

The Strategic Importance of India in the New World Order

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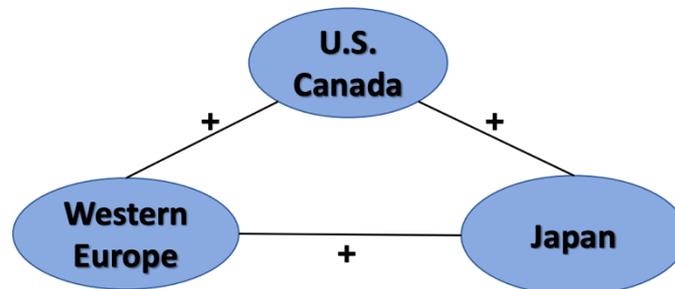
INTRODUCTION

Despite COVID-19 and its devastating impact on the world economy, including India, it may accelerate the emergence of a new triad power, replacing the old one.

I will describe the evolution of the old triad power, why the world order was very stable, and how it has become unstable. India is becoming integrated geopolitically in ways we never thought were possible. What will it take for India to take advantage of this new opportunity? I will also suggest how likely India is to align with the U.S.



The Old World Order



As of 1987

- 75% of GDP was generated by these 15 nations
- 45% of world trade was within these nations
- All of them are now aging rapidly

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Here is the old-world order. After a devastating World War II, victor nations, including the United States, the United Kingdom, and Russia, created a new political and economic order by establishing three significant institutions. The World Bank, the International Monetary Fund (IMF), and the United Nations. This created a forum among nations to avoid future wars.

(This paper is based on the 2020 Sri N.J. Yaraswy Memorial Lecture delivered at ICAI University, Hyderabad, India)

Fifteen economies around the world established the old-world economic order. The U.S. and Canada were the North American advanced economies, and there were 12 nations in Western Europe. The 12 nations were the traditional common market countries. Of course, Japan entered much later after World War II. As of 1987, 75 percent of the world's GDP was created by these 15 nations. This included value-added work on raw materials, value-added work from the services industry, and other economic values. Forty-five percent of the world's trade also occurred between these 15 nations.

International trade within the triad power was only 45 percent because many of these nations still had old colonial relationships that provided them with agricultural and industrial raw materials. They are still dependent on imported raw materials but less than before because they are aging and aging very rapidly.

Aging shifts the economy from manufacturing to services sectors; therefore, fewer industrial raw materials are required. Japan is the oldest nation in this consortium of 15 countries. There are fewer Japanese men every month than last, and there's nothing it can do. Germany has zero population growth because of the equal number of births and deaths.

America is also aging, and its birth rate is below the replacement rate. It is growing at about 1.6 children per woman, but this is still concerning because the baby boomers, born between 1946 and 1964, are retiring at a rate of 10,000 per day; this will continue for the next two decades. This aging phenomenon is also the case for many Western European countries, including Sweden, Spain, and Italy, where birth rates are meager.



World Was Stable

- **Balance of Power between Communism and Capitalism**
- **Cold War was a common front**
- **Harmonious Economic, Military, and Political Relationships**
- **IMF, World Bank, and the United Nations**



This world order was a well-established balance of power between communism and capitalism. The Cold War was a common front that united western nations. There was a harmonious economic, military, and political relationship between the triad powers of America, Europe, and Japan. The IMF, World Bank, and United Nations became overarching transnational agencies.

What has changed the world order?



What Has Changed the World Order?

- 1. Collapse of Communism**
- 2. Smart Phones and Social Media**
- 3. Rapid Aging of Advanced Nations**
- 4. New Trade Regime (WTO)**
- 5. Growing Need for Cyber Security**



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One big event that changed the world order was the collapse of communism between 1989 and 1991. The Soviet Bloc was referred to as the Comecon economies, a significant component of the global economy. Because of the fall of communism, the economy and trade suffered.

Unfortunately, many former Soviet nations couldn't achieve high growth rates because they had a socialist or communist philosophy similar to the Licence Raj in India. After the collapse of communism, former Soviet nations began leaning toward a free, capitalistic ideology. Poland, Hungary, Czech, and Slovakia are examples of this.

