39.8%
Malaysia	27.5%	19.7%	52.8%
China	24.8%	23.3%	51.8%

Source: Asia Development Bank (2009).

[5] The terms "formal x informal" or "organized x unorganized" sector in India can be understood as similar, but with some differences. According to India National Accounts Statistics, the organized sector of India's economy refers to economic activities in which information is registered with public authorities. The segments that don't provide information to public authorities are considered the unorganized sector. Moreover, the activities related to the production of goods for self- consumption (agriculture subsistence) and domestic services are considered unorganized sector.

In 2005, for example, there were approximately 17 million companies in India, of which 99.3% employed less than nine individuals, while the majority operated in the unorganized sector. As the Asian Development Bank observes (2009), only 10.9% of labor was employed in industry in companies with more than two hundred employees. This situation only highlights the dual character of the Indian economy, marked by the existence of a formal and productive sector, which nonetheless only represents a minority of the employed workforce. These numbers contrast with other emerging Southeast Asian economies that have a high degree of dynamism in the industrial sector, with a more substantial participation of medium and large companies (Table 4).

As is highlighted by Bosworth and Collins (2015), India is characterized by precarious public infrastructure, a deficient financial system in terms of identifying the creditworthiness of companies, a regulatory system which discourages the development of large companies, not least those intensive in labor. Infrastructure weaknesses constitute a central element that prevents further interaction of the national economy in global values chains, especially with regard to the industrial sector which could turn into the most dynamic of India's economy, as it happened in other Asian countries. This resulted in an economy in which the organized and formal sector, most subjected to regulations "accounts for about two-thirds of output, but only about one-fifth of employment" (Bosworth and Collins 2015, 14).

Beyond questions of labor allocation in low-productivity sectors, an important aspect that impedes a more robust acceleration of the Indian economy is the limited progress made by the country in improving human capital. Even with the increase in the average education level of the labor force in recent decades, the country still registers lower labor qualification levels than those of other emerging countries. The Chinese labor force, for example, has average schooling of 7.5 years, while in India this number is 4.4 years. Indian schooling indices are also lower than neighboring countries, such as Sri Lanka and Bangladesh (Joshi 2017).

Matching domestic and geopolitical demands: what lies ahead for India

In addition to the structural variables that result in a dual economy, the end of the 2010s is also marked by a slowdown in economic growth rates in India. Subramanian and Felman (2019), when comparing the economic performance in two different periods (2003-2011 and 2012-2018), observe a relative exhaustion of the economic growth model in the past decades. India's exports grew by an average of 4.9% per year between 2012 and 2018, while in the previous period (2003-2011) this average growth was 15% per year. Furthermore, the pace of expansion of the investment rate decreased. Between 2003 and 2011, the investment rate increased by an average of 12% per year. In contrast, between 2012 and 2018, the investment rate growth decreased to around 2% per year.

Although this largely stems from the "new normal"[6] (El-Erian 2009) of global economy, the reduction in the pace of investment growth rates is linked to domestic dynamics. A major factor is corporate profits decline of Indian companies over the 2010s due to greater financial indebtedness, which is partly due to the devaluation of the Indian rupee. Non-Performing Loans in India, for example, jumped from 2.9% in 2012 to 11.7% in 2018. As financial statements deteriorated, there was a reduction in investment rates. In addition, the financial weaknesses of Indian companies have resulted in a reduction in the availability of credit offered by banks and financial institutions, with negative effects on the realization of new investments (Subramanian and Felman 2019).

Another source of concern in regard with a more persistent slowdown in India's economy stems from the methodological changes made by India's government in 2015 to calculate GDP growth. Morris (2019) points out that the changes would result in an overestimation of around 1.3% in India's GDP growth for the years 2011-2012 and 2017-2018. In this context, India's GDP growth may be less than official estimations.

