India in the World Economy, 1750-2010[1]

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An increasing number of businessmen, politicians, academics, journalists and others tell us that China – now with the third-largest GDP in the world - holds the key to the economic future of the global economy. India is also seen as a significant player, one which may achieve even higher growth than China over the next ten years and play as important a part on the international stage, especially in the 'knowledge economy'. According to World Bank data, China and India are now second and fourth in the global league table of GNP in purchasing power parity terms. The concept of 'Chindia' has been used by some commentators – the editors of *Business Week* for example - to suggest that there are important parallels in the recent history and future potential for growth, innovation and business development of the two countries, and that comparisons between them can be instructive. To historians such arguments raise an intriguing set of questions because the dominance of global manufacture and trade by the large countries of South and East Asia is nothing new. Discussion of the fall of Chindia in the eighteenth, nineteenth and early twentieth centuries will help to put the rise of Chindia in the twenty-first century into a larger context. This paper is concerned with mainland South Asia – in particular with the territory of the British Indian Empire that formed the new states of India and Pakistan in 1947 and that comprise India, Pakistan and Bangladesh today.

China and India were the largest economies in the world at the start of the eighteenth century. According to Angus Maddison, these two regions then provided almost half of the world's GDP, and well over half of the world's industrial production; only in the 1980s and 1990s did Asia's share of world trade achieve the same level it had been in the 1720s; India's share of world income has been estimated at almost 25% in 1700, about the same as that of the whole of Europe (it was less than 4% in 1952). Containing so much of the globe's population, skills, riches, intellectual capital and business acumen, these two regions also played a major role in international trade and finance. The merchants and states of India and China traded extensively with each other, with Europe, with Central and South East Asia, and,

[1] This draft should not be used or quoted without permission. It has been written without access to my usual library resources, hence the lack of references. The quantitative data on Indian trade in the colonial period is mostly taken from K.N. Chaudhuri, 'Foreign Trade and Balance of Payments, 1757-1947', in Dharma Kumar (ed.), *The Cambridge Economic History of India: Volume 2, c1757-c1970* (Cambridge, 1983). For a concise summary of events in the second half of the twentieth century, see T.N. Srinivasan, 'Foreign Trade Policies and India's Development', in Uma Kapila (ed.), *Indian Economy since Independence* (New Delhi, 2002). There is a useful discussion of the current debate about Indian economic growth, and the impact of the reforms of the 1990s, in a special issue of *Oxford Review of Economic Policy* (23, 2) 2007.

in India’s case, with the Middle East and eastern Africa. Indian cottons and spices, Chinese silks, porcelain and tea played a large part in world trade in the early modern period. India was a low-cost producer of almost all consumer goods until the industrial revolution, which kept European goods out of Asian markets. Both regions ran substantial balance of payments surpluses, especially with Europe, which were settled in American silver. India’s characterisation as a sink for precious metals goes back to Pliny’s writings in the first century AD; Braudel suggests that at least half the silver mined in America found its way to China between the late sixteenth and early nineteenth centuries.

Creating a colonial economy, 1750-1850

Between 1750 and 1850 the single most important influence on the external economy of India was the activities of European commercial companies, especially the English East India Company, and individual European and American merchants who acted as free agents and who connected domestic production and consumption to the external market much more intensely than before. Indian overseas merchants and inland traders, and other groups such a Armenians, Luso-Portuguese, Arab sea-captains and Jewish families, still played an important part in India’s international economy, especially in the overland trade with Central Asia, and in the trade westward from Bombay to the Persian Gulf. However, trade with Europe, with North America, and eastwards to Malaya, Java, the Philippines and China became dominated by the emerging colonial state and its agents. The English East India Company (EICo) became *de facto* ruler of Bengal in 1765, and steadily expanded its territorial control in the following decades. The EICo had a monopoly of legitimate trade between Britain and all places east of the Cape of Good Hope, and sought to purchase Indian cottons and China tea to sell in London, and re-export to Europe, in exchange for British commodities. However, the market for European goods in the East was limited, and so the West continued to export significant quantities of silver bullion to India and China. Other European nations had East India Companies of their own which also had settlements in India – notably the French, the Danish and the Dutch; they followed a similar business model, as did the American ships which came to Asia increasingly from the early 1790s, and took considerable advantage from the United States’ neutrality during most of the Revolutionary and Napoleonic wars of the 1790s and 1800s.