Most of those nations experienced political revolutions due to revolts against communism. The opposition parties emerged, and there was a transition from communism to capitalism. Some failed, while others succeeded. The only nation that has done well transitioning peacefully is China, and it achieved this by changing the party manifesto. Rather than being driven by communist ideologies, China began to accept capitalism, but the party remained the same. This political stability has helped China develop very quickly.

Since 1987, we have had digital innovations such as smartphones and social media. These are especially prevalent in emerging markets like India, China, Latin America, and Africa.

The rapid aging of advanced economies has also taken a toll on social programs, health programs, and pension plans. General Motors, which employed more than one million people, including their suppliers, continued growth in the automotive industry. This means that for each retiree, eight or nine new workers would contribute to the pension plan, resulting in a surplus.

However, in reality, for eight retirees, only one new worker contributes toward the pension plan; this is unsustainable. Much of this is caused by automation, and robots do not pay toward pension plans! Most advanced nations are aging, creating enormous economic burdens, especially with social security and healthcare benefits. Pension contracts, whether for airlines such as Air India, other large enterprises, or the government, are vulnerable and unsustainable.

We also created the World Trade Organization (WTO) and abolished the General Agreement on Tariffs and Trade (GATT). That was because, in the 1990s, to create any economic growth, one had to use international trade as a growth engine as opposed to domestic growth. New global leaders have emerged, and they are not traditional politicians. For example, we have Xi Jinping in China, Donald Trump in America, and Prime Minister Narendra Modi in India. All of these leaders have different perspectives on global governance and nationalism.

New world order or disorder?



The New World Order or Disorder?



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But is the new world order an order or a disorder? It might be the latter. China has risen as a significant economic superpower. China is already significantly ahead of America on a purchasing power parity basis. It is unlikely that the U.S. will be able to catch up. It is becoming a major counter-balancing force economically and militarily in contrast to the Soviet Union, which was far more ideological.

We have discord amongst traditional allies and alliances. The North Atlantic Treaty Organization (NATO) does not know what lies ahead for its future. The U.S. government pulled out of the World Health Organization (WHO) despite the coronavirus, but it has rejoined under the Biden administration. Many traditional alliances created after World War II are still trying to reach a consensus about what the world will look like.

Populism is everywhere. Today on television, protest consumes country after country. Citizens ask for reforms and are unhappy with current politicians and political parties.

As a result, somebody who was never involved in politics becomes a leader through the elected process or creates a party after the election. That is true in many countries, not only transforming the democratic process but also creating economic and political uncertainty.

The world is pivoting toward an Asia-centric focus, both economically and militarily. For instance, China's increasing military expansion in the South China Sea has resulted in a

counterbalancing force known as the Quad, comprised of Australia, Japan, India, and America. This ensures that the waterways in the Asian theater are safe, allowing commerce to run smoothly instead of having a foreign power dictate everything in the area.

The new middle class is also rising in most emerging economies. In many emerging economies, about 60 percent of all consumption comprises unbranded products purchased through informal distribution systems or informal economies. Rather than doing it themselves, consumers increasingly prefer commercially made products and those from organized retail. This is creating a massive opportunity in consumer markets. India, for instance, has shown that since the 1991 economic reforms, the choices available for motorcycles, scooters, watches, and other products have been far better than those during the Licence Raj days.

We also have very significant political and social acrimony globally. Today, world leaders are communicating through Twitter, creating intense public debates. Rather than having a discourse in the background and only announcing the ultimate results, we can see the entire thought processes of leaders play out on social media. Political leaders are no longer going only through media to communicate with their supporters; they also reach out directly to their followers. Direct dialogue with the masses is necessary because of the enormous power of the popular vote.

Capital markets are also in turmoil. The traditional role of capital markets, including debt and equity, is diminishing. More and more, we are seeing the private equity market dominate. The numbers are astounding. Today's most significant wealth is not sovereign or foundation wealth but *personal* wealth. Last year, it exceeded \$160 trillion. We have 20 million millionaires worldwide and over 3,000 billionaires, both of which are growing daily.

