

**Country Outlook Seminar:**  
**“India: Sustaining Growth, Realising Potential”**  
**by Mr Gurcharan Das, author of the international bestseller, *India Unbound***

**27 March 2008**

**What is the India Story?**

Mr Das began his lecture by commenting that India’s growth story is far from new, even though the world has just discovered it, he explained that India’s GDP expanded at 6% annually from 1980 to 2002 and 8.9% annually from 2002 to 2006, rendering the country as one of the fastest developing economies over the last two and a half decades. At the same time, population growth decelerated from 2.2% per year (during the early years of independence) to 1.5% currently. The middle class is “exploding” and is expected to reach 368 million or 32% of its population by 2010, while 1% of India’s poor have crossed the poverty line every year over the last quarter century. These figures imply that India’s growth has resulted in significant per capita income gains, from US\$1,178 to US\$3,051 (in terms of purchasing-power parity) since 1980. India is now the fourth largest economy in the world, and is expected to overtake Japan between 2012 and 2014 to become the third largest.

**Drivers of India’s Growth and Implications**

Mr Das highlighted that India adopted an atypical economic growth path compared to its Asian neighbours. While the economies of East and Southeast Asia have adopted the strategy of exporting “low tech, labour-intensive” manufactured goods to the West to boost their growth, India has relied more on domestic consumption and the establishment of high tech and capital-intensive manufacturing to achieve growth. The main advantage of India’s developmental path is that its economy has been largely insulated from global economic volatility and recessions.

According to Mr Das, this “consumption-led” economic model is more “people friendly”, leading to a lower degree of income inequality as reflected in India’s Gini Index of 33% relative to countries like Brazil (59%), China (45%) and the US (41%). Mr Das also agrees with the assessment of Stephen Roach (Chairman, Morgan Stanley Asia) that the world needs another big consuming economy after the US, and that India could potentially assume this role.

Mr Das argued that India’s economic success is “market-led” whereas China’s development is “state induced”. He asserted that “the entrepreneur is at the centre of the Indian model”. Today, more than a hundred Indian companies have a market capitalisation of at least US\$ 1 billion. Internationally-renowned Indian enterprises include Tata, Infosys, Reliance, ICICI Bank etc. Of the Fortune 500 companies, 125 currently have R&D bases in India, a great testimony to India’s human capital.

## Growing Despite Poor Governance

Mr Das underscored that notwithstanding the country's dynamic democratic system and the presence of an independent, lively media and press, the standard of governance in India remained poor. Many Indians despair over the lack of basic public goods like education and healthcare. For instance, he cited a recent study that one out of four teachers in India's government schools is found absent during curriculum time. At government clinics, about two out of five doctors and one out of three nurses are absent at any given time. He lamented that Indian civil servants enjoy life-long employment but have poor accountability. The situation has deteriorated to an extent that even the poor have started to transfer their children from government to private schools which are flourishing rapidly in villages across the country. Mr Das paid tribute to the spirit of self-reliance in Indians, and the ability to press on against the odds, should the state fail to deliver. He suggested that challenges in the domestic situation could have contributed to the perceived "toughness" of Indian entrepreneurs.

Nevertheless, Mr Das expressed optimism on the reforms that have opened the Indian economy since 1991. The key reforms encompass (1) opening the country to trade and investment; (2) dismantling controls; (3) lowering tariffs; (4) dropping tax rates; and (5) breaking public sector monopolies. Even though the reforms have been slow, they have been consistent and in one direction. He believed that India is on the brink of a great transformation, powered by the IT revolution. He related how many young Indians aspire to be another "Bilgay" (Bill Gates), the founder of Microsoft. With the state "getting out of the way", coupled with the rapid liberation of India's young minds, the country has found its competitive advantage in the knowledge economy.

## Is the India's Growth Sustainable?

Mr Das argued that recent developments in the country have ensured that India's "Hindu rate of growth" (average growth rate of 3.5% per year from 1950 to 1980) is now a thing of the past. He projected that the Indian economy has the capacity to accelerate even more due to the following reasons:

- *Demographic dividend*

India is and will remain for some time one of the youngest countries in the world. This demographic advantage means that India's high growth will continue in the longer term vis-à-vis China.

- *The rise of the middle class*

One of the most striking features of contemporary India is the rise of a new middle class. It is energetic, full of aspirations and committed to change for a better future. The middle class will be the catalyst for India's growth.

- *Mastery of the English Language*

English is actually the "first language" of India, and will facilitate India's communication with the world. According to Professor David Crystal, India will have the world's largest number of English speakers by 2010: "When 300 million Indians speak a word in a certain way, that will be the way to speak it."

**India – Elephant and not Tiger**

Mr Das concluded that the unconventional evolution of India, which resulted in its fully-fledged democracy before its transformation to a capitalist economy, will continue to impede the country's economic development. Indeed, this historical inversion means that the future of the country will not be a product of unbridled capitalism but will evolve and be shaped by many factors including the traditional forces of caste and religion. This will imply slower growth relative to China and the Asian tigers. Nonetheless, an elephant growing at 8% per year is still formidable. To Mr Das, this remains a positive scenario, as it will help to preserve social stability and the traditional way of life. In short, India will advance like a "wise elephant", moving surely and majestically, stopping occasionally to ponder over its past attainments as well as future possibilities.