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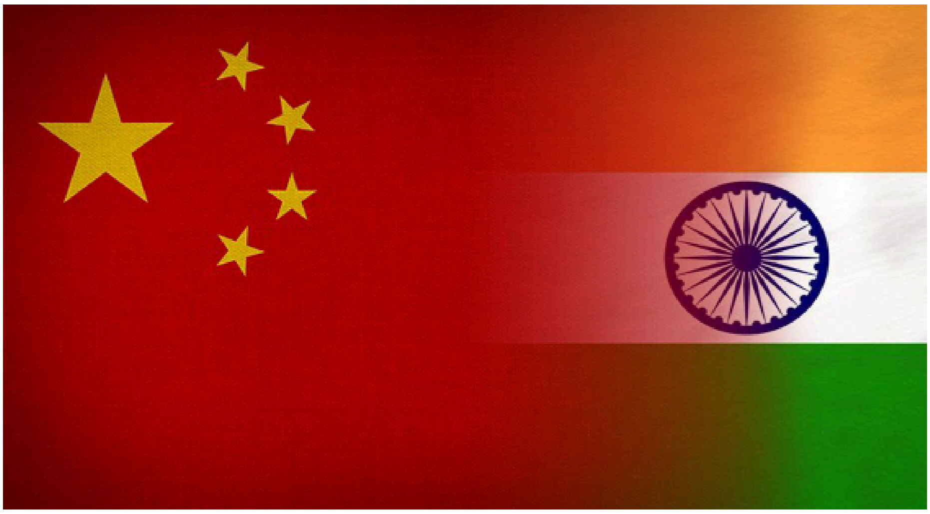

Will India, rather than China, become the Asian superpower? A View from Europe

EXECUTIVE SUMMARY

India is the world's fastest growing large economy and will become the world's third largest economy by the end of the decade. The demographic developments fuel the country's rise. In 2050, India's population will exceed that of the People's Republic of China by 350 million people. India's growing economic importance goes hand in hand with the country's increasing political weight. In the medium term, a new superpower with its own agenda and preferences is emerging between the poles of the USA and China. India is on its way to using the geopolitical conflict between Washington and Beijing to its advantage and developing itself into an influential leading power.

THE HEADLINES

1. India presents optimism and leadership ambition, aspiring to become the 'Vishwa Guru' or teacher to the world.

2. India possesses great economic potential. It is the fifth largest economy in the world, projected to overtake both Germany and Japan to become the third in the next 3-4 years.

3. India is the world's most populous country. Its population is projected to increase substantially. By contrast, the population of China will shrink dramatically.

4. India's rise poses a significant challenge for the West. It is possibly becoming an attractive leading power for low-income countries, disappointed by the inward-looking and self-interested policies of both the USA and the EU.

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INTRODUCTION

For many years, the People's Republic of China appeared set to become the Asian superpower of the 21st century. China is populous, its economy appeared robust and its rise inevitable. Of course, 40 years ago the same was said about Japan, which had risen relentlessly until the bubbles in both the stock market and the country's real estate market started to disinflate from 1990 onwards.

Since then, Japan is a shrinking society with an economy that has been growing anaemically for decades. In 2024, Japan slipped from rank 3 to 4 in the list of large economies. Germany, itself without economic growth since 2022, moved up because the Japanese yen continues to be one of the weakest currencies within the OECD. Today, nobody is afraid of Japan, but many are concerned about the potential further decline of the once mighty country. Could the same happen to China, which is also faced with a declining population and a bursting real estate bubble? And could India be the main beneficiary of China's decline?

In this brief, I will look at India's economic development, its foreign policy and will consider the prospects for India's further rise.

India's economic development

Ten years ago, India was the world's 11th largest economy. In 2025, it is at rank five and within the next three to four years India will probably overtake both Germany and Japan to become the third largest economy. Of course, the further rise of India is not set in stone, but India will continue to be the world's most populous country for the time being. From today until 2100, the population of India will be in a corridor between 1400 and 1600 million people. By contrast, the population of China, the big Asian competitor, will shrink dramatically. According to projections by the United Nations published in July 2024, China's population will decline to 640 million in 2100. China's population will merely represent 40% of India's population at the end of the current century. Of course, a lot can happen in 75 years. The rule of the Communist Party in China may end, India may disintegrate or become involved in a severe military conflict with arch enemy Pakistan. As early as 2050, India's population will be 350 million larger than China's.