There is speculation that Jeff Bezos, Amazon's founder, will be the first to amass \$1 trillion in personal wealth. The question, therefore, is what these people will do with their wealth. Will they contribute back to society? If you take \$160 trillion of wealth and earn a 10 percent return through diversified investment strategies, you can reach \$16 trillion. Compounding that, over time, it would be more significant than any nation's GDP. The Gini coefficient, which measures income inequality, needs to be replaced by a Gini coefficient for wealth inequality.

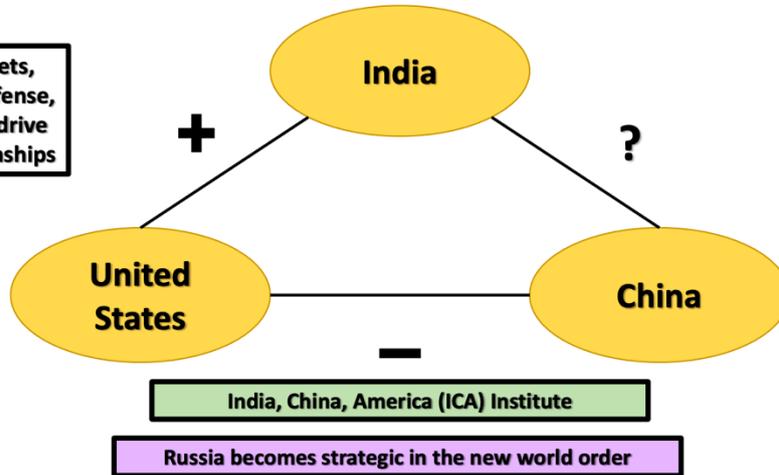
The new triad power



The New World Order



Consumer markets, infrastructure, defense, and security will drive the future relationships



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Slowly but steadily, a new world order is emerging. It includes the U.S., but China appears as a second power, and India follows. Everybody is surprised: why India? Why not Germany, France, or Japan?



Top Ten Economies of the World (2020)



(PPP Based GDP)	\$ Trillion
1. China	\$27.80
2. U.S.	\$20.29
3. India	\$11.32
4. Japan	\$ 5.45
5. Russia	\$ 4.18
6. Germany	\$ 4.16
7. Indonesia	\$ 3.78
8. Brazil	\$ 3.32
9. U.K.	\$ 2.98
10. France	\$ 2.86

Source: International Monetary Fund (IMF)

Purchasing Power Parity (PPP) is a better measure to reflect Gross Domestic Product (GDP). It reflects the importance of consumer markets

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Let us look at the 2020 purchasing power parity data. China just exceeded \$28 trillion, and its economy is growing despite the pandemic's economic impact on domestic growth. The U.S. is \$20 trillion, India is \$11 trillion, and then it drops suddenly. Japan is \$5.45 trillion; Germany is \$4 trillion; Indonesia is \$3.78 trillion; Brazil is about \$3.3 trillion, but stagnating; the UK is approximately \$2.98 trillion, and the rest hover around \$3 trillion.

Consumer markets are the most significant growth in the new triad power nations (China and India). Consumer markets are growing enormously because of the shift from unbranded products to branded products and from unorganized to organized retailing by companies like Flipkart, Amazon, and Alibaba. Moreover, telecommunications group Reliance Jio will likely become one of the largest retailers. This is very similar to what happened with Alibaba in China. Furthermore, Ant Holdings is expected to go public with one of the highest-valued IPOs.

Another major growth engine is infrastructure. This is particularly relevant in the U.S. because it has significant deferred maintenance, and our bridges and roads are old. American airports are also aging, and they must be modernized.

Defense is another central area of growth. Defense and security will drive future relationships. Currently, the U.S. and China have a deteriorating relationship. I finished a paper with my granddaughter Rehna Sheth called "New Weapons of Cold War 2.0." We believe the new Cold War between China and America will be based on *technology* rather than *ideology*. And the mission is no longer mutual destruction but mutual paralysis through cyber warfare. The technology race between China and the U.S. will impact the rest of the world.

