

India's Emerging Competitiveness

Casa Asia

Barcelona

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How I got my name?

GURU

Good at **U**nderstanding
but **R**elatively **U**seless

To understand the future we must
first look at the past

Story of three numbers

1

3.5

6

India's Average Annual Real GDP Growth

1900 – 1950

Colonial Period

1%

1950 – 1980

Post Independence
Period

3.5%

1980-2003

Reform Period

6.0%

Sources: 1900-1990: Angus Maddison (1995), *Monitoring the World Economy*, 1990-2000: World Bank/IMF.

Industrial revolution in the
West took place at 3%
growth rate over 100 years

India's per capita income will reach current U.S. per capita income by

At pre-1980 trend	2250
At post-1980 trend	2066
Gain of	184 years

Exclude Bihar, Orissa, East U.P and M.P. (about 40% of country)	2040
Gain of	216 years

Source: J. Bradford Delong, "India since Independence: An Analytic Growth Narrative" in Dani Rodrik (ed), *In Search of Prosperity: Analytic Narratives on Economic Growth*, Princeton University Press, Princeton, NJ, 2003, p.184

NEXT 10 YEARS

7% - business as usual

8% - aggressive reforms

The lesson : Even slow
reforms add up over time

Population Growth (%)

1901 – 1950	1.0
1951 – 1980	2.2
1981 – 1990	2.1
1991 – 2000	1.8
2001 – 2010	1.5

Sources: 1900-1990: Angus Maddison (1995), *Monitoring the World Economy*, 1990-2000: Census of India (2001)

Literacy (%)

1950	17
1990	52
2000	65
2010 (proj)	80

Source: Census of India (2001)

Middle Class

	<u>%</u>	<u>Million</u> <u>People</u>
1980	8	65
2000	22	220
2010 (proj)	32	368

PEOPLE BELOW THE POVERTY LINE

1980	46%
2000	26%
2010 (proj)	16%

1% of the people have been crossing poverty line
each year for 20 years. Equals 175 million.

100 Year Trend

	<u>Colonial</u> <u>period</u> <u>1901 – 1950</u>	<u>Post-Independence</u> <u>period</u> <u>1951-1980</u>	<u>Reform</u> <u>Period</u> <u>1981-1990</u> <u>1991-2000</u>	
GDP Growth	1.0	3.5	5.6	6.2
Population Growth	1.0	2.2	2.1	1.8
Per capita Growth	0	1.3	3.5	4.4

FUTURE

	<u>Colonial</u> <u>period</u> <u>1901 – 1950</u>	<u>Post-Independence</u> <u>period</u> <u>1951-1980</u>	<u>Reform</u> <u>Period</u> <u>1981-1990</u> <u>1991-2000</u>		<u>Future</u> <u>2000-2010</u>
DP Growth	1.0	3.5	5.6	6.2	7
Population Growth	1.0	2.2	2.1	1.8	1.5
Per capita Growth	0	1.3	3.5	4.4	5.5

