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India as a Superpower

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Abstract: Indian Economy can grow at faster rate if it increases its saving rate. The one easy way to increase its saving rate is to monetize gold deposits in India.

In 1991, India and China had roughly same per capita incomes. However by 2021, China's per capita income had became 5 times India's per capita income. And today it is recognised and accepted that it only matter of time before China becomes the next Super Power replacing United States of America, whereas India is of course still a developing country with potential that obviously is a badly disguised insult.

The reason for China to have higher per capita income than India is obvious. China grew at a much faster rate of 10-12% per annum, whereas India grew at slower pace of just 6-7% per annum. When that differential of 4-5% gets compounded over period of 30 years, Chinese per capita income ends up being 5 times India's per capita income.

The reason China grew at 10-12% whereas India grew at 6-7% per annum can be explained by Harrod-Domar model of economic development, which roughly says that GDP growth rate is proportional to investment and investment roughly is domestic savings minus net exports.

The exact formula of Harrod Domar Economic Model of Development is as follows:

GDP growth rate = (Domestic Savings - Net Exports)/ Incremental Capital Output Ratio

Now Net Exports is usually not very significant and is matched by the Foreign Investment which includes both Foreign Portfolio Investment and Foreign Direct Investment.

The thing China grew at faster rate is because China had saving rate around 48% of GDP on an average, whereas India had a savings rate of just 28% of GDP. Hence while China grew at 10-12% per annum, India grew at 6-7% per annum.

However it is possible for India too to grow at 10-12% per annum if it increases its savings rate to 48% and equally importantly tries to reduce Incremental Capital Output Ratio.

The way India can increase its savings rate is to mandatorily monetize its gold deposits with citizens. India has 25000 tonnes of gold which amounts to 60% of GDP and if this is monetized slowly over a period of 10 years making sure that this does not lead to crash is world gold prices, India can indeed increase its saving rate to 47% of GDP and that can increase growth rate to 10-12% of GDP.

Now if India manages to control Incremental Capital Output Ratio, India can expect to grow on average growth rate of 10% of GDP for next 50 years. And if India grows at 10% on an average, then India can expect to double its GDP in 7 years. And in 50 years, India can double its GDP almost 7 times or 128 times. Now India's GDP is likely to be 4 trillion dollars by 2024, hence India's GDP will increase to 500 trillion dollars by 2075 after growing 128 times its 4 trillion dollar in 2024.

By then China would have grown from 11 trillion dollar economy to 200 trillion dollars economy by growing at an average rate of 6.5% as Chinese economy is slowing down.

By then USA, would have grown from 20 trillion dollar economy to 100 trillion dollar economy by growing at 2.5% which is average growth rate of US economy.

By then 28 EU nations would have grown from 18 trillion dollar economy to 100 trillion dollar economy by growing at 2.5% which is average growth rate of Europe.

By then Britain, Japan, South Korea, Russia and Middle East Australia and Canada would have reached 100 trillion dollars.

Thus it is possible for India to have an economy that is larger than economies of China, USA, Europe and Japan, Britain, South Korea, Canada, Australia etc.

Of Course above is a pipe dream, but it is not entirely impossible. All this requires is a leadership with imagination and courage.

The whole trick lies in increasing savings rate to 48% of GDP from 28% of GDP by mandatorily monetizing India's Gold Deposits, which form 60% of GDP at 25000 tonnes and also controlling Incremental Capital Output Ratio.

Those who think this is impossible for India must remember that for decades India' was stuck at a rate of growth of 3.5%, dismissed as a Hindu rate of growth by many, only to find that India could grow at 6.5% on an average since 1991.

Now if it is possible for India to increase its growth rate from 3.5% to 7% it should be equally possible for India to increase its growth rate from 7% to 10% especially when there is the irrefutable route of monetizing gold.

The reason India holds so much gold, is because of concept of Women's Wealth, where only gold was expected as Women's Wealth. However the a Hindu Succession act of 1956 changed all that and all forms of wealth can be inherited by women and hence women of India can be convinced to transform their gold into deposits in banks.

India has the very skewed amount of gold. India holds 20% of the world's gold whereas Indian GDP and wealth is barely 2% of global GDP and global wealth. This is especially intriguing since India barely produces any gold and imports all gold. In fact India imports almost 100 times more gold per capita than Pakistan though Pakistan has per capita income that is similar to per capita income of India.

There is one hurdle though and that is India's manufacturing weakness. While in China manufacturing occupies 26% of GDP, in India, manufacturing occupies only 17% of GDP. This is because India has transitioned from agriculture to services without growing through manufacturing growth.

The reason is that India has never considered manufacturing sectors export potential. The fact that India's software industry exports has grown from as less as 138 million dollars in 1991 to 138 billion dollars in 2021.

And India has a tremendous amount of technological and engineering talent. India trains almost a million engineers a year.

The only thing holding back is India's export pessimism in manufacturing sector with its import substitution policy rather than export promotion policy.

However considering that India has had stupendous success in services exports, it is only to be expected that India will achieve great increase in manufacturing exports.

Thus there are 3 prong strategy for India to become Super Power

1. Increase its saving rate by monetizing gold
2. Control Incremental Capital Output Ratio
3. Increase Manufacturing Exports just as India had increased Services Exports