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Four-fold path to nirvana

It is said that the only way to describe the future is to shape it. As Gordon Gibbons had commented, ‘‘The winds and the tides always favour the ablest navigators.’’ So what is India’s future? And is the Indian leadership taking advantage of the favourable winds and the supporting tides: ‘‘the winds’’ of increased global integration creating new opportunities, a favourable demographic profile and ‘‘the tide’’ of a BPO surge and the momentum of the new ICE economy?

In the past 10 years, India has registered the fastest growth among major democracies, having grown at over seven per cent in four years in the 1990s. It represents the fourth largest economy in terms of ‘‘purchasing power parity’’.

The past, present and future of India represents the story of how the slow growing economy of around 3.9 per cent growth in the first 40 years of its independence became, in the second phase in the 1990s, the 12th largest economy.

According to a recent Goldman Sachs report, ‘‘Over the next 50 years, Brazil, Russia, India and China — the BRIC economies — could become a much larger force in the world economy’’. India could emerge as the world’s third largest economy.

Not that in the first phase of 50 years there were no gains. Growth was slow due to the adoption of a semi-socialist development model with excessive economic control and inadequacy of physical and social infrastructure. Nonetheless, important gains were achieved by securing food security through the Green Revolution, building capital intensive industries, a dairy revolution, managing severe foreign exchange shortages and setting up centres of educational excellence like the Indian Institutes of Technology.

The 1990s achieved an average 5.5 per cent growth, with per capita income rising at close to four per cent. They also marked the progressive deregulation of the Indian economy. But what is the future? Is the GDP growth rate of over seven per cent, expected in the current fiscal year, a flash in the pan or is it sustainable? Is the current India fever infectious enough for the heat to last long enough? Will it be a long Indian summer?

The growth levels achieved during the 1990s, which will reach a high point — judged by past standards — in the current fiscal year will be sustained by four critical drivers described below as dividends.

First, the Demographic Dividend. If you look at global demographic trends, it is obvious the median age of population in OECD countries is rising rapidly. Notwithstanding gains of productivity or a more favourable immigration policy, both productivity and growth will be hurt unless there is continued outsourcing of economic activity to locations where skilled, young manpower is abundant.

India, on the other hand, will have the highest number of people in the younger age group — 700 million people out of 1.1 billion people are young; the young population will continue till 2050.

India will have an additional 47 million people in the working age group, while many OECD countries (including France) will face workforce shortages. Further, India will have a favourable demographic bulge between 2010 and 2030. The realisation of this opportunity will involve inculcation of skills, strengthening the educational system and major reforms in HRD.

Second, the Consumption Dividend. The consequential demographic profile — with 325 million people, representing nearly 25 per cent of the population by 2020, being in the 20-35 age group, gives the benefit not merely of a young working age group but also a growing market.

Past international experience suggests this will not only yield a higher savings rate but also result in increased consumer spending. National savings rates in east Asia showed a significant increase to 30 per cent, driven by their increase in working age population. India's savings rate is expected to move in the same direction, from the current 23 per cent or so.

In addition, this will also result in a significant increase in overall consumption. Even at a six per cent compounded annual growth based on PPP, the size of the market would rise from $ 1,500 billion today to $ 2,700 billion by 2010 and $ 3,400 billion by 2015. Of course, at the projected eight per cent growth, this would be significantly higher.

Looked at differently, the level of affluence is steadily increasing in India. Even between 1995 and 2002, nearly 100 million people became part of the consuming and rich classes. Over the next five years, 180 million people will be moving into the consuming and very rich classes.

On an average, 30-40 million people are joining the middle class every year, representing huge consumption spending in terms of the demand for cellphones, televisions, scooters, cars, credit goods and the basket of a consumption pattern associated with rise of income.

This growth in consumption would be further boosted by affordable consumer finance from the Indian banking system. Disbursements in the retail financial services market more than doubled in the past three years. Reckon this in conjunction with the increased propensity of the rural population for articles of mass consumption, like televisions, electric equipment, white and brown goods generally.

In fact statistics reveal the share of consumption expenditure of rural India on food items has decreased from 73 per cent to 59 per cent over the past 30 years.

With increased telephonic connectivity and the programme to build dependable round the year rural roads, rural India will be mainstreamed. The size of the growing market itself is staggering. We would be adding nearly one France every

3.5 years and one Australia every year.

So the demographic dividend and the consumption dividend will synergise to become two critical drivers of change and sustained growth.

Third, the Knowledge Dividend. It is no secret India has rapidly become the service capital of the world based on comparative factor advantage and its ability to move up the value chain.

The Indian pharmaceutical sector has achieved global recognition for production of low-cost, high-quality generic drugs and branded medicines. Of all the software firms that have achieved level V in the capability maturity model, 55 per cent are Indian.

Combine this with the comparative cost advantage: an infotech engineer in the US would cost $ 50,000 compared to a modest $ 5,000 in India, an MBA in the US would cost $ 80,000 but only $ 7,500 in India.

Reckon this with the movement up the value chain. While India has already established itself in areas like transaction processing, it is now rapidly achieving comparative advantage in design and analysis, research and development covering numerous industries, including IT, pharmaceuticals, educational services, auto engineering, chemicals and financial services.

In addition, India is also competitive for services to customers in health treatment, value-added tourism or leisure tourism. On a minimum estimate, the impact of India becoming the service centre of the world would contribute $ 200 billion to GDP and $ 40 million in terms of employment (direct and indirect) by 2020.

India's knowledge capital has also facilitated a resurgence of the manufacturing sector, exemplified by exports nearly tripling over the past decade and India emerging as the global manufacturing destination of leading MNCs in auto components, pharmaceuticals, agri-products.

Fourth, the Productivity Dividend. Notwithstanding high growth rates in the 1990s and the new growth trajectory that is beginning to unfold, India's productivity continues to be low as compared to other major economies.

While productivity has been rising significantly over the past 10 years, there is room to improve. Even modest investment of capital will lead to significant increase in productivity, given technological improvements and the favourable ''incremental capital output ratio''.

This increase in productivity with modest investment will have an impact on longterm growth rates. It will also raise significantly India's share in global trade, so far just below one per cent and representing only 20 per cent of GDP.

Both productivity and trade gains, looking at the current modest levels, have huge room to grow. Even with modest changes, this will have multiplier effects on GDP growth rate.

Tomorrow: The reform accelerator

(The author is member, Planning Commission. The article is an edited version of his speech at a recent high-level seminar organised by the French Centre for External Commerce, at the Senate, the upper house of the French Parliament, in Paris)