Since India's independence, India has been one of the leaders of the non-alignment movement. It did not want to align with the Communist Bloc or the Capitalist Bloc. The relationship was never the same between the U.S. and India, but today, it is becoming more positive.

There are now two-plus-two meetings, where the Secretary of Defense and the Secretary of State come to India and meet with India's Defense Minister and Foreign Affairs Minister.

Two-plus-two meetings are architecting the future relationship between India and America diplomatically and militarily.

Several years ago, I wrote a book called *Chindia Rising*, predicting that China and India would rise together and transform the global economy. But today, India is distancing itself from China. In this trilateral relationship, India is becoming more strategic for China's future, and the U.S. has increasingly relied on India to counterbalance China's rise as a global superpower. Unlike the old triad power (U.S., Europe, and Japan), which had harmonious economic, political, and military alignment, members of the new triad power don't trust one another. This is partly due to the legacy of capitalism in the U.S., communism in China, and the nonalignment in India. Each has different clusters of nations as their trade and investment partners. China's Belt and Road Initiative (BRI) is also increasing alarm among the other two powers.



Why India is Destined to Become Strategic Globally



- 1. Both China and the U.S. consider India to be strategic for their future**
- 2. India has all the Ingredients but needs a recipe for global positioning**





India's Enviably Ingredients



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India is blessed with many things, such as major consumer markets like cell phones and electronics. India is number one in motorcycles and number two in cellphone markets. It is also a significant market for defense and infrastructure investment opportunities.

India also has a large digital talent pool. If immigration policies become more restrictive amongst advanced nations such as the U.S., work must go where the workers are. Therefore, large-scale IT professional recruitment in India by all foreign multinationals is inevitable. Amazon, Accenture, Oracle, Microsoft, Google, and Facebook are increasing their presence in cities like Hyderabad. India is a gold mine of talent. Therefore, if you want gold, you must go where the gold is.

One of India's most significant assets is its global diaspora. Overseas Indians have been successful in science and administrative leadership at universities and corporations. During the pandemic, it became more common to see an Indian scientist interviewed on television. One can see announcements about top business school deans and CEOs of large corporations of Indian origin. They are also doing well in politics in the United Kingdom, Canada, and America. And the journey has just begun as the next generation of children enters U.S. politics.

India also has soft growing power. The world begins to view India not as a country of roaming cows and snake charmers, which was the old image, but instead as a nation of people capable of completing high-tech and intellectually challenging tasks. India's heritage in yoga and meditation is embraced worldwide, and the world is rediscovering Indian ancient wisdom and philosophy.

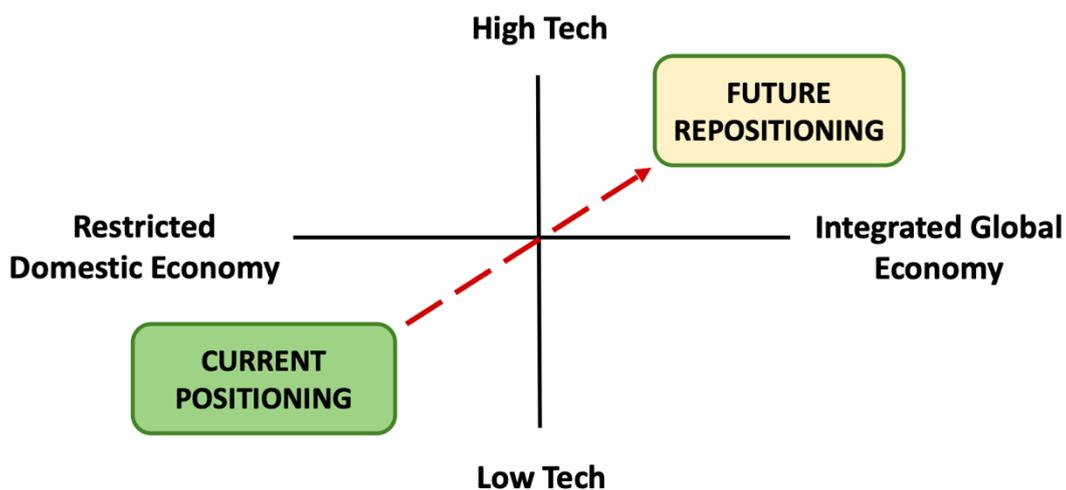
India also has strong military power, which may come as a surprise to many around the world. It is not only a nuclear nation. It also has a strong capacity in space and a vast army and navy. The country is even upgrading and modernizing its military capabilities. Today, India is one of the world's largest buyers of military weapons.