In the first half of the eighteenth century the business model of the European East India Companies had worked quite well. Demand for Indian cottons and Chinese tea in Europe and in the Atlantic economy was growing, despite legal prohibitions on cotton cloth to protect domestic silk-weavers and high import duties on tea. However, once the British acquired a sizeable territorial stake in Bengal in an attempt to establish a secure basis for trade, the viability of the old model fell apart. In theory the government in Bengal could now spend its revenue surplus to make an 'investment' in cotton goods to be sold in London, with the proceeds used to meet expenditure and pay dividends there. But in practice the cost of government rose so much after the 1770s that there was rarely any surplus to invest, while demand for Indian goods in London was depressed from the 1790s by the emerging competition of domestic machine-made cloth, and the shipping problems caused by frequent wars with the French. Furthermore, the Company had some difficulty in purchasing good-quality cotton goods, since it insisted on paying minimum prices, and weavers were often able to find other buyers for their produce. At the same time, the market for British imports lagged, and the Company's main customers for European goods were its own servants (employees) and army officers, who purchased most of the alcoholic beverages, horse leather, tobacco, carriages, weapons and other accoutrements of European life which made up the bulk of the cargoes. As a result the Company government had to borrow regularly in both London and Calcutta to meet its costs in Bengal and repay existing debt in Britain. The Company could still make a profit selling Chinese tea in London, especially after the British import duty on this commodity was reduced to a minimal level in 1785. However, finding a market for imported European goods in China was even more difficult than in India, and the Hong merchants (those permitted by the Chinese state to trade with Europeans) would often only buy these loss-making commodities in return for high tea prices.

A resolution to these difficulties, of a kind, came about because the trading position of the EICo was challenged from the 1770s onwards by the activities of its own servants and British free merchants in Bengal and beyond. British citizens acquired substantial savings in Bengal in the late eighteenth century that lacked any easy means of remittance to London. Given the EICo monopoly, direct private trade with Britain was limited, although an important trade in privately-financed exports of indigo was developed in the 1790s. Instead British capital in Bengal was used to part-finance voyages by foreign companies and American and other private owners. The demand for Indian cottons held up better in Continental Europe and in America than it did in Britain; during the 1800s direct trade between British India and Napoleonic Europe became difficult, but American ships were able to act as effective intermediaries, and the US merchant fleet had become the second-largest intercontinental fleet in Asia by 1810. Private British traders developed a number of other remittance-goods for European markets, notably indigo and saltpetre.

The other great source of remittance from Bengal was the country trade to South-East Asia and China. The proceeds of Indian goods sent to Batavia or Manila could be repatriated to Europe in Dutch or Danish ships (with varying degrees of financial and political risk), but the key to the country trade was Canton. All European and American purchasers of tea required liquidity in Canton: American and other foreign merchants needed goods to sell to the Chinese or to provide bills of exchange; the EICo raised money there by exchanging sterling bills payable in London for cash paid into its Treasury in Canton.

Indian raw cotton, mostly from western India, had an established a market in China to complement local supply especially when food-grain shortages affected domestic production. This trade was expanded considerably in the late C18th, with Awadh added as a source of supply, and was supplemented by trade in produce from Bengal – notably opium. The import of opium into China was illegal and the EICo (which was the monopoly supplier of opium in Bengal) did not trade in the commodity itself: however, the Bengal government actively encouraged private trade to China in opium and cotton to secure remittances to purchase tea, and provided loan capital to facilitate this in the 1770s and 1780s. By the 1790s substantial numbers of private traders - British, Portuguese, Armenian, Parsi, American and others - were purchasing Bengal opium and selling it either in the Malay archipelago or in Macao or Canton. Thus by the 1800s trade with Britain made up only 23% of the total tonnage of international shipping sailing from and to Calcutta, Madras and Bombay, while trade with the rest of Europe and America represented a further 10% at best; the remainder was engaged in the country trade, approximately 15% to China, 12% to the Malay Peninsula, and 15% to the Persian and Arabian Gulfs. Even on those ships sailing under the British flag, only 36% of tonnage was engaged in trade with London. East Indiamen monopolized trade with Britain, and British-owned country ships dominated trade to China, but those owners designated 'Arab' and 'Indian' by the colonial bureaucracy had the largest share of shipping to the Gulfs, and to ports in other parts of India.

