Managing India's 3-Dimensional transition for Escape Velocity

India's economic growth has been below potential for over 4 years at a time when she is on the ascending curve of demographic dividend. There is a need to proactively manage the simultaneous multi-dimensional transition of the Indian economy to provide the much needed escape velocity.

Before understanding the various transition Indian economy is undergoing, let's step back and look at the History of Economic Transitions globally. In the context of world history, India is a relatively young republic and ***amongst the last large economy to gain independence***. The most successful and resilient economic model of the world is that of USA and it was also at some point in history, like India, a British Colony. But over the last century, it has emerged as the leading economy of the world. At the time of its independence (1776), US was nothing more than a nation of four million people, mostly farmers and slaves, inhabiting a miscellany of former British colonies along the Atlantic rim of North America.

It was only in the 1830s and the 1840s that the first industrial revolution began to change the nature of production, travel, and commerce in America. Steam engines began to replace waterwheels. The age of canal building came to an end and railroads sprang up, linking cities, regions, and then, just after the Civil War, the Atlantic and the Pacific edges of what by then was a continental nation. The cotton gin, along with the steamship, enabled farmers and land lords in US to switch from tobacco, rice and other crops and to specialize in producing cotton for the machine-powered textile mills of Britain. By the mid-nineteenth century, the cotton rich US was to industrial Britain what Saudi Arabia and the other oil-producing nations became in the late twentieth century to the industrial nations of the West and East Asia—the source of the key industrial raw material.

All the inventions that drove the first and the second industrial revolution across the world happened outside of US. Britain led the world in the adoption of steam-powered manufacturing, railroads, and the shift of its population from agriculture to industry. German researchers invented the gasoline-powered and diesel-powered engines and produced the earliest automobiles and airplanes. German researchers also led the world in pharmaceuticals and innovative chemistry, including chemical fertilizers that transformed world agriculture. Yet the US did an incredible *job of* adopting and adapting these innovations to drive its economic growth.

It was only 150 years after its independence in early 20th century, that the US could lead the world into inventing technologies that could drive the next **wave *of global industrial revolution***. The Research funded by the US Defense Department during World War II and the early Cold War invented technologies that laid ***the seeds of the third industrial revolution - computer technology, the jet and the container ship.***

In over two centuries since its independence the US economy went into successful transition from an agrarian economy to an industrialized economy to the information technology economy. Despite competition from Europe and East Asia, including industrializing China, the United States maintained its economic primacy into the twenty-first century, with the third largest population in the world, an economy accounting for a quarter of global gross domestic product (GDP), and the privilege of having the dollar serve as the global reserve currency.

While the US had the luxury of time and could transition the economy in a step function from agrarian to industrial to technology, given the rapid evolution of technology and the fact that India got its independence late in *day in* ***1947, India needs to manage the simultaneous transition of the three sectors of the economy to achieve economic supremacy.***

Fifty percent of Indians are still employed in agriculture and it generates only 17% of India's GDP. This compares with the fact that in 1815, 95% of Americans were rural, living on farms as compared to today less than 2% of Americans live on farm***. The agricultural productivity in India is only 15% of the industrial productivity.*** India needs to deal with the challenges of the agriculture sector by improving the productivity of the agricultural sector multi fold on one hand and at the same time support massive **shift in labour from agriculture to manufacturing**.

India's industrialization got a massive boost from the economic reforms of 1991. With liberalization of the economy, abolition of the license raj and India's entry into WTO the industrial economy has made good progress over the last 3 decades, yet it lacks scale from a global perspective. ***The industrial sector employs only 22% of India's labour force.***

China manufacturing renaissance in the 20th century was driven by the same strategy the British adopted in the 19th century to kill American manufacturing by providing huge subsidy to domestic manufacturers and making exports at a loss to kill the nascent and vulnerable manufacturing in other parts of the world. India needs to get its act together and find it's own strategy to **leap frog Indian manufacturing** to the pole position in the world. China is undergoing an economic transition from an investment driven and manufacturing led economy to technology driven and consumption led economy. Also, Chinese manufacturing is facing headwinds due to peaking demographics, rising wage cost and environmental issues and China is gradually exiting low end manufacturing. India needs to take the baton from China and emerge as the leading low cost manufacturer on a global scale to meet its own growth and developmental needs. And yet at the same time, India needs to take initiatives towards scaling budding hi-tech manufacturing across various industries and promoting research and development.

The traditional technology companies of US - the Microsoft, Apple, Google dominated the world until the new gen technology companies emerged. But, China not to be left behind in this technological shift is fast catching up with the new gen US technology companies and for the likes of Amazon, Facebook, Uber, Tesla; China has Baidu, Alibaba, Tencent and Didi Chuxing. China's innovation is moving away from copycats and counterfeits as domestic Chinese firms innovate rapidly and China is expected to close the innovation gap with the western world by 2020. No wonder China is home to 89 out of 262 global unicorns, next only to US, and leads the world in mobile payments and fintech startups. India cannot afford to miss the technology driven shift globally and needs to aggressively **adopt and adapt** these **technologies to drive its growth**.

Every country has followed its own unique path of development and economic growth model. As that engine of growth peaked, those economies peaked. US is the only economy which has shown resilience to transition from industrial economy to information technology economy.

Indian economy needs to change the orbit. And nothing less than that should be acceptable given the tailwinds of demographic dividend over the next 20 years. The 3 transitions if managed deftly can provide the much needed escape velocity for changing the orbit.

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