The last and most crucial ingredient is that Indians, in India and abroad, now have a positive self-image. During the Licence Raj, there was a feeling of helplessness. But today, there are many general opportunities for start-up companies and entrepreneurship. India now creates unicorn companies in cities like Bangalore and Gurgaon.

India has all the ingredients but needs a recipe. It must reposition itself as a globally integrated economy and move from a low-tech to a high-tech nation by modernizing its trade practices and informal economy.



Repositioning of India



Historically, most advanced countries, such as Japan, the U.K., and America, shifted to modern farming techniques and from what I call low-tech to high-tech. Today in the digital age, high-tech is more affordable than ever before.

What can India do to become a more strategic nation globally? One key recommendation is to embrace global standards and benchmarks for domestic products and services. There is a vast quality difference between domestic products and exported products. More likely, by policy and through global examples, India has to raise the quality standards in the same way that Japan did. South Korea and China have also done very well in their transitions. Embracing global standards in every field will be essential, whether in automotive components, pharmaceuticals, or processed foods.



How India Can Become Strategic Globally



1. Embrace global standards and global benchmarks for domestic products and services

Examples: Auto components, Pharmaceuticals, Processed foods

2. Become a second global sourcing destination

Example: De-risk from China

3. Become the global hub for technical talent

Examples: R&D Services, IT Services, Accounting and Legal Services

4. Gain soft power through globally admired brands

Examples: Japan, Korea, China

**Investing in
vocational
education is
critical**

India can become a global sourcing destination, especially when the world wants to diversify its sourcing from China in the post-pandemic era. China's dominance in every product category, including toys, microwave ovens, and technology products, raises concerns. Many people wonder whether or not the world can depend on China in the long term. World leaders believe they cannot rely on China because China is growing concerned about its national ambition to become a superpower.

People want an alternate sourcing place wherever they can, and India has a huge opportunity. It can become a global hub for technical talent. India can provide R&D services to the world at low costs, phasing out soft wage call centers and business process outsourcing (BPO).

Why should India settle for \$25 or \$35 per hour for Indian talent? Why not go for \$90, \$100, or \$200 per hour? It is possible because India has the talent pool to do so. It is just a question of properly guiding the market. India can accomplish this in IT services, accounting, legal services, and in the publishing industry. Most of the academic journals by top publishers are produced in India by the same company.

Rather than outsourcing, India will see more and more *insourcing*. Oracle will probably have a building ready in Hyderabad this year or next year with 1.2 million square feet. IBM's third-largest employee base in India will likely surpass Japan soon. Moreover, Ernst & Young (EY) already has about 50,000 employees in Hyderabad in one location alone. It is not just the Indian IT services, Indian legal services, or Indian accounting services; the world will come to India because this is where the talent is.

Next, India must gain soft power through making and marketing globally admired brands. Nations get respected because of the quality of their products and brands. Germany, America, and Japan have excellent reputations. South Korean brands like Samsung, Hyundai, and LG are all highly respected worldwide. Of course, China has many high-quality brands, such as Lenovo, Haier, and Huawei technologies.

How can India become globally competitive?