In 1813 the EICo's monopoly on trade between Britain and India ended, and the overthrow of Napoleon in 1815 re-invigorated trade between Europe and the wider world. By the 1820s demand for Indian cotton textiles in Europe and North America, and in the slaving economies of West Africa and the Caribbean, had collapsed. Manufacturers in Britain, especially cotton spinners and merchants in Manchester, Liverpool and Glasgow had long sought a chance to exploit the Indian domestic market, arguing that the arcane practices of the EICo held back British exports to Asia. They found that yarn imports sold reasonably well, where suitable business networks could be built up, and were used by Indian weavers in preference to locally-produced material; the market for British machine-made cloth opened up substantially soon after. However the great difficulty remained that of finding a remittance-good to repatriate the proceeds of these sales to Britain. The market for indigo was unstable, especially once the West Indies began exporting again after 1815, and Indian raw cotton was not suitable for British machinery. Thus the country trade – and especially sales of cotton and opium in Canton, where the proceeds could again be sold to the EICo to buy tea in exchange for bills on London – remained an essential part of both trading and remittance networks. In the 1820s and 1830s this system intensified, with new, cheaper sources of supply of opium from western India being exploited by Marwari merchants up-country, Parsis at the ports, and expatriate firms such as Jardine Matheson on the China coast.

Chinese consumption of opium increased sharply after 1820, and caused the problems that culminated in the Anglo-Chinese Opium War of 1839-42. During this period India became largely an exporter of raw materials, but still with a considerable involvement in Asian markets: cotton piecegoods, indigo and raw silk - the staples of the Europe trade of the 1800s, which had accounted for almost one half of exports by value in 1811-12 - made up less than one fifth by 1850. Opium fluctuated at around 20-30%, while raw cotton and sugar increased their share substantially: mainly as a result of the large opium sales, the value of India's exports to China, Penang and the Gulfs equalled those sent to Britain in 1850. By this time India's imports consisted predominantly of manufactures, mostly from Britain, with cotton cloth and yarn by far the largest items.

Empire and Free Trade, 1850-1930

In the late nineteenth and early twentieth centuries India took on the role of a typical 'colonial' economy in the international system, exchanging exports of agricultural raw materials for imports of manufactures and a limited amount of capital investment from overseas. At the beginning of the twentieth century, India's exports were concentrated mainly on primary produce sold to the industrial countries of the West, such as raw cotton and jute, tea, hides & skins, food grains and oilseeds: imports were dominated by manufactures from Britain, especially of cotton cloth, which made up 60% of British exports to India in the 1860s and remained very substantial down to 1913. India was also an important market for British machinery, especially railway equipment, and for exports of metals. The markets for Indian exports were more diverse, with Britain receiving no more than 30% of the total by 1900. In that year about 20% of Indian exports still went eastwards to China, Penang and Singapore, and to the Gulfs, and another 25% went to the major industrialised economies of Continental Europe and North America. The divergent geographical spread of imports and exports meant that India played an important role in the multilateral pattern of settlements that helped to provide stability in the international economy by the end of the nineteenth century. Britain's export surplus with India partly balanced her import deficit with Continental Europe, and enabled her to continue to act as the lender of last resort for the international gold standard. The strength of international demand for Indian agricultural produce also facilitated remittances by the Government of India, which had to spend about 40% of central revenue in London each year on military and other establishment costs and debt servicing. Council Bills were sold through a group of London-based exchange banks for sterling, redeemable in rupees in India to finance purchases of Indian exports.