The United States of America has demonstrated the importance of population growth. In 1850, the USA had a population of 23 million people. Today, the population is 340 million – larger than the populations of Germany, Britain, France, Italy and Poland combined. By 2100, the difference between the Chinese and the American population will shrink from 1.100 million today to about 200 million people. China's decline is probably inevitable – unless the Communist Party will be able to simultaneously solve the demographic and the real estate crises and reinject confidence into Chinese society. A superpower with a shrinking population would be a novelty. China's prospects are grim, India's are comparatively bright.

A second point to consider is India's massive expansion and improvement of its infrastructure. Between 2014 and 2024, India doubled the number of commercial airports from 70 to over 140. Navi Mumbai, the city's second airport, will become a major boost for India's most important commercial city. In 2042, air traffic is expected to be five times as large as it is today. Indigo, the country's largest airline, has ordered more than 1.300 aircraft from Airbus. Air India has ordered a further 470 aircraft - today it has 202.

India is modernising and expanding its roads, ports and airports and is creating dedicated freight corridors for rail transport. The country's infrastructure is undergoing a massive upgrade. The main purpose of these investments is to bring down trade costs, which is a prerequisite for improving the economy's trade connections. Given the scope and speed of the infrastructure improvements, Indian companies will most probably find it easier and cheaper to compete abroad. Of course, lower trade costs also result in greater competition at home.

A third point to consider is Indian optimism. Whereas European societies are often plagued by pessimism, in India an optimistic outlook prevails. At the risk of generalisation, India's society tends to be young, optimistic and inclined to consume.

New Apple store in Mumbai, India
Credit & Copyright: Apple

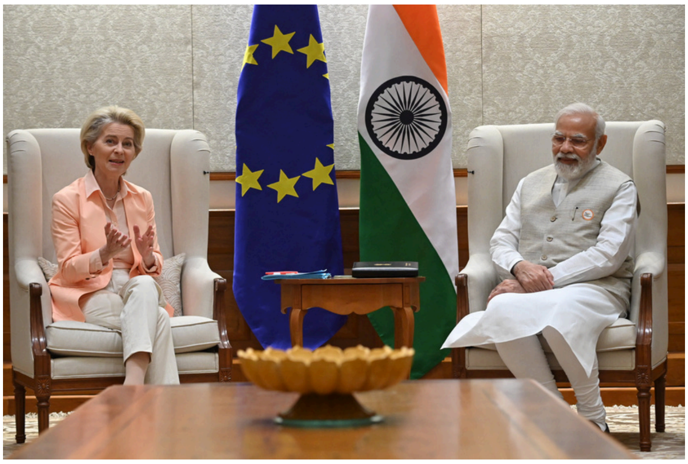
This optimism is all too understandable when considering where India stood in 1947 at the end of colonial rule. In 1600, Indian annual per capita Gross Domestic Product stood at 550 constant USD, according to the economic historian Angus Maddison. In 1947, that figure had merely risen to 612 USD, an increase of 12% in 347 years. In England, annual per capita GDP was about 1.000 USD in 1600 and 6.300 USD in 1947. Life expectancy in India was 20 years in 1920. Today, it is 68 years. Compared to India's extreme poverty under British rule, the present situation is far superior. Although India is still a relatively poor country, the improvements feed Indian optimism, and optimism contributes to India's further economic rise.

Fourth, Apple has arrived in India. Although iPhones are still rare in India, the Californian company has started to manufacture in India and has thus ended its decade-long symbiotic relationship with China. Hitherto, all iPhones were made in China. By 2027, one-third of all iPhones are going to be produced in India.

Of course, it would be inappropriate to neglect the difficulties the country is facing. Schools are not very good, the legal system is slow and the ongoing conflicts between the Hindu majority and the Muslim minority are a big burden for Indian society. Under Prime Minister Narendra Modi, India has improved from being ranked 142 in the World Bank's "Ease of doing business" index to rank 62 - an improvement of 80 notches. China will be the more competitive supplier for at least another decade, but India will be the more dynamic market.

India's Foreign Policy

India's foreign policy is non-aligned at its core. India has only been independent for less than 80 years and Indian policy makers loathe being told what to do. Lecturing by Europeans is particularly unpopular. At the same time, India will not become an ally of the USA. The two countries will co-operate in spheres of common interest. But New-Delhi will not subordinate its interests and will not enter a close relationship with Washington. Of course, given President Trump's preference for unilateralism there is hardly any country that would deliberately align itself with Trump's America. Even in the long-run, India is much more likely to follow its own agenda rather than that of Washington. India and the USA work together against the common rival China - but not against Russia, which is much less of a foe to President Trump than it was to President Biden and which continued to enjoy support in India in recent years.