How India Can Become Strategic Globally (cont')



5. Speed up digital infrastructure

Examples: 5G, India stack, Aadhaar for others, and rural reach

6. Invite foreign investment in India for global markets

Examples: Automobiles, pharmaceuticals, defense services, make in India but for the world

- **Ownership without management control**



7. Provide huge economic incentives for innovation and entrepreneurship

Examples: Innovation clusters, R&D in India

- **NSF, CDC, and NIH of India**

The following recommendation is to speed up digital infrastructure. I've advocated for this since the '90s, especially in the telecom industry. There is nothing like embracing digital technology for transparency, record-keeping, and governance. There is also a massive opportunity to reduce fraud and corruption. 5G is a good initiative, and IndiaStack is another major one. No other country has safely captured 1.3 billion biometric profiles of its people. So far, at least in the public disclosure, there has been no hacking of the biometric database.

Of course, Reliance Jio and other platforms have greater rural reach today. But India must invite foreign investment for global export markets. Those days of thinking about protecting the domestic market from foreign investment are less valuable today. The 1991 reforms showed that inviting foreign direct investment can bring world-class brands. This has been true with numerous companies, including Whirlpool, LG, Toyota, Samsung, and German carmakers.

India can focus on small cars in the automobile industry and become a global supplier of parts and components. Pharmaceuticals are also necessary, and India can develop a private defense sector. Make the products not only for India's and the world's markets.

The following recommendation is for India to invest in innovation and entrepreneurship. The new National Education Policy (NEP) and National Research Foundation are centered around

research. In India, large corporations have yet to invest in world-class R&D, even among the largest enterprises. India has skipped the R & D phase and gone directly into manufacturing by licensing technology. Indian enterprises still have a trading house mentality rather than a manufacturing mentality.

The level of investment in corporate R&D needs to be nurtured by having government policies that encourage R&D labs, similar to what the U.S. has done; examples include IBM Labs, Bell Labs, and more recently, Facebook, Google, Apple, and Microsoft labs. These world-class technology pioneers compete with academic institutions for Nobel prizes in science and technology.



How India Can Become Strategic Globally (cont')



8. Digitize, digitize, digitize

Examples: Data is the new oil; greater transparency and accountability; enhances human capital

9. Mandate management education for diplomats, military and state enterprises

Examples: Reposition the existing training colleges

10. Deepen diplomatic relationships with G-7 nations both professionally and personally

Example: Prime Minister Modi



The following recommendation is to digitize, digitize, digitize. Data is the new oil. People demand greater transparency all over the world, and this will be delivered through digitization and accountability. Contrary to popular belief, automation does not replace humans; it enables them and helps them increase their wages. For example, the most arduous labor is agriculture, with the lowest wages. As we move from the agricultural to the industrial age, wages and working conditions improve. This trend continues in the digital age. Today, automobiles are more like computerized mobile machines, and the technicians command

higher salaries because of the skills required to run automated tests. Therefore, India must digitize because it enhances its human capital.

Today, the highest costs for automobile parts are for their chips and software. Cars have become brilliant machines, meaning they require intelligent technicians. The maintenance crew will have higher wages because more skills are needed to fix cars than just oil and filter changes.

Here is a real-life example. If you take a software engineer from Bangalore and he joins one of the IT services companies, his wages are about 60,000 rupees per month. At the end of the month, he has to pay rent of about 20,000 rupees. He eats out, has a more modern lifestyle, and his spending behavior is more for discretionary consumption than necessities. By the end of the month, he has no positive cash flow.

Compare that to a crane operator in India in the port of Mundra. He commands about 80,000 rupees per month. He also has a high school education and vocational training. This man has a wife who takes care of his aging parents and raises the family. The crane operator does not pay rent because he stays with his parents. As a result, his discretionary income is much greater than the software engineers. Thus, one needs to focus on *discretionary* income rather than gross income. This is a massive change in India's new economic reality, which we need to recognize. Vocational education can significantly increase the value of human capital.

The following recommendation is to train all government employees in professional management education. Since most government workers come from IAS examinations, Indian Foreign Service examinations, or Indian Police Service examinations, they don't receive professional management education. They get training from their respective academies, but these schools don't offer formal education compared to an MBA program. Today, running a government enterprise or bureau is like running a business, meaning you cannot just learn on the job. One needs to formally understand economics, finance, marketing, and human resources. Therefore, India must *mandate* management education for all government officers and managers, especially those who manage state enterprises.

