**India’s Long Insertion into a Stagnating World Economy[[1]](#footnote-1)**

**Johannes Dragsbaek Schmidt[[2]](#footnote-2)**

The world economy is heading towards a new serious downturn possibly a depression is right around the corner. Indeed it is a delicate moment for the global economy especially for those who believe in a quick fix or recovery and who in fact are responsible for the self-inflicted crisis.

What started as a private sector crisis and a real defeat of neo-liberal ideology and economic policy in The United States and Europe has now turned into a public sector debt crisis and as a paradox dominant social forces are still pushing for neo-liberal policy and put a squeeze on governments especially in the US and Britain. There is a refusal to tax the rich and the financial sector and a fiscal restraint without precedent. After having bailed out the financial sector several times with tax-payers money it seems that the European Union, the United States the Western press and financial elite are moving their expectations towards the BRICS or Japan to save the world economy from agony.

As [Ha-Joon Chang](http://www.guardian.co.uk/profile/hajoonchang) has mentioned in the Guardian (11 Oct. 2011): The answer to this question “is a definite no”. Not even China is able to save the world economy from sinking with only 8.5% of the world's output it does not have enough economic muscle to act as the new market for global exports. On the contrary China accounts for only 9% of global import demand and half of that is of raw materials and intermediate goods required for processing into exports. India and Brazil, account for 2.2% and 2.7% of world output, while South Africa, with 0.5% of world output obviously cannot act as demand primers either. All these countries also suffer from a variety of development and equity related problem and cannot in any way be seen as financial saviors buying up bonds or other wise be seen as savers of the global crisis and overproduction problem.

*Where does India fit in?*

Although India has experienced high growth rates it is still struggling with high inflation, especially food inflation in double digits, a political system in paralyses and the inability to raise its growth potential. At the same time there is much premature hype about India becoming the next superpower or “Great power” or at least catching up with China.

Let me give four reasons why India should not strive for or even attempt to become a new superpower.

1) Development problems i.e. poverty, inequality, displacement and the health crisis

2) Corrupt political class

3) Ethnic, communal and caste contradictions

4) Sneaking foreign policy contradictions - between realism and pragmatic commercialism i.e. on behalf of idealist Nehruvianism and “Great Power” export of democracy as model - no coherent or grand strategy - The China obsession

*India’s Long Insertion into a Stagnating World Economy*

Ref 1) India is in an urgent need of land reforms, tax reforms, and a more legally based and formal mines and mineral development plan (Lamont FT 28 Sep. 2011). In the last instance the Indian government has made dramatic wrongs and illegal exploitation of the environment and rural tribal communities threatening security, stability and nation-building.

Furthermore, in a country with more than 400 million people struggling to survive below the official poverty rate on less than 2$ a day it is difficult to see or even debate whether India should prioritize its insertion into the foreign sector or devote much more resources to solve its own development problem. It is also a moral and ethical problem. India is now home to more poor people than the entire Sub-Saharan Africa region and one government Commision estimated that one out of three Indians now live below the poverty line (Lamont FT 27 Sept. 2011).

Ref 2) Severe corruption among politicians and the elite dominate Indian politics. Abusing the “state’s power of eminent domain, its control of infrastructure contracts and its monopoly of natural resources” (Guha FT 20 July 2011) has become the order of the day for the elite to enrich themselves. The examples are legion: looting of mineral resources; graft in connection with the Commonwealth Games in New Delhi; under pricing of mobile phone contracts and property scandals. The scale and ubiquity of these problems is unprecedented. The corruption problem cannot be isolated from the impact of current neo-liberal reforms and retrenchment of the state – where politicians, editors of major media conglomerates and the financial elite interests collude and create a climate of abusing public resources. This makes all the hype of India catching up with China and the West or even becoming a new superpower a bit premature.

Ref 3) Although there have been no communal massacres between Hindus and Muslims and no wars with regional rival, nuclear armed Pakistan during the Congress led government period the situation is still unresolved. The issues related to tribal land and caste especially the Dalit is an obstacle for the creation of justice and democracy; and communal and national identities and religious upheaval may threaten governance and peaceful solutions to development problems. Much more can be said about these issues which may be perceived as a much bigger threat to security and stability than any foreign threat at the moment.

Ref 4) The political, academic and media establishment in Delhi can best be described by its obsession with China. The relation between Asia’s two great powers may be characterized as one of global cooperation on transnational issues especially vis-à-vis the “West”, geostrategic rivalry at the regional levels in the form of growing commercial competition and in some cases bilateral cooperation, growing trade relations and some unresolved security issues. These contradictory processes are complicated by a degree of asymmetry as China does not appear to feel threatened by India while the Indian political class seems to project a sense of insecurity in coming to grip with China’s rise in the world system (Bajaj 2011).

China and India share a largely reactive relationship despite a long history of growing interdependence and brief occasional encounters. Neither of the two emerging economies has developed a grand strategy towards the other. Two observers describe the state of affairs as “an unshakeable and largely unprofitable preoccupation with the past on the Indian side, and an equally intense preoccupation with domestic consolidation on the Chinese side, has left the relationship under-tended” (Malone and Mukherjee 2010: 137).

With some of the world’s highest levels of inequality and weak prospects for reconciling growth with equity in both countries make their ascendancy fragile and filled with uncertainties. Seen in this light, it is indeed questionable whether they are able or even want to reconfigure the international order with their accumulating might (Jha 2010).

On the other hand the growing trade links can in a liberal perspective bring down the chances for a military conflict (Times of India 31October 2011). China has become India’s biggest trading partner and has created almost overnight a pyramidical trade structure with growing trade relations in Northeast, Southeast and Southwest Asia in an attempt to overcome the import squeeze and growing protectionism in Europe and the US which seems inevitable. Whether this evolution will satisfy the neo-realist hardliners and China bashers (Lamont FT 6 September 2011) in New Delhi remains to be seen but the China bashing and the arms race will continue as long as there is a lack of political will to embrace and enhance real people to people, academic and student exchanges, tourism etc between China and India.

Having said this contours of a more pragmatic and less confrontational relationship between India and China seems to be emerging not least due to their increasing economic exchanges. Delhi “prioritizes” its functional relations with Beijing including efforts to continue with confidence-building measures and military-to-military trust and bilateral defense interactions.

It is safe to say that the Sino-Indian relationship oscillate between policies of containment and engagement although rivalries and competition in South Asia, Southeast Asia and increasingly in the Middle East, Iran and Sub-Saharn Africa illustrate that energy security and the emphasis on oil, gas and water remain very contentious. Both India and China seem to acknowledge the need for a multipolar Asia and they show an increasing interest in providing collective goods in the global arena and sharing responsibilities. The important mutual relationship between China and India does not by definition need to be based on a zero-sum game if the political elites of both countries show enough sophistication in their ascendency in the world system.

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1. Presentation at the IV International Conference, India: Emerging Economic Power – Quest for EU and World Economic Order at University of Hyderabad., India, 2-4 November 2011. [↑](#footnote-ref-1)
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