India's role in the international pattern of trade and settlements was more far-reaching than this. Indian labour and capital migrated throughout the Indian Ocean, and further afield. While indentured labourers in Ceylon, Fiji and the Caribbean usually lived at subsistence, other migrants to Burma, Malaya and East and South Africa made significant remittances, and Indian capital – largely provided by the Gujerati traders and the Nattukottai Chettiar banking families of South India - helped to finance the expansion of the exchange economy of the western Indian Ocean and the agricultural frontier of South-East Asia. The strength of India's commodity export trade resulted in considerable imports of specie to India between 1880 and 1920; some of this flow of precious metals (which is usually treated as a simple commodity import in conventional analyses) passed into the money supply, but much of it remained within the informal banking sector and the rural economy as a capital asset.

From the 1860s onwards India also became a significant manufacturer of machine-made cotton yarn, and then cloth, in her own right. The Bombay cotton industry, building on the foundations of trade with East Asia developed in opium and raw cotton before 1850, pushed Lancashire out of the yarn market in China and Japan during the 1880s, and also supplied a significant proportion of the domestic market for machine-made yarn. Bombay lost its Asian markets in the 1890s, however, as a consequence of famine, plague, domestic recession and the rise of Japanese competition; to compensate the Indian mills began to manufacture cloth for the internal market. This process was hampered by the London's insistence that Lancashire should not be disadvantaged by any Indian tariffs, but it continued nonetheless. Furthermore, machine-made cloth was a poor substitute for handloom cloth in important market segments of the textile industry, and handloom production continued to supply as substantial share of domestic demand. Jute manufactures in Calcutta were also beginning to compete with imports in foreign markets by 1913.

India's overseas trade to the West was organised by expatriate firms in India, and by representatives of large Continental European trading houses, but the internal economy was run, by and large, by Indian merchants and bankers, who financed agriculture and the informal manufacturing sector, and linked internal supply and demand to the foreign trade of the port cities. Just as Indian merchants lacked the business networks to participate in overseas trade, so European firms remained confined to the ports, and used Indian agents for all up-country activities. The only exceptions here were the Japanese trading companies, which began to export raw cotton and sell manufactures after 1900, and who dealt directly in the interior.

Identifying direct links between India's involvement in international trade and increases in domestic growth and development requires caution. The political and economic changes brought by the expansion of the colonial state in the first half of the nineteenth century meant that a much larger proportion of the Indian population probably depended on agricultural cultivation or labour for its subsistence in 1900 than had been the case in 1750. In some places export-oriented booms for agricultural products in the late nineteenth century – such as jute in Bengal, wheat in the Narmada valley, cotton in parts of western India, and wheat in the Punjab – increased peasant income for a time; but the institutional framework to transfer the proceeds of agricultural growth into more broadly-based and sustainable economic expansion were often absent. The British raj was certainly not a developmental state: indeed, most officials – locked into the mind-set of paternalism – tried to block the impact of any form of capitalism on the rural economy, arguing that this would upset the traditional hierarchies of peasant society on which British rule depended. In practice Indian producers gained the most benefit from agricultural exports where the internal markets for their produce were most competitive. However, much of the countryside was dominated by 'inter-linked' market institutions where small dominant groups exercised control over the local markets for land, labour, capital and transport, reinforced by social, political and cultural power. Two contemporary debates still reverberate around the literature on this period: the questions of whether India was starved of capital by a 'drain of wealth' to Britain, and the welfare effects of the substantial foreign trade sector built up under colonial rule. Indian incomes declined relative to those in Britain over the course of the nineteenth century, but in the decades before 1913 there was a persistent overall slow aggregate increase in agricultural output, interspersed with periodic subsistence crises and vitiated by ecological fragility and local increases in population. Transfers to Britain were certainly substantial, but not enough to prevent any domestic capital-formation in India.