Finally, India needs to deepen its diplomatic relationships with G7 nations. Some leaders are outstanding about not only having a professional relationship but also a *personal* relationship.

In that regard, Prime Minister Modi surpasses most world leaders. He is equally comfortable with diverse leaders like Putin, Merkel, Macron, Abe, Trudeau, and Trump. I think it is essential that top Indian political, diplomatic, and state enterprise leaders are comfortable and confident in working with western leaders and form professional and personal relationships with them.

Concluding Remarks

Let me summarize this presentation by stating that there is a new geopolitical order. Traditional leaders and institutions are struggling to maintain the world order. This has generated new leadership opportunities, and India is destined to become strategic globally. It has enviable ingredients but needs a recipe to take advantage of the new world order.



Conclusion



- **There is a new geopolitical order**
- **The traditional leaders and institutions are struggling to maintain world order**
- **This has generated opportunity for new leadership**
- **India is destined to become strategic globally**



It is essential to reposit local from a restricted domestic economy to a globally integrated, ted economy, and more importantly, transform it from a low-tech to a high-tech economy. As India has embraced cell phones and cloud computing, can it put smartness into everything it does? Technology must be implemented in every sector, including agriculture, factories, and the military. This will increase productivity and allow India to accomplish more than before.

I'm very optimistic about the future of India, despite the COVID downturn. India will rebound in a very significant way, starting in the next decade.



Conclusion (cont')



- **India has enviable ingredients but needs a recipe to take advantage of the New World Order**
- **Reposition India from a restricted domestic economy to a globally integrated economy; and from a low tech nation to a high tech nation**
- **The 10-point recommendations will ensure India's strategic place in the new world order**



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The 21st century belongs to India, not necessarily in terms of becoming a superpower. There are two other contenders, and India does not need to contend as the most dominant global power. It can be a solid economic and military power like Germany, Japan, and France, which can be achieved despite India's challenges. If you look at the history of America, about 150 years ago, during the time of Abraham Lincoln, conditions were dreadful. Before the Civil War, there was a massive debate about transitioning from a slave-based agricultural economy to an industrial economy.

After Lincoln's policies were implemented, they transformed into an industrial state. The first thing to do was ensure a middle class was created through industrialization. To do this, America invested in education. More recently, nations like the U.S. and China are living proof of those who have lived through the transformation and created organized markets and branded products. As I mentioned before, India still has a large, unorganized sector.

Investment in the agriculture sector and modernize it as America did like Vietnam does today. The U.S. became a leader in agricultural equipment and cultivation processes. India needs to

look at other economies, such as the Netherlands, Denmark, and Germany, as benchmarks to understand how they transformed their nations into industrial economies.

India has more challenges because it is a federation and more diverse than the European Union. It is more difficult to achieve unity with so much diversity, which may cause uneven economic growth. But this is true of many other nations and should not be used as a reason not to modernize.

The new National Education Policy will attract top universities from around the world. Again, benchmarking needs to shift from domestic compliances, accreditations, and ratings in business newspapers. It is essential to achieve global certification and global everything. Attracting foreign companies also attracts foreign universities. The local presence of top foreign universities worldwide will be more transformative for the new India.

Nearly one million Indian students study abroad annually in five countries. Those students who go abroad are spending between \$4 billion to \$5 billion, a significant foreign exchange drain. These students are also paying more because they are international students. For example, at Georgia Tech and the University of Illinois, both top engineering schools, international students pay *double* the fees that residents pay. As a result, international students subsidize the locals.

Initially designed for manufacturing, the “Make in India” policy is already happening in the services sector. The world is coming to India. Hyderabad has become a key city just for that reason. Most service corporations invest in India because it has many talented people in the services sector. Services hubs will grow much sooner than manufacturing seats, and India will become the global capital for services.

I thank the leadership of ICFAI for inviting me to deliver the 2020 Memorial Lecture to honor Sri N.J. Yaraswamy, the founder of ICFAI. I am sorry it could not be had in person due to the Covid-19 pandemic.