

India could steal a march on China if it invested in its human capital

**BEN
WRIGHT**



Its early development was lopsided and the economy still walks with a limp and fails to fulfil its potential

India's economy got off to a bad start. Jawaharlal Nehru, the country's first prime minister and an extraordinary politician in many ways, was overly convinced that building "the concrete temples of modern India" – such as shiny new dams, power plants and steelworks – would be enough to jump-start the newly independent country.

In *India is Broken*, the Princeton professor Ashoka Mody argues that Nehru would have done far better to copy Japan's success following the Meiji restoration by trying to improve agricultural productivity, building export-focused manufacturing capability and, above all, raising education standards.

This isn't just 20:20 hindsight. Critics at the time questioned Nehru's decision to spend as much on universities as primary education when nine out of every 10 Indians lived in the countryside and the literacy rate (as measured by the ability of a person to write their own name) was just 16pc.

Indira Gandhi, Nehru's daughter, compounded these errors when she in turn came to power, doubling down on import controls and red tape, creating a stifling business environment, which became known as the Licence Raj, and infamously quipping: "I don't know how important literacy is. What has it done for the West?"

Consequently, India's early

development was lopsided; the economy still walks with a limp.

It's noticeable at 6pm on a Friday night when office workers start streaming into the Botanical Garden metro station in Noida, a satellite city of Delhi that also acts as a business centre for the capital. The queue for the security check – a metal detector, bag X-ray and pat down – snakes around the ticket hall, down the stairs and back out on to the street. It consists entirely of men.

There is a separate queue for women leading to a curtained-off booth where pat downs can be administered by a female security officer. Except there is no queue. The handful of women who arrive in the time it takes me to gain entry to the station don't need to wait and walk straight through security.

It is a stark illustration of one of the key reasons why the Indian economy has failed to fulfil its potential for the past three decades and provides a useful corrective to the excitement and broadly justified optimism about its future trajectory.

By 1990, India and China were already the world's most populous nations with similar per capita incomes. Both countries appeared to be on the cusp of a boom. The perceived wisdom was that India – with its knowledge of the English language, the rule of law and, most importantly, a functioning democracy – was well placed to steal a march on communist China.

India suffered what appeared to be another economic setback when Saddam Hussein invaded Kuwait in 1991. But in retrospect it would become a blessing in disguise. The price of oil imports shot up and many of the Indians who were working in the Middle East, and sending money home, lost their jobs. Without a sufficient buffer of foreign currency reserves, India suffered a huge balance

of payment crisis. The IMF stepped in with an emergency bailout and demanded sweeping reforms in return.

Manmohan Singh, the finance minister entrusted with the task, slashed the thicket of enterprise-throttling regulations that had built up during four decades of Nehruvian socialist rule. Announcing a budget of reduced tariffs, scrapped licences and lowered barriers to foreign investment, Singh quoted Victor Hugo: "Nothing can stop an idea whose time has come."

And yet in the subsequent years the Chinese economy surged ahead while India trod water. In *China's Quest*, John Garver details how Beijing benefited from the Soviet Union's largesse with technological know-how and relaxed attitude to intellectual property during the Cold War. This allowed China to build up industrial capacity and was primed to take full advantage when admitted to the World Trade Organisation in 2001.

Socialist New Delhi received some assistance from Moscow but never as much as communist Beijing. And, because of Nehru and Gandhi's missteps, India never developed significant industrial infrastructure (with the exception of a solid automotive sector) or a habit of exporting, which also meant it was unable to entice workers away from the fields and into the factories with better paying jobs.

But the reason why China's economy roared ahead of India's may be even more fundamental. Mody, who used to work for the IMF and World Bank, believes the key difference was that China invested more in its people than India. He points out that every leap in economic development around the world since the industrial revolution has been accompanied with increased investment in human capital and a

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rising percentage of women in the workforce. Agricultural reforms ensured the Chinese were better fed, near universal healthcare resulted in a much higher life expectancy, education standards improved markedly in the years after Beijing started opening up the economy.

"Following the Chinese Revolution there was a broad equalisation of health and education," says Dr Manoj Joshi of the Observer Research Foundation, a think tank based in New Delhi. "In India, often because of the caste system, big chunks of people got left behind."

They remain there. In the World Bank's Human Capital index for 2020, which measures health and education outcomes on a scale of 0 to 1 – China scored 0.65 (which was comparable to a richer country like Slovakia) while India scored 0.49 (which was worse than Kenya).

One of the starkest contrasts between the two countries is female labour force participation. In China, 62pc of working age women have a job while in India fewer than 24pc do. This percentage has actually fallen in recent years and is now, extraordinarily, lower than in Saudi Arabia. Economists believe a combination of factors contribute to the issue, including societal norms, rising household wealth leading to more women dropping out of the workforce and safety concerns.

India has made great play of its huge investment in transport infrastructure and digitisation. The recent progress in these areas has indeed been impressive. But ultimately they amount to two different ways of connecting people. For the full benefits to be reaped, those being connected must be healthier and better educated. What's more, the whole population should be queuing up to use them – not just half.