Britain's empire of free trade came to an end in 1913, but her economic relations with most of the Empire – India included – ran along established lines for another fifteen years. India did achieve some autonomy in the making of economic policy. During the First World War the Government of India was permitted to impose additional tariffs on industrial imports, including those from Britain, to finance her contribution to the imperial war effort. After 1919 revenue tariffs became the staple resource of central government, as the British sought to construct political support by devolving other revenue sources to provincial governments. In the 1920s the Indian government won the right to source its engineering imports from the cheapest supplier, rather than from Britain. However, the imperial government still exercised close supervision of Indian monetary policy, ensuring that the rupee return to the gold standard in 1927 at a higher exchange rate than that of 1913, backed by currency reserves in sterling. As Indian textile output increased, and Japanese mills targeted the Indian market, imports from Lancashire declined drastically. By 1930 Britain's share of India's imports was less than 40%, while the other industrial economies of the world contributed about 30%; India's exports had diversified even further, with less than a quarter going to Britain; raw cotton to Japan and jute manufactures to Continental Europe and North America were significant growth areas of international trade in the 1920s. Britain still ran a balance of payments surplus with India, but this was now not nearly enough to balance her deficits with other industrial countries. India's surplus in commodities led to increased imports of precious metals, especially gold, which was stored in the rural economy – indeed, India was the largest importer of non-monetary gold during the decade.

The search for self-reliance, 1930-1991

The Great Crash of 1929 and the subsequent world-wide depression in the early 1930s hit exporters of primary produce particularly hard. Falling prices and liquidity problems damaged agricultural producers and processors everywhere, especially in economies that depended on substantial exports of such produce to service debt and purchase essential imports. The Indian economy was no exception: peasant revolts, and the crisis in the 'native banking' sector which provided most of the capital and credit for agriculture and internal trade, were a direct result of such external pressures. One result was large sales of gold as the rural economy liquidated its savings. The colonial government's finances suffered also, especially as London insisted that the rupee remained linked to sterling at its existing exchange rate when Britain left the gold standard in August 1931: this became clearly over-valued after the United States and Japan had embarked on a policy of devaluation after 1933 and further damaged export prospects. The Government of India was permitted to raise import revenue tariffs to unprecedentedly high levels; imperial preference was built into tariff policy, but this policy did not make British goods competitive with Indian production in cotton or steel. Raw cotton (especially to Japan), jute (both processed fibre and manufactures) and tea continued to make up the bulk of exports, while imported Japanese cotton goods replaced Lancashire products - mainly because they appealed to the bottom end of the market. The hyper-competitiveness of Japanese exports inevitably limited the opportunities for new markets of Indian products in Asia; racial tensions in Burma and elsewhere drove some Indian migrants, and much Chettiar capital, back to the home economy.

A marked structural change took place in the domestic economy in the 1930s, as consumer goods were increasingly manufactured within the domestic economy, supplied by local agricultural produce in a process of export substitution. Demand, especially among the urban middle class, held up well because of the fall in prices; local production of tea, processed foods, cloth and clothing, bicycles, and other consumer and intermediate goods expanded to meet this. While low levels of Government expenditure restricted the market for capital and intermediate goods there was a significant expansion in domestic production of cement, rubber goods, simple machinery and metal castings and electricity supply plant. In this decade a number of major Indian industrial groups expanded rapidly to become major suppliers of the domestic market. The best known of these business groups grew out of the activities of Marwari entrepreneurs who had had a long history of activity in rural and up-country markets. However, many smaller firms were established by businessmen from other backgrounds, some entering the commercial world for the first time. A number of British and American multinational corporations set up manufacturing plant in India in the 1930s, largely to hop over tariff walls and to develop sophisticated domestic marketing and sales networks independent of the traditional expatriate firms.

During the Second World War India became a major source of supply of munitions, clothing and simple equipment to the Allied armies in Asia, while civilian imports and exports were heavily restricted by an intrusive rationing system. Domestic requisitioning, market control and rationing systems were put in place by the colonial state, but these were not always effective – as the tragedy of the Bengal Famine of 1943 clearly showed. India emerged from the war in 1945 facing severe problems of food supply and distribution, but with a strengthened domestic industrial sector that had been held back by shortages of capital goods. The uncertain and unstable international and inter-regional economic conditions of the immediate post-war years further increased the difficulties of food-supply and export competitiveness, and obstructed access to hard currency for capital investment.