Visit of Ursula von der Leyen, President of the European Commission, to India

India and China have had a difficult relationship since the 1962 war. Prime Minister Nehru was severely shocked by the Chinese attack. China and India have developed a rivalry on many fronts - including skirmishes on the border. At the same time, the two rivals co-operate in the BRICS-group. However, that organisation is rather a tool to express dissatisfaction with the current world order than the building block for a new, competing world order. Especially in finance, the dominance of the West continues to be a serious issue for the non-Western world. However, the comprehensive use of the financial system for the achievement of political goals may hold the seeds of its own destruction. President Obama's Treasury Secretary, Jack Lew, warned in 2016 that too many sanctions will undermine the US position in international finance. The BRICS countries including India have not found an answer to that challenge, but that may change over time. Today, India continues to participate in the work of the BRICS-group in order to balance China.

Russia is a special case for Indian foreign policy. When China attacked in 1962, the only country that quickly provided military support was the USSR. Today, 70% of India's stock of weaponry comes from Russia. Whilst India is critical of all military ventures, including the illegal invasion of Iraq in 2003 by American and British forces, it is continuing its dialogue with Moscow. India does not participate in sanctions against Russia. As a relatively poor country, India sees itself as forced to accept bargains, including discounted crude oil from Russia. Foreign Minister Jaishankar quipped in 2024 that Indian purchases of Russian oil have contributed to bringing down inflation in the West. If India would have joined the Western sanctions regime, the limited supply of oil combined with high demand would have resulted in a price spike.

India: The coming Asian superpower?

First and foremost, India is a country with great ambition. It wants to become a superpower. Prime Minister Modi has repeatedly said that India wants to become the 'Vishwa Guru', i.e. the teacher to the world. This approach is similar to the "Shining City on a Hill" approach in the USA: America wants to and has to contribute to making the world a better place.

Apart from this leadership ambition, India has the population and the economic dynamism to become a superpower. On current trends, India will soon be the third largest economy and will expand its footprint in international relations. Of course, there could be and most probably will be problems. As mentioned, India could be confronted with internal political problems. The more prosperous South of the country could resent the greater influence of the poor but populous North, for instance. There could be a military conflict with either Pakistan or China. However, since these three countries possess nuclear weapons, at least for realist scholars, the risk of a military conflict is limited.

However, the rise of India poses a significant challenge for the West: India could become an attractive leading power for the countries of Africa, Asia and Latin America relatively soon. Disappointed by the inward-looking and self-interested policies of both the USA and the EU, low-income countries could turn to India for leadership. In a rather provoking scenario, India and China could rally against the West in about 20 years. China would join that alliance as an ailing junior partner - with an aging population that will be 350 million smaller than India's by 2050.

For Europe, India's rise poses a challenge. In the past, European companies have emphasised the importance of China both as a market and as a competitive location for manufacturing. If India will continue to rise as suggested in this articl, China's relative importance will diminish. Companies from the European Union already are leading investors in India. The stock of EU investment in India reached 108.3 billion Euros in 2022, a significant increase from 82.3 billion Euros in 2019. The stock of EU investment in China (247.5 billion Euros) or Brazil (293.4 billion Euros) continues to be far higher.

In 2025, the EU will have to position itself geopolitically. The problem is that President Trump's harsh rhetoric and actions have resulted in an increased popularity of European co-operation with the People's Republic of China. If the EU were indeed implementing a pivot to China, Brussels would not only upset the United States, which continues to see China as their arch-enemy, but it would potentially detract from the deepening of co-operation with India.

But differently, those forces in Europe that currently lobby for more co-operation with China are not only pushing for a deepening of ties with the economic champion of the past, but they also miss out on improving the relationship with both the USA and India. These two countries have clearly identified Communist China as their rival, and both economies have better prospects than China.

Of course, the outlook for India may not be quite as rosy as suggested in this brief. Compared with China, India's potential nevertheless is superior. Prime Minister Modi has suggested that India has "democracy, demography and diversity". The latter refers to India's federal structure that permits competition between India's states. Considering the achievements of India since independence, an optimistic stance on India appears to be justified and should influence the foreign policies of India's partner countries.

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