Color India young, a demographic picture that will help the country’s long-term economic outlook, said Radhika Rajan in her address to the Global Executive Forum.

“One of the most important drivers of a country’s growth is the number of people in the working age group 15-64. And in this India has an advantage because the majority of the population is in this group,” said Rajan. “We’re not going to hit the high dependency ratios (of working age to retired) until way beyond 2040.”

The 15-64 age group is important for another reason, “because people in the working years tend to save more.”

In order for India to become the third largest economy by 2050 as predicted by Goldman Sachs, “it must maintain a 5 percent growth rate per annum. India is the only country among the major countries expected to do this,” said Rajan.

What will poverty look like in 2050 as a result of this growth? “India will still be a relatively poor country with a per capita income of $20,000 a year, the lowest of all the major economies. Goldman Sachs predicts the US in 2050 will have a per capita income of $80,000; Russia and Brazil also will be higher than India. But as an aggregate, the clout and the wealth that India represents will be quite high.”

The per capita income, while comparatively low, has steadily increased over the last two decades to 3.9 percent today from 1.9 percent 20 years ago. “Since 1993, about 100 million people have been raised above the poverty line.”

As India looks to secure its future as an economic power, it is focused on maintaining its stability while making all the right moves to generate growth and opportunity. Internal price flexibility, infrastructure development, privatization and the forces of globalization have pushed the country along in this direction.

**Domestic sector growth**

In addition to positive demographic trends, the services sector will continue to drive the economy, Rajan said. This sector, together with industry, accounts for 78 percent of India’s GDP. Other factors important to the economy:

- Export sector. “From 1998 to 2003, exports of services grew 228 percent. Despite the recent noise in the US against outsourcing, we believe strong software exports, including business process activities, are likely to continue based on the economic benefits of the model.” Exports of agriculture products decreased by 3.03 percent during this period.
- Agriculture. 22 percent of the GDP comes from agriculture. This is a challenge because 57 percent of employment is in agriculture. “India is the largest milk producer in the world and the..."
Making the case for India

Radhika Rajan

largest producer of fruits and vegetables in the world. There are huge opportunities in food processing and similar industries which have been held back because of government policy which protects the agriculture sector from outside investors.

- Financial sector. Market forces have caused a steady drop in interest rates over the last decade and a sharper decline over the last three years. Rajan attributed this to more favorable government policies. “The Chaterjee Group has been investing in India since 1994 and views the financial sector as holding great potential.”

- Stock exchange. “India has the third largest investor base in the world after the US and Japan with over 30 million shareholders. There are about 9,000 stocks listed on the country’s two major exchanges: The National Stock Exchange (NSE) and the Mumbai Stock Exchange (BSE).” Both are located in Mumbai (formerly Bombay). According to a report by The Chatterjee Group, “Market valuations do not appear excessive and recent economic projections of a 6 percent to 8 percent growth rate appear sustainable. The present government feels strongly that 8 percent per annum growth is necessary to meet its poverty eradication and employment objectives.”

- Currency (rupee). “For the first time in my lifetime the currency has actually appreciated and is likely to continue a stable to upward growth path.” The threat of competitive Asian devaluations is gone, with the Chinese yuan also expected to strengthen. The only threat to the rupee’s strength is rising oil prices. India imports nearly 70 percent of its oil.

But it’s the size of India’s fiscal deficit — 60 percent of the GDP — that poses the major risk to economic growth. “This figure has remained static over the last number of years in spite of getting more people and more corporations into the tax net,” said Rajan. This is because tax rates have been lowered across the board. “I think India has lower personal tax rates than the US. Dividends are not taxed. Long-term capital gains have been abolished and short-term capital gains is just 10 percent.”

The government hopes that efficiencies in tax collection and widening the tax net will alleviate the problem. But “it’s a serious issue.”

Asked about social and cultural issues that might cloud India’s economic outlook, Rajan said, “Fertility rates must continue to drop, the population must stabilize and the high savings propensity must continue.”

Another question was about jobs: “There’s an incredible amount of people coming into the workforce every year. Where are they going to find jobs?”

Said Rajan, “This is an important question because the maximum number of jobs that are created each year in the IT sector is maybe 10 million, clearly not enough for a nation with about a half billion people under the age of 25 plus a significant number under the age of 16.” She said there were signs that the services industry was expanding beyond IT and into health services and education services.

“A large number of private medical and engineering colleges have sprung up, especially in the southern states, and they totally cater to the job market.”

China vs. India

Two of the largest countries in the world have taken different paths to growth.

Said Rajan: “China’s development has followed the traditional model of agriculture to industry, with a strong and growing manufacturing sector and a slow-growing services sector. India’s development is the mirror image.”
Making the case for India

Radhika Rajan

China has a number of things going for it that India has yet to equal, said Rajan: “A dynamic economy with an annual GDP growth rate of about 9 percent for the past 15 years; a 40 percent savings rate – almost twice that of India’s; much better infrastructure; and a huge manufacturing sector with a large pool of hard-working low-cost labor.

“India has the advantage of a huge services sector and a small but skillful group of better educated people who are entrepreneurial and speak English. Underpinning these advantages is India’s democratic system of government.

“India is often compared unfavorably to China in terms of development. But India is a participatory democracy — the largest in the world — and when innovations and policies are achieved by consensus they have a far more lasting and stable effect than when they’re achieved by authoritarian fiat.”

India: Domestic growth drivers
1998-2003

<table>
<thead>
<tr>
<th>Sector</th>
<th>YoY growth FY 2004</th>
<th>Reasons</th>
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<tbody>
<tr>
<td>Services</td>
<td>7.60%</td>
<td>Rising consumer disposable income</td>
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<tr>
<td></td>
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<td>Boom in the ITES / BPO industry*</td>
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<tr>
<td>Mfg./Infrastructure</td>
<td>5.10%</td>
<td>Heavy government spending in highways and transportation.</td>
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<td>Increased private investment in telecom</td>
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<tr>
<td>Agriculture</td>
<td>1.40%</td>
<td>Bumper monsoons</td>
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</tbody>
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*IT Enabled Services / Business Procession Outsourcing Source: The Chatterjee Group