From the early 1950s to the early 1980s the government of India followed a classic import-substituting industrialization (ISI) strategy based on replacing imported consumer and capital goods with domestic manufactures, coordinated by a series of five-year plans devised and implemented by central government. Export-pessimism and economic management by the state were understandable responses to the market imperfections and disturbed international and internal conditions of the early 1950s. The planning process of the 1950s and 1960s, which was supported by the intellectual weight of many leading economists at home and abroad, rationed foreign exchange and imports of capital goods, and built up the public sector as the supplier of essential inputs to industry. The ISI phase of the Indian economy saw unprecedented average annual growth-rates for agriculture and industry, but also caused periodic crises in foreign expenditure and agricultural supply. In the mid 1960s, faced by falling agricultural output caused by poor monsoons, India adopted the package of technical and economic changes of the 'Green Revolution' in Asian agriculture. In practice, the cultivation of High Yielding Varieties (HYVs) of staple food-grains proved difficult to organize in many parts of subcontinent, especially for rice and millets: capital investment in large-scale irrigation schemes was probably the decisive reasons for increased agricultural production in the 1970s, leading to food security in the 1980s. Like many developing economies, India suffered from the stagflationary international environment of the early 1970s: the government's response was to impose tighter controls on domestic production and consumption - discouraging foreign investment, limiting the power of large corporations, and nationalizing the banks in an attempt to widen access to economic opportunity. During the 1970s the planning process and other controls targeted large foreign and domestic corporations (designated 'monopoly houses') as threats to the populist search for social justice, and sought to disperse industrial capacity as widely as possible at the expense of efficiency or economies of scale and scope.

India's share of world exports was around 2% at Independence; over the next fifteen years she lost world market share in her traditional products such as jute and tea, while failing to develop new products. The combined values of India's exports and imports fell from about 15% of GDP in the early 1950s to around 10% in the mid 1970s. Significant growth took place only in the processing and exporting of imported gemstones in the handicraft sector (which amounted to 20% of total exports by value in the late 1980s), and in barter trade with the Soviet Union and Comecon, exchanging raw agricultural materials, clothing, textiles, machinery and some electronic goods for imports of oil and arms. India was the Soviet Union's largest trading partner in the late 1980s. In the early 1980s the rhetoric of government embraced corporatism rather than populism, and the relationship of the public sector with private business began to change. Price controls were removed, corporate taxes reduced, and the restrictions on 'monopoly houses' lifted. These changes allowed some favoured incumbent large Indian corporations more freedom to expand their operations, but the licensing system was retained and other quantitative restrictions deterred new entrants. International trade did not increase to any large extent under this regime: India's share of world exports ran at less than 0.5% during the decade.

Reform and re-integration? 1990-2010

Some commentators have suggested that the policy initiatives of the 1980s signified a fundamental shift to a pro-business role for the state that has laid the foundations of India's current economic growth; however, while the new policies certainly increased the rate of growth they also led to high fiscal deficits and a worsening current account. These problems were made worse by the collapse of the Soviet Union (a major export market and source of soft-currency imports) and the first Gulf War (which caused a sharp rise in oil prices and disrupted the flow of remittances from Indian workers in the region). In 1991 the Indian government of P.V. Narashima Rao and Manmohan Singh (a professional economist who long been critical of established policy) negotiated for a loan from the IMF and introduced widespread reforms to bring about economic liberalisation. These reforms did away with investment, industrial and import licensing, and ended many public monopolies; half of pre-existing import tariffs were removed within five years. These fundamental changes in the operational rules for Indian business have accompanied an increase in rates of economic growth, from an annual average of 3.4% for 1960-1980 to 5.8% for 1980-2004 to 8.6% for 2003-07. While Indian manufacturing industry has faced significant competition in world markets - especially in textiles - new service sectors, such as computer software and programming, have responded to these opportunities and the public sector has acquired the technology necessary to manufacture nuclear weapons. Since the mid-1990s India has been especially prominent in the global trend towards business process outsourcing (BPO) and the use of offshore IT by large multinational corporations. Indian firms currently supply over 40% of global demand for such services, and the sector's share of total Indian exports (merchandise plus services) increased from less than 4% in 1998 to almost 16% in 2008. The overall share of the output of the service sector in the Indian economy rose from 37% of GDP in 1980 to 52% in 2005.

