From chapter titled, *Lessons from China: A Strategic Economic Policy for India*

"Since India, too, seeks to deepen and widen its integration with the global economic system, the lessons from its northern neighbour may perhaps be too relevant to ignore. For New Delhi to exploit broader growth opportunities via FDI and trade, and simultaneously ensure the negative aspects of globalization are mitigated, and particularly those that may impinge upon the foreign policy autonomy of New Delhi, it will need to carefully weigh the cost-benefits of particular policy choices and calibrate its liberalization process.

The limits of the prevailing services-led growth structure have been recognized. Since information-technology-related exports (i.e., IT/ITES) represent only 6 per cent of the service-sector output, extremely high growth would be required to sustain the imbalance between the goods and the services account. Moreover, the sustainability of such a high export-growth strategy can prove elusive, given the emergence of competing outsourcing centres among low-wage countries (especially Vietnam and Philippines) and local supply-side bottlenecks within India. Thus, India must seek to diversify its export base.

According to the United Nations, between 2005 and 2025, the working age population in India will expand by approximately 273 million. The country's total population will rise by 313 million over this period. Indeed, the Planning Commission itself has noted that India will need to generate 200 million additional jobs by 2020.

In the near-term, 71 million young Indians, which includes 45 million rural youth, will enter the workforce by 2010. Thus, with an average of 13 million people expected to enter India's labour force each year for the next four decades, economists have expressed concerns about the relatively jobless growth of the last 15 years.

In sum, skill-based development in the Indian socio-economic context offers little prospect for national employment growth. According to NASSCOM, a leading public policy platform for the IT industry, India's IT and BPO sector will only account for 8.8 million jobs (mainly urban educated) by 2010. The remainder 88 per cent or 62 million jobs can only be created by expanding the manufacturing sector.

The fact that India's slowest-growing states are also its most populated greatly exacerbates the development challenge. The share of four BIMARU states—Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh—of India's population is projected to rise from 41 per cent in 2001 to 48 per cent in 2051. The average growth rate of GDP for the BIMARU states for the period 1992–2002 was 4.5 per cent. Thus, 60 per cent of India's population increment will be concentrated in these four states.

Such a socio-economic structure would imply increasing the share of tradable low-skilled, labour-intensive manufacturing industries in overall output, and diversifying the current specialization in skill-based production, which itself is now facing formidable supply-side constraints, for this is the only feasible path to leveraging the massive labour surplus in India.

Finally, the linkage between manufacturing-led industrialization and the development of a robust military-industrial complex implies that 'bypassing' such a vital stage of economic development will deny India the capacity to autonomously develop capabilities and successfully absorb high-end military technologies over the long run. To be sure, India's 'strategic enclaves'—DRDO, ISRO, DAE—have managed to establish a modest military-industrial complex in the absence of wider civil-industrial contribution, though India's import dependence on external military technologies is still overwhelming (over 70 per cent). Thus, the existing policy is unlikely to be sustainable in the medium to long term. In sum, India cannot reinvent the wheel in this crucial sphere!"