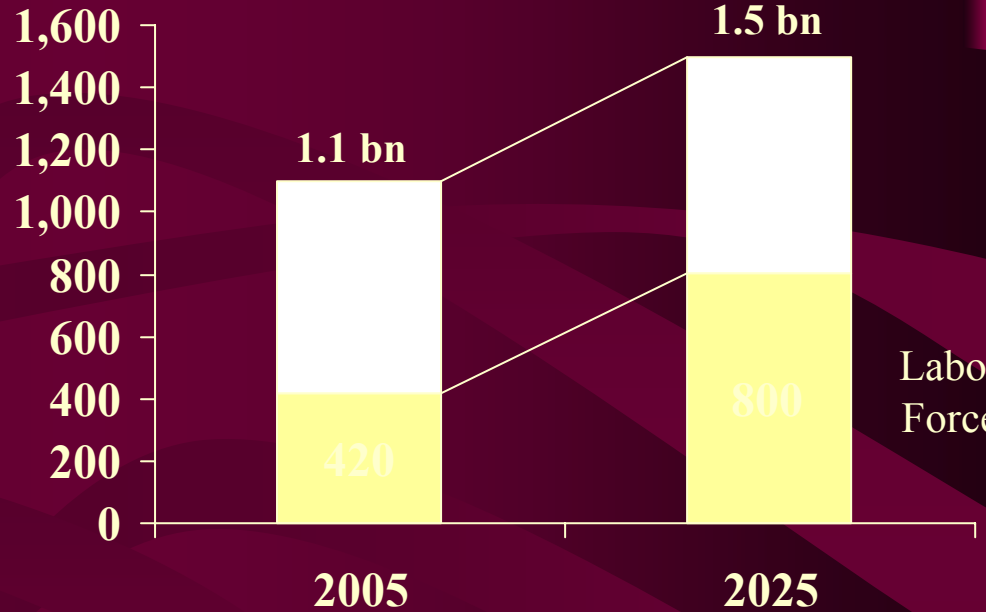
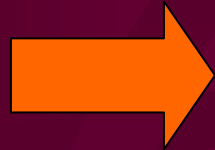
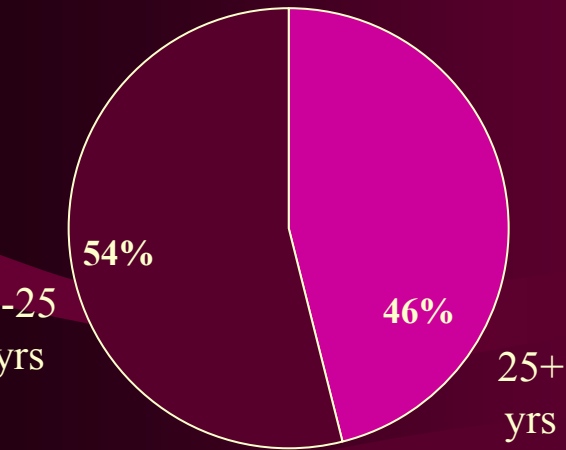
Why will growth accelerate?

Demographics

- Lag effect of macro reforms
- Growth is “infectious”
- Divorce of politics and economics
- Mental Revolution

