

INDIA TO BE THE FASTEST GROWING ECONOMY IN ASIA**Mr. Pravin A. Bharade**

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ABSTRACT

The two hands to produce count for more than that one mouth to feed, after all. Driven by a sterling demographic dividend, continuing structural reform and globalization, India is poised to accelerate its growth rate to 9-9.5% over 2013-15, even as China will cool down to a more sedate 9% by 2012 and to 8% by 2015.

Globalization is, of course, a much-discussed theme. But would like to believe India is the perfect venue to bring to it a new perspective. For India recently has grasped firmly the opportunities of globalization, as the international successes of so many of you in the audience can attest

KEY WORDS

Globalization, India the Growing Economy,

INTRODUCTION

In the recent years, the Asian economies are emerging as major trading partners of India. India's trade has grown faster with these countries than its overall trade growth.

Emerging Asian economies accounted for a significant share of 22.4 per cent in India's total exports in 2004-05 (16.0 per cent in 1999-2000) and 20.1 per cent of total Indian imports (16.2 per cent in 1999-2000).

While the change in India in the past five years seems dramatic, indeed, it is not discontinuous. First, India as a nation has been diligently working over half a century to realize the dreams at the time of its independence. Second, the domestic deregulation of 1980s and economic liberalization of 1990s helped acceleration of growth. Third, perhaps, the world is appreciating India and its progress better now than before.

INDIA, EMERGING ASIA AND THE GLOBAL ECONOMY

The emerging Asia accounts for around 45 per cent of world population and around 11 per cent of world GDP, though in PPP terms the share of GDP is about 27 per cent. However, in recent years, given the strong growth, the emerging Asia has contributed almost one-half of the global growth in GDP. In emerging Asia, the annual growth in GDP of 8.4 per cent and 8.3 per cent during 2004 and 2005, respectively, was impressive considering that the growth in the world economy during the corresponding period was 5.3 per cent and 4.8 per cent, respectively.

As per an OECD publication, in 1700, India's share in world GDP was 24.4 per cent, while China's share was 22.3 per cent. Asia as a whole (including Japan) accounted for 61.7 per cent in 1700, which fell to 59.2 per cent in 1820, and to a low of 18.5 per cent in 1950, before climbing to 37.2 per cent by 1998 (Maddison Angus, "The World Economy: A Millennium Perspective", OECD, 2001). The re-emergence in the second half of the 20th century was led by resurgence of Japan, succeeded by the miracle of East Asian economies, followed by China's outstanding success, and currently strengthened by Indian economy's impressive performance in terms of both growth and stability. According to the data published in the World Development Indicators of the World Bank, India ranks fourth next only to the USA, China and Japan in terms of size of the economies measured on the basis of Purchasing Power Parity (PPP). It is interesting that in terms of PPP, three out of the four largest economies of the world are in Asia.

HIGHLIGHTS OF INDIA'S PERFORMANCE

While the change in India in the past five years seems dramatic, indeed, it is not discontinuous. First, India as a nation has been diligently working over half a century to realize the dreams at the time of its independence. Second, the domestic deregulation of 1980s and economic liberalization 1990S helped acceleration of growth. Third, perhaps, the world is appreciating India and its progress better now than before.

The three salient features in India's economic performance over the period 1980-2000 ,as mentioned by several analysts, have been a high growth of output per capita ,surpassed only by China and East Asian countries; a very stable output per capita, surpassing that of even China and East Asia; and the growth is sourced by an increase in total factor productivity, there by having positive implications of during nature of the process ,rather than being driven only by better returns on capital.

Apart from that ,The engagement of Indian firms with the world has acquired new dimensions. Apart from its leading edge in the software services, India is also becoming a major hub for manufacturing and export of manufactured products. The Indian information technology industry is becoming increasingly global through cross-border acquisitions, on-shore contract wins and organic growth in other low-cost locations. This has been complemented by global majors continuing to significantly improve their off-shore delivery capabilities in India. Indian firms are also acquiring manufacturing firms abroad to leverage comparative advantage of foreign locations, using synergies between the parent company and the company under acquisition and having production facilities near the major markets also.

OUTLOOK AND CHALLENGES :A CENTRAL BANK PERSPECTIVE

The Annual Policy Statement for the year 2006-07 released a month ago (April18, 2006) provides the Reserve Bank of India's assessment of the outlook for the economy. The Policy Statement notes that a number of downside risks loom over the global economy that have implications for the medium-term prospects of countries like India for which the channels of global integration are getting stronger over time. The key global risks for emerging economies are potential escalation and volatility in international crude prices, disorderly unwinding of the macro economic imbalances of the major economies and a hardening of international interest rates. Though characterized by

significant downside risks, over the medium term, the prospects for the global economy are by and large positive.

For the Indian economy, the evolving economic and business environment exhibits a number of encouraging signs that suggest reinforcement of the robust economic growth demonstrated in recent years.

First, increase in the gross domestic saving rate to levels around 30 per cent, coupled with sustained absorption of external savings of about 2 per cent of GDP, would provide the potential for attainment of an accelerated growth trajectory.

Second, the micro structural reforms undertaken over the years have enabled continuing productivity gains in the real sector.

Third, process involving widening and deepening of the financial sector, along with improved regulation and supervision, has also yielded encouraging results, as reflected in the productivity measures relevant for the sector.

Fourth, there is evidence of increasing business confidence as measured by various business expectation surveys and improvement in the investment climate. This is also corroborated by signs of enhanced levels of foreign direct investment.

Fifth, the most progressive and dynamic of the Indian companies are manifesting increasing levels of global presence through acquisitions and higher outward foreign direct investment. The attainment of domain knowledge through such activities, along with best practice business knowledge, and economies of scale in marketing may enhance the productivity growth of Indian business.

Finally, it is noteworthy that Indian business has managed to exhibit impressive growth performance in recent years in terms of most parameters despite the presence of significant constraints posed by infrastructure. It has also displayed resilience in terms of the ability to cope with adverse developments such as oil price increases.

CONCLUSION

To conclude then, the stars are well aligned for India to become a hub of globalization, but it is still some distance from that goal. The vote of confidence foreign investors are giving India should not induce any complacency—they are betting on potential, not reality. It is up to India to turn that potential into reality. One could well imagine India could become a global financial center—it is in the perfect time zone and has the necessary IT, communication, and financial skills. All that is missing is a sounder regulatory environment and the necessary conditions for introducing capital account convertibility. It could become a center for higher education—it has the core human capital both in India and dispersed around the world as well as a history of tolerance for ideas. All we need is a more welcoming environment for foreign educational institutions, faculty, and students, as well as a greater tolerance for market clearing fees and salaries. Tourism, healthcare... I could go on but the point should be clear. India's future is in our hands and it will be what we make of it.

SUGGESTIONS

Despite the positive factors for medium term outlook, there are some critical issues that need to be addressed for maintaining the current momentum of growth with stability.

To facilitate a more rapid growth in Oil & Gas, Petrochemicals, Automotive, Agriculture, Legislative, Institutional and Attitudinal changes to supplement enhanced public and private investment may be needed & Despite of the Indian economy being poised towards a higher growth path, perceptible improvement is yet to be made on reducing unemployment with improving political system in India to focus only on the GDP Growth.

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