India faces many challenges to its development in the coming decades, not least those concerned with the country's socioeconomic division. India lacks a consumer middle class, which was a central component in China's economic growth. As The Economist highlights, "The top 1% of earners pocketed nearly a third of all the extra income generated by economic growth between 1980 and 2014", and "only 3% of Indians have ever been on an airplane; only one in 45 owns a car or lorry" ("India has a hole where its middle class should be: That should worry both government and companies" 2018). The largest part of wealth is generated and concentrated in cities, although the majority of the population is still rural. It is clear that the caste system still permeates Indian society, even 70 years after its abolition. In this context, in order to reach an inclusive future growth, women's insertion into the labor market becomes even more imperative.

It is worth noting that the economy does not grow in a vacuum, as there is a need for an adequate political and institutional environment and, among other things, an active foreign policy linked to development. Unlike nations like China, India has managed to carry out reforms in a democratic political context, which, despite presenting additional difficulties to the reform process in seeking complex approvals, allows for more popular participation and control of the country's plans. It is possible to infer that centralized or non-democratic regimes are not necessarily "independent variables" for the "dependent variable" economic reforms.

International reports indicate that democracy has been challenged in India when the country needs to work for inclusive growth. According to The Economist's Democracy Index 2020 report: "In India, democratic norms have been under pressure since 2015" (2021, 31). There was an alleged democratic setback in the country since the election of Narendra Modi of the Nationalist-Hindu Bharatiya Janata Party (BJP), who became prime minister in 2014 and was re-elected in 2019. India's

[6] The term "new normal" was coined by investment analyst Mohamed El-Erian to describe the new economic context after the global crisis of 2008 when economic growth rates tended to be lower than in the 2000s.

global position in the ranking of the democratic indicator dropped from 27th in 2014 to 53rd in 2020. Freedom House (2021), in its report "Democracy under Siege," downgraded India's democratic environment from "free" to "partially free." Both reports point to an erosion of civil liberties, greater repression against opposition, activists, journalists, especially during the pandemic, when there were restrictions on critical and negative information on the government. Measures such as the December 2019 enactment of the "Citizenship (Amendment)" were reported to have fueled religious conflicts and disproportionately blamed Muslims in the country for the spread of the coronavirus.

The pandemic itself highlighted the limits of Indian development, showing that there is much to be done in the country regarding social coverage, one of the smallest in Asia, and policy coordination between Indian states. The informality in the labor market highlighted in this article is one of the elements that hinder the collection of taxes and the application of social security policies, making many workers "invisible" in statistics. Pressures rose in dealing with the dangerous and unplanned displacement of millions of internal migrant workers during the pandemic, showing a "crisis of mobility" (Rajan et al. 2020). In April 2021, India had the largest number of contaminations globally, causing a humanitarian chaos, with the collapse of hospitals in the capital New Delhi, after a relaxation of restrictions in March 2021 when a new wave was beginning.

In addition to domestic policy, India will face major challenges (and opportunities) on the international stage. It is not our goal to undertake an extensive analysis of India's possibilities to become a great power, or even a superpower, which would require multiple elements beyond those related to the economy, such as acceptance and social legitimacy, alliances, and projection of geopolitical scenarios. Nonetheless, an analysis of India's economic rise highlights some of the material conditions and socioeconomic factors upon which the construction of wider projects of power consolidation in the international scenario in this century could occur.

Even faced with weaknesses, in 2019 India surpassed France and the United Kingdom, and became the fifth largest global economy, considering nominal GDP, according to the IMF (2019) World Economic Outlook. Based on IMF data from 2016, the European Commission (2017) projected that India would become the third-largest global economy in 2030. This economic growth both reflects and reinforces the power transition from the West to the East, associated in large part with China's rise. With the intensification of trade flows, production, and finance - not least from the 1990s –, globalization has helped consolidate China as the "factory of the world" and India as the "world's back office" (Neilson et al. 2014). India's insertion into the world economy and the associated economic growth has intertwined the country with high technology companies, which also contributed to the formation of synergies between the regions of Bangalore and Silicon Valley (Bhagwati and Panagariya 2013).