Demographic trend points to sharp increases in input factors

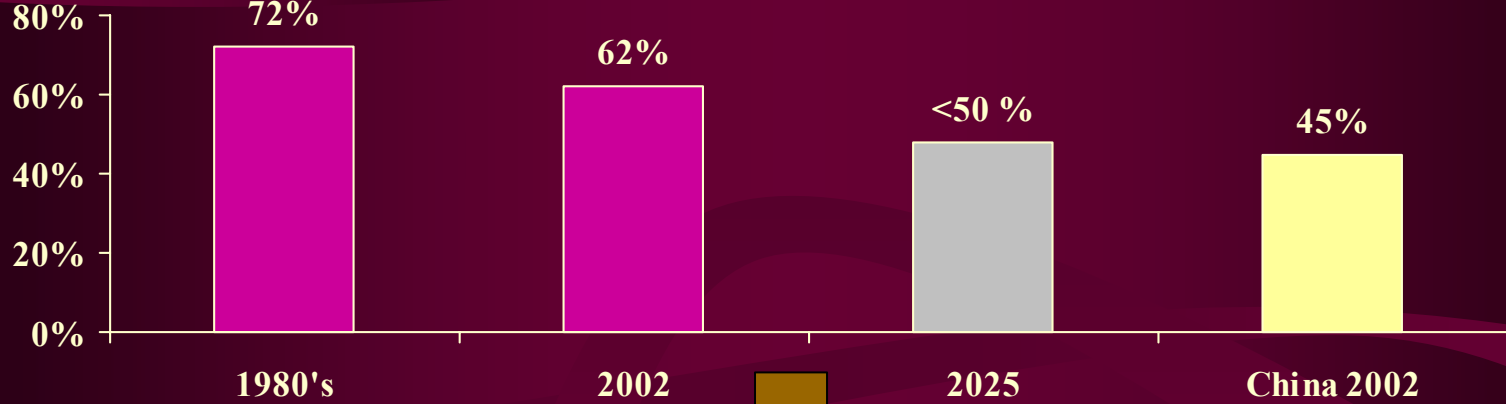
Demographic Split



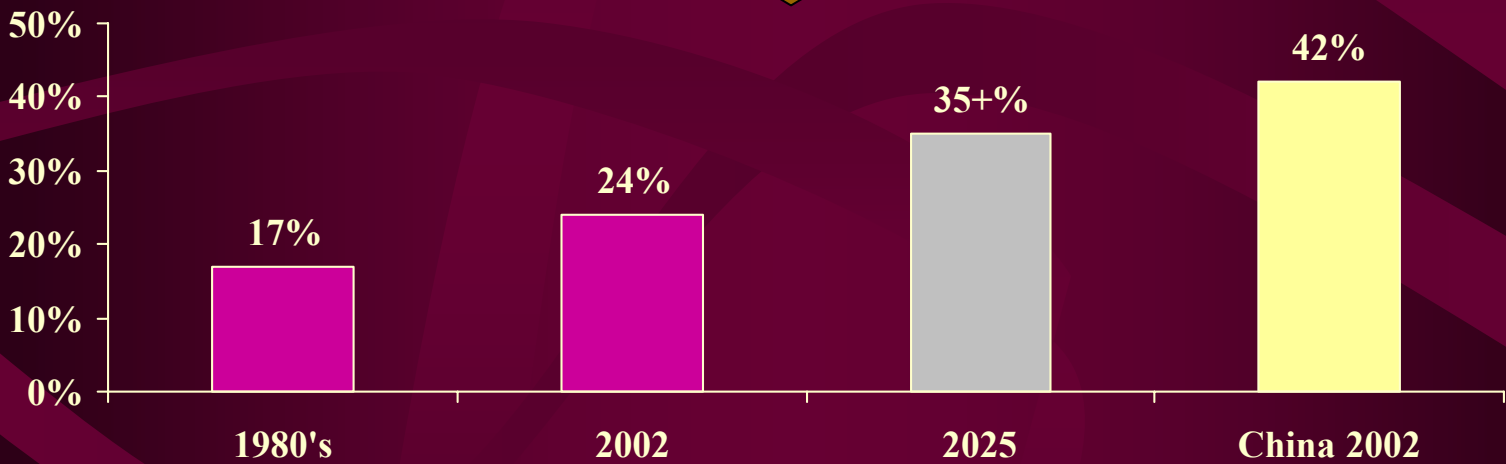
Labor Force will double in the next 20 years