According to business interests and pro-market opinion in India and abroad, the public sector has been the problem and the private sector the solution up to now - future progress calls for merely rolling back the frontiers of the state and allowing greater freedom for the market. However, a number of studies have indicated that recent Indian growth is concentrated more in low-tech areas than in sectors where rapid innovation has taken place. The manufactured exports in which India specializes are characterized by a relatively low technological content, while the expansion in the service sector across the country as a whole has come from general trade and transport services as much as from export-oriented IT-related activities. While the growth of the export sector has been spectacular in terms of India's past performance, she still lags far behind other Asian economies in this respect, especially China and the ASEAN countries. The Indian government is committed to developing a 'knowledge economy', but its own National Knowledge Commission recently identified serious problems in delivery, especially in education. At the same time, foreign businesses report difficulties in enforcing contracts, because of the long delays in the Indian legal system, and serious problems acquiring land on which to build new plant.

India's current engagement with international trade and development has a number of distinctive features. The contribution of the service sector to GDP and to exports is very high for an economy at this stage of development. Given the high rates of investment and labour productivity in industrial production in East and South East Asian countries, it seems unlikely that India will become a major exporter of sophisticated manufactured goods for advanced markets: the strength of the pharmaceutical industry is perhaps an exception here. Some commentators have postulated that India is set to achieve a service-based economy without ever having thoroughly industrialised in a conventional way. Two other connected features of her engagement in the world economy differentiate India from her eastern neighbours. The first is the greater availability of an English-speaking graduate workforce in India than elsewhere – this has increased economic involvement with other parts of the English-using world, possibly at the expense of connections elsewhere. Thus many American corporations have set up BPO operations in India, while Japanese corporations have not. The second is the nature of the Indian overseas diaspora. While there are important Indian communities in many parts of Asia, the Caribbean and the Pacific, the Indian economy does not have access to embedded expatriate populations in positions of economic power across its local region, unlike China. The most politically and economically important NRI (Non-Resident Indian) communities are in North America and, to a lesser extent, in Western Europe. These groups have played an important part in the economic life of the home country since 1991: by 2000 NRI dollar deposits represented 25% of net capital inflows to India, and net private inward transfers amounted to 30% of the value of merchandise exports. Given the nature of North American immigration policies, the NRI community there will continue to be professional and highly-educated in English, overwhelmingly employed in the managerial, professional and technical sectors. These connections are likely to strengthen the connection of India's 'knowledge economy' with the United States and Canada, possibly at the expense of other parts of the world.

More broadly, the continued problems of endemic poverty haunt the future of 'shining India'. The sustained rates of growth and structural change that India has enjoyed have been unprecedented since the late 1990s, but the linkage effects between these advances and the welfare of the mass of the deprived population suffering from low capabilities and poor life-chances remain unclear. The World Bank estimates that 456 million Indians (42% of the total Indian population) still live under the global poverty line of $1.25 per day, which means that a third of the global poor now reside in India. These figures show a significant decline in poverty from 60% in 1981, although the number living just above minimum subsistence levels has probably increased. While average life-expectancy has risen to 64 years, indicators of impaired life-chances such as such as adult illiteracy (39%) and child malnutrition (44%) remain high. Access to public services - especially basic medical facilities – is poor in many rural areas. Aggregate figures for such a large and diverse country may be misleading, since they fail to distinguish regions such as Kerala, which has rates of development of human resources as high as those in advanced areas in China, from regions such as Bihar or Uttar Pradesh, which display gender inequalities in access to life-chances larger than those of most countries in sub-Saharan Africa. However, there are as yet very few Dalit members of the new economic elite anywhere: affirmative action and quota reservation may address this problem, but such issues are politically very difficult, especially in the north Indian heartland along the Ganges plain. India's reintegration into the world economy since 1991 through market-based institutions has certainly brought clear benefits, but skeptics can still question whether this strategy alone amounts to an adequate government policy for long-term economic growth and broadly-based development.