At the international level, geopolitical questions have been fed by an increasing assertiveness of China within Asia, as in the border conflicts in Kashmir in 2020,[7] and the clashes between

[7] In June 2020, conflicts between India and China in the Galwan Valley region left at least 20 Indian soldiers dead (the number of Chinese fatalities is unknown), the first confrontation with fatalities between them since 1975. The countries are competing for the construction of infrastructure in the disputed region. The conflict fueled anti-Chinese sentiment in India, feeding a boycott of Chinese products.

the USA and China, which eventually turned India into a central actor in this bilateral relation. India has a strategic position in Asia and has been seen as a future counterweight to Chinese influence by the USA - which was slow to recognize India's importance on the international stage, only doing so in the late 1990s. India is also part of the rise in defense spending in Asia and, according to "Global Firepower 2021," has the fourth largest military power in the world, behind the United States, Russia, and China. The country is seeking to modernize its force and has opened the defense sector for private initiatives and collaboration.

Historically, managing the rivalry with Pakistan is India's most demanding foreign policy challenge and the reason why India should maintain most of its attention in South Asia, even when the interest in other regions seems to increase. However, as stated by Pardesi (2015, 23), "India has emerged as a great power in contemporary international relations because it has effectively transcended beyond its home region in South Asia," including greater participation in the Persian Gulf, East and Southeastern Africa, and Southeast Asia.

Some point out that India is not yet assuming the expected responsibilities of an emerging great power. As asserted by Narlikar (2011, 1607), "India's record of assuming global responsibility has been lackluster at best […] India's reluctance to share the burden of providing global public goods is inseparably bound with the nature of its rise to power." However, there is evidence, if not the assumption of more global responsibilities, of India's greater engagement in global affairs in recent decades. The country's role in UN peacekeeping operations; the quest for a permanent seat on the United Nations Security Council; the providing of foreign aid programs to countries such as Afghanistan, Bangladesh, Bhutan, Nepal, Sri Lanka, and African countries (despite being a traditional recipient of foreign aid, it is making the transition to donor); and its role as an active demander in the World Trade Organization facing developed countries are facts that reinforce the presence and, to some extent, assertiveness in the international scenario.

India may not become a great power to the point of competing in systemic terms with the USA and China, but it is undoubtedly one of the countries that gained the most from the redistribution of power in the last post-Cold War decades and reduced the gap between its potential and aspirations. For this and all the reasons raised regarding domestic and international politics, promoting inclusive, coordinated growth seems to be key to internal stability and the mobilization of resources in favor of an active foreign policy demanded by an emerging great power. Unbalanced, non-inclusive growth can exacerbate political and economic tensions, especially in such a plural country with a complex democracy.

Conclusion

From the 1990s on, the Indian economy entered a new phase which in large measure was characterized by an acceleration of GDP growth rates in comparison to previous decades. The improvement of India's economic performance is mainly linked to the rise in investment rates, the accumulation of physical capital, and not least, a gradual increase in the indicators of economic productivity. However, this process did not occur equally in all Indian economic sectors, and resulted in a dual economy.

The service sector became the main source of economic growth from the 1990s due to the expansion of traditional activities and modern services, and India turned into one of the main poles for the production and sale of high value-added services in the world economy. The expansion of the modern service sector is mainly linked to the economic reforms begun in the 1990s, referred to as the "new political economy." These reforms reduced the barriers for the private sector's economic participation, promoted a broad opening of the Indian economy to international capital, and sought to improve the business environment for operations of more sophisticated companies. In any case, India still continues to be a predominantly rural country with lower income levels than those in major emerging economies. Even with the expansion of the modern service sector, the majority of the Indian workforce is still allocated in low-productivity activities, which generates a duality within the productive sector and constitutes one of the main challenges for the next decades.

What the context at the end of the 2010s seems to demonstrate is that the continuation of India's success story in the global economy depends on the deepening of economic reforms, with emphasis mainly on building a more inclusive, educated society with increasing participation of workers in economic activities of greater productivity. From the demographic viewpoint, India still benefits from a positive age pyramid - with high availability of young workers, even though education and training is necessary - compared to a large part of the developed world and even other emerging countries. This elicits hope that the country might be a new engine of global growth in the post covid-19 world, and, from the political point of view, might consolidate its status as a great power in the international system.

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