Demographic trend points to sharp increases in input factors

Age Dependency



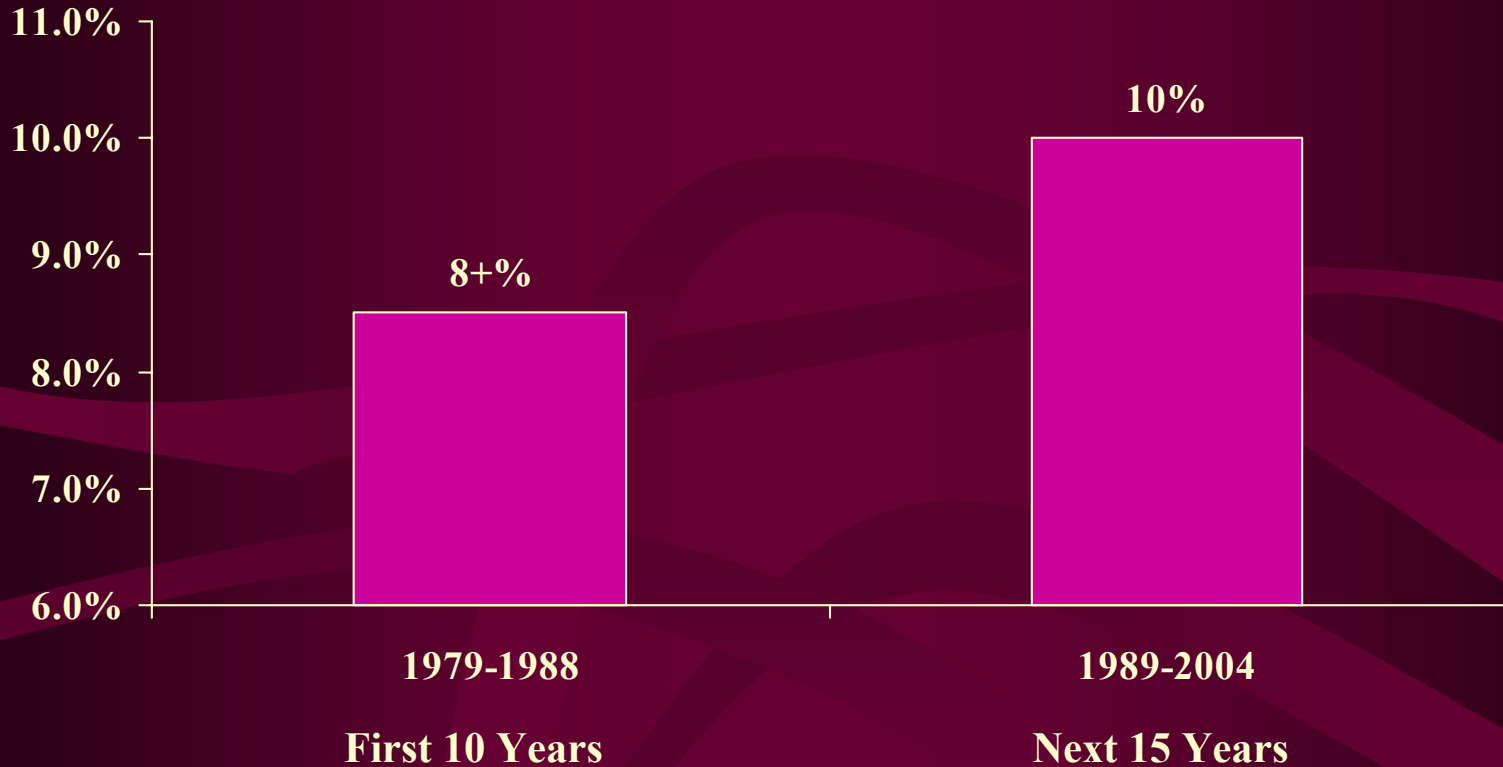
Savings Rate



Higher savings and investment rate will translate into higher GDP growth

Lag Effect of Macro Reforms

China GDP growth



China's growth accelerated a decade after liberalization in 1978

Lag Effect of Indian Macro Reforms

Trickle Down Effect



Macro reforms have now filtered down in the Micro-economy

Divorce of Politics and Economics

Congress

BJP

- Focus on Infrastructure

- National Highway Program
- Power for all by 2012
- Airport privatization

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- Increased Trade

- Lower tariff barriers
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- Capital Efficiency

- Consolidation in banking sector
- FM cares about Sensex

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- Bottlenecks

- Partial privatization
- No progress on labor reforms

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Electorate demands economic progress - micro reforms are irreversible

Mental Revolution

- India Unbound story
- Cable TV revolution
- Banianisation of society
- Hinglish

Telephone Lines

	<u>Millions</u>
1980	1
1990	5
2004	75
	(growing at 2 MM + per month)
2005	100

Source: Department of Telecom, Government of India (2004)

The coming power revolution

(A hope or an investment tip?)

