The rise of India in the global economy
Arup Gupta

Arup Gupta is president of Tata Consultancy Services America, part of Tata Consultancy Services Limited (TCS), the world-leading information technology consulting services and business process outsourcing organization. He manages all of TCS' operations in North America and reports to the CEO of TCS, headquartered in Mumbai, India. TCS currently has over 50 offices across the US and Canada with a staff of more than 7,000 technical consultants. Gupta has been with TCS for more than 20 years. He has a master’s degree in computer science from the Indian Institute of Science and is a long-standing member of the Institute of Electronics and Electrical Engineers.

It has taken nearly half a century for India to become the overnight star it is today. From 1947 when the British departed, through the beginning of the 90s, the economy stagnated under strict government controls and excessively high tariffs.

“If you wanted to buy a computer, there would be a 160 percent duty,” said Arup Gupta in his address to the Global Executive Forum. He recalled when India’s foreign exchange reserves were enough to pay for just one day of imports. “Today our foreign exchange reserves are way above $100 billion,” and a Goldman Sachs Study predicts that India will become the third largest economy in the world by 2050 after the United States and China.

The reason India has been able to get from there to here is due to the economic reforms instituted by Prime Minister Narasimha Rao in 1991 following the assassination of his predecessor Rajiv Gandhi. The current Prime Minister Manmohan Singh, who was finance minister under Rao, is accelerating the pace of economic liberalization.

“The economic reforms have led to higher growth rates, lower inflation, significant increases in foreign direct investment (FDI) and imports and exports,” said Gupta.

What this means in hard figures is a GDP growth of 8.2 percent for the year 2003-04 or $610 billion in US dollars; $8 billion to $10 billion of this comes from IT outsourcing. In the fiscal year ending 2004, India was the recipient of FDI totaling $16 billion. “Roughly half of that comes from the US, with the rest coming mostly from the UK, Germany and Japan,” said Gupta.

India’s economy still lags behind China’s and Gupta readily admits that “in the 70s we missed the manufacturing wave and China took the lead.” Not so with IT services, a sector in which India has been able to claim a dominant global position. “Companies like Tata Consultancy Services (TCS) and other premiere IT companies from India are taking steps to make sure that they retain the lead,” he said.

Gupta linked the boom in India’s software industry to TCS, which in 1968 was instrumental in elevating the professional standards for software developers. “In those days the IT industry in India was really nonexistent,” said Gupta. “Our founder, Mr. Tata, truly believed that software was an engineering science and that only engineers should be involved in its development.”

Consequently, programmers today have a master’s degree or a bachelor's degree in computer science. “All the Indian software companies are now at CMN Level 5, which is the highest level of certification for software development.” The value of this education shows up in the country’s software exports which “have been growing at an annual rate of 50 percent,” said Gupta. The value is also apparent in India’s hard-won position as an IT destination for the rest of the world.
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Without doubt India's slice of the IT pie is significant and its reach worldwide. Indian IT companies are writing the software that runs the inner systems of foreign companies and they dominate in all aspects of IT-enabled services (electronically based services from call centers to business processing outsourcing).

But will India be able to retain its competitive edge if the rising demand for engineers reduces the supply of talent and causes salaries to swing upward? There are foreign companies already asking Gupta this question.

“As the demand for IT goes up, the salaries are going up,” he said. “But we feel that India is still going to be competitive, at least in terms of salary, for the next 15 to 20 years.” As for supply, “All the educational institutions are geared up to produce the numbers that we think can meet global demand.”

Also, there is a reversal in the trend of engineers immigrating to the US for jobs as many of those jobs are being outsourced to India. “So they are finding a much better opportunity back home,” said Gupta.

And India wants to become a destination for more than just IT services. “India has a dynamic economy not limited to IT or IT enabled services.” According to Gupta, a number of global companies in pharmaceuticals, agriculture and finance are outsourcing their R&D and production functions to India.

- “India is the fourth largest pharmaceutical producer with 8 percent of the global production by volume.
- “We are the second largest small car market in the world and the largest motorcycle manufacturer in the world because most of the population in India gets around by motorcycle.
- “The Tata Group, a leading conglomerate of 91 companies with revenues over US$14.26 billion, accounts for 2.4 percent of India’s GDP and 5 percent of its exports.
- “Tata Steel is India’s largest private sector steel producer.”

But India is still playing catch-up in areas such as infrastructure. “Where China has invested very significantly in roads and transportation, we are lagging behind,” said Gupta, adding that the government is now investing aggressively to correct this deficiency.

While India has a highly educated population, the literacy rate nationwide is low. That, too, the government is working on, with educational initiatives aimed at getting more people into the system. In 1981 the literacy rate was 43.5 percent; in 2001 it was 65.3 percent. But despite a thriving economy, deep pockets of poverty persist in the rural regions.

“Nobody is saying that today we can compete with the US or China in terms of military or economic power. But in the global perspective, we are definitely making progress. Indian companies have now raised themselves to the level of multinational companies and we are competing in that context,” said Gupta.

“We are poised to be a global economic power, possibly the third largest, by 2050.”

Progress depends on India staying the course. “Our GDP needs to continue to grow, our political system needs to continue to be stable, and we need to remain competitive not only in IT but in pharmaceuticals and manufacturing,” said Gupta.

No longer a country without prospects, “India is rising and it cannot be safely ignored in the future as it has been in the past.”
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**India’s human capital edge**

Population: 1.068 billion
Population under 25 years of age: 547 million

- Over 3 million scientific & technical manpower
- Over 0.8 million post graduates in science
- Over 1 million graduate engineers
- 0.4 million doctors
- 0.3 million graduates in agriculture and veterinary sciences.
- India turns out more than 50,000 computer professional and 360,000 engineering graduates each year.

*Source: Tata Consultancy Services*