Second Green Revolution

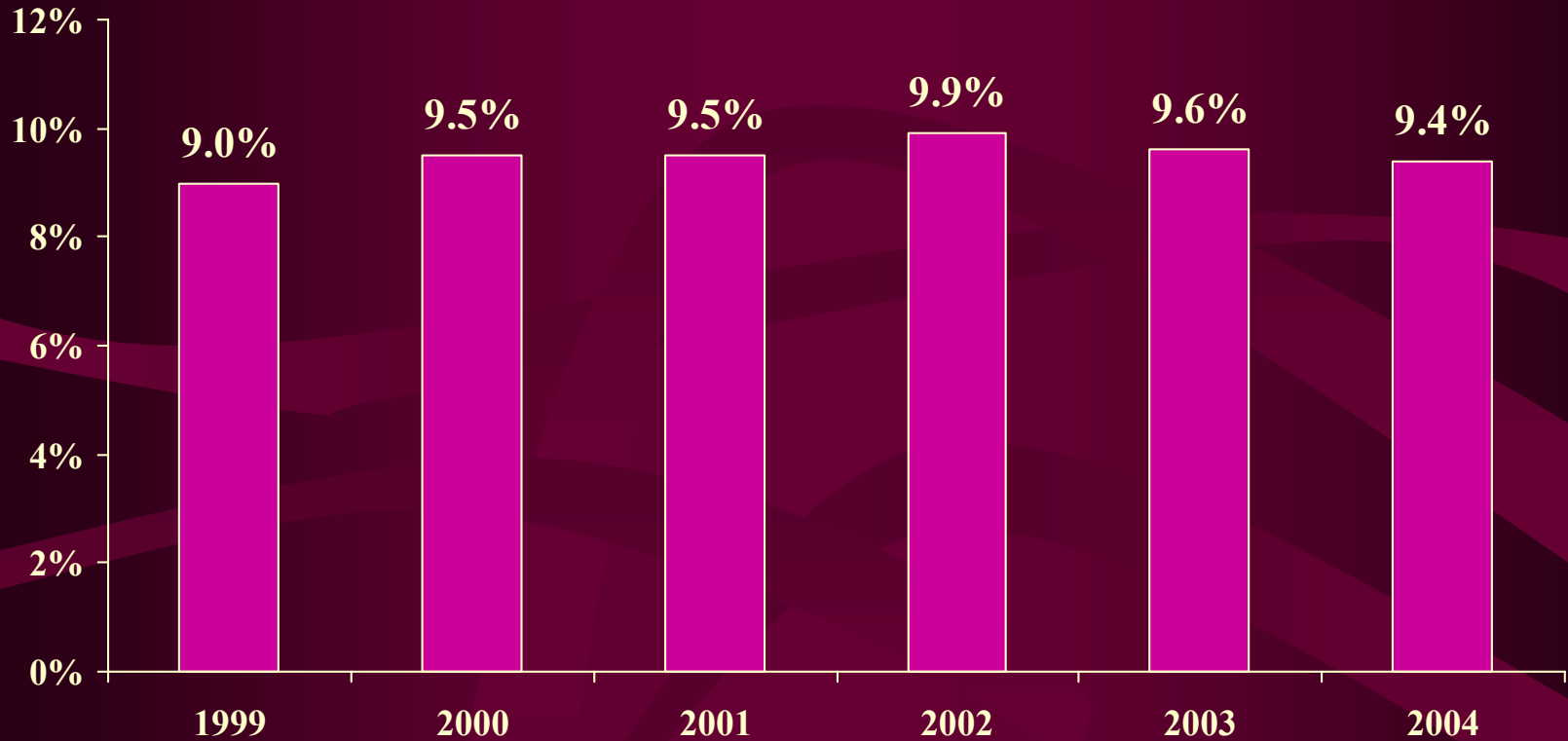
- technologically led, based on GM seeds
- labor intensive
- needs reforms

Potential Stumbling Blocks

- Fiscal Deficit
- Infrastructure
- Bad Governance

India continues to run “huge” Fiscal Deficits

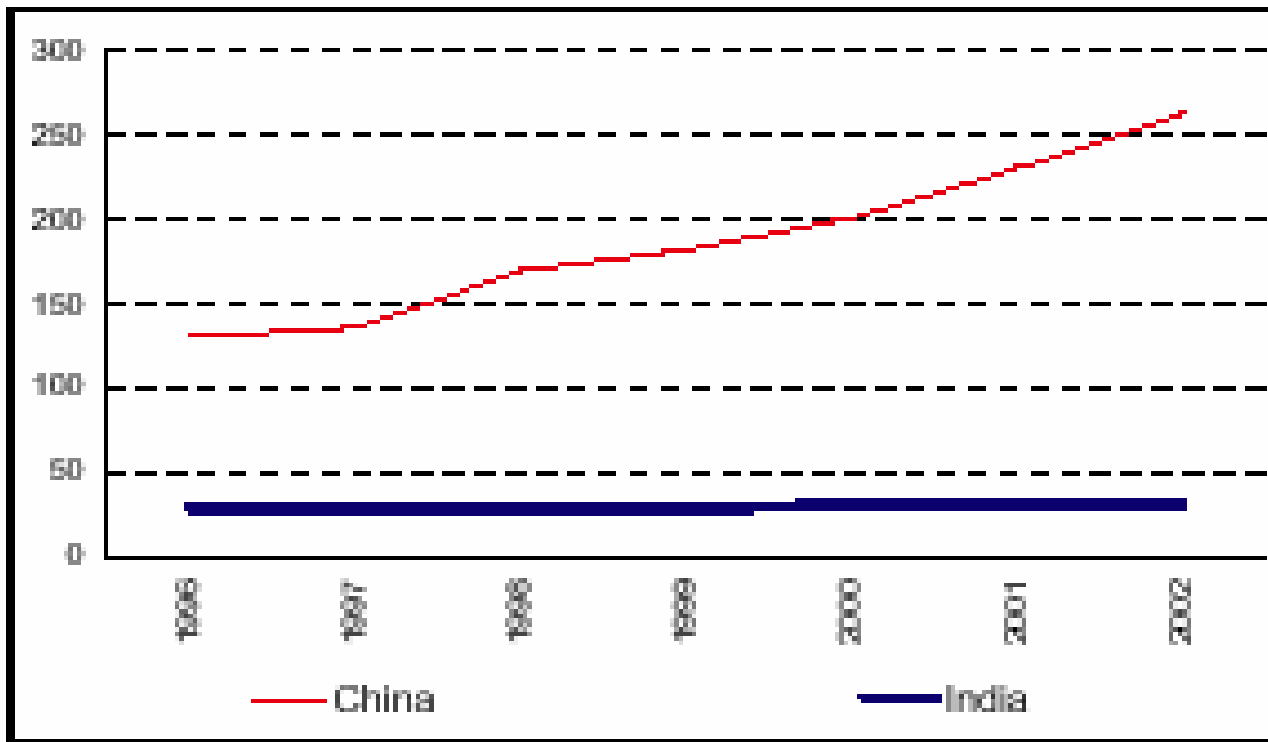
Fiscal Deficit as % of GDP



No improvement in fiscal situation

Negligible Infrastructure Spend Compared to China

Infrastructure Investments (\$ bn)



China spends 8 times more than India on infrastructure

Bad governance given the corrupt political class

- India

- 1 in 4 Members of Parliament (MP's) is a criminal

- China

- 75% of the politburo are technocrats

RISE OF THE MIDDLE CLASS

	%
1980	8
2000	22
2010	32

2020	50 West of the Kanpur-Chennai line
2040	50 East of the

Not get worked up about inequality

- US South
- Italy/Spain
- Internal migration: safety valve

THE POINT IS THAT
WE HAVE TIGERS IN
OUR MIDST

WHEN MIDDLE CLASS
CROSSES 50%, POLITICS
WILL ALSO CHANGE



WHY IS THIS HAPPENING?

2 MORE REASONS

- Liberal Revolution > Convergence
- Rise of knowledge economy (IT)

India and China have
grown twice the world
rate for 25 years

By 2015

China > U.S.

India > Japan

Reasons for Success

China's is state induced.

India's is market led.

CHINA

- One pointed reformer
- Infrastructure miracle
- Wealth creators are
 - FDI
 - SOEs
- Manufacturing driven

INDIA

- Gradual reform
- Wealth creators are entrepreneurs
- Services driven

Rise of globally competitive Indian companies:

Reliance, Jet Airways, Infosys, Wipro,
Ranbaxy, Bharat Forge, Tata Motors,
Hindalco, HDFC Bank

India has law, China
has order

Corporate Governance

- High in India
- Low in China

By 2010 India will have
world's largest number
of English speakers

India's demographic advantage means that its high growth will continue longer term while China will slow

Soft Underbelly

India's: Infrastructure

Fiscal deficit

China's: Financial sector

Dissent

Given India's

- Rule of law
- Democracy
- Market driven success
- English language
- Corporate Governance

Conclusion

China is faster and ahead,
but longer term India may be
a surer bet

The Wise Elephant