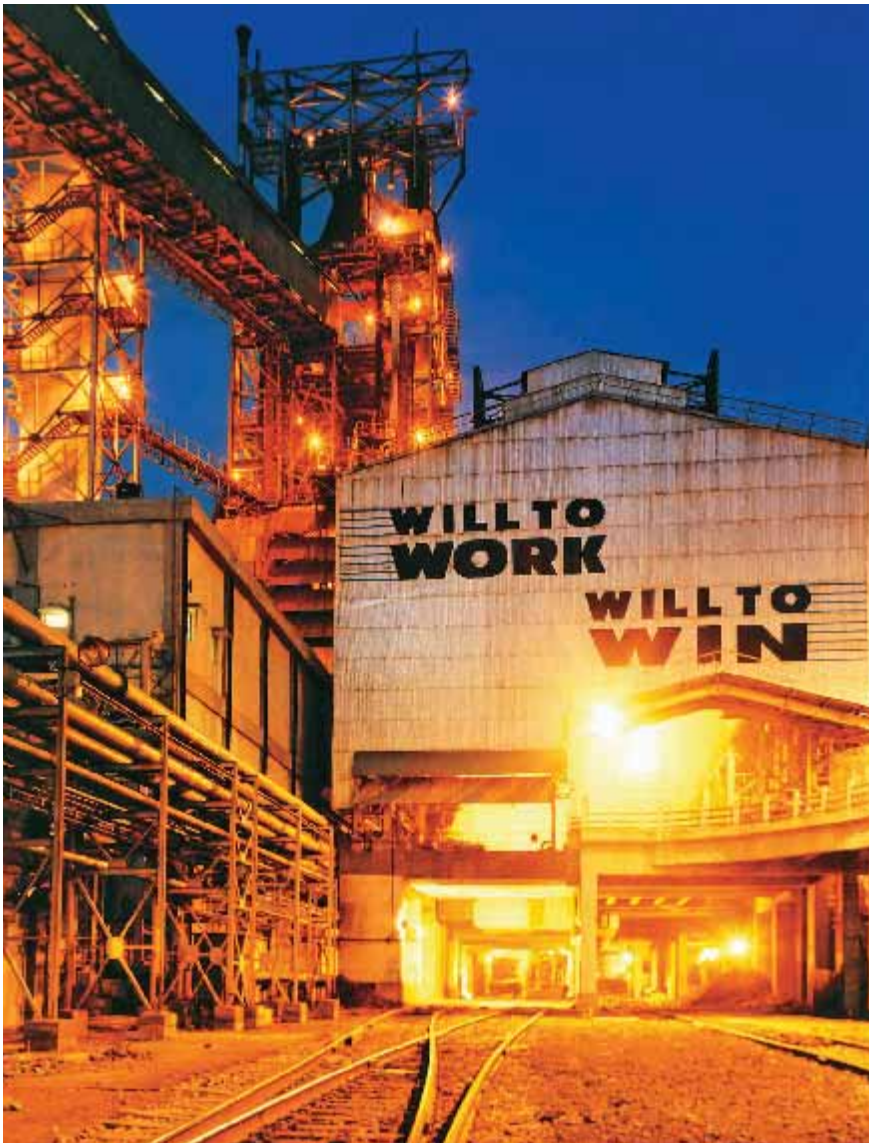


# Riding the economic wave

The New Year augurs well for India, currently ranked as the second fastest growing major economy in the world, with positive indicators such as a stable 8-9 per cent annual growth, rising foreign exchange reserves, a booming capital market and a rapid rise in FDI in the past year



**DRIVING GROWTH:** Restructuring of the industrial and services environment signals a major transformation

The end of the year festive season reveals the cheerful face of the Indian economy. Things have rarely been better with the Indian economy on the fulcrum of an ever increasing growth curve. Currently ranked as the second fastest growing major economy in the world, with positive indicators such as a stable 8-9 per cent annual growth, rising foreign exchange reserves, a booming capital market and a rapid rise in FDI in the past year, the economic growth may be expected to be consistent.

The major macro-economic metrics have never looked better with the per capita income exceeding the forecast made by the Goldman Sachs BRIC report, which estimated India's per capita to touch \$800 by 2010. The PCI is already at \$797 and is expected to register a rapid stage-wise increase to \$4000 by 2025.

The annual inflation rate in terms of WPI has settled at 3.45 per cent for the week of December 15, 2007.

In addition, India is now amongst the elite club of 12 countries with a trillion dollar economy, buoyed by the continuing rally of the rupee against the dollar.

FDI inflows have jumped by almost three times to \$ 15.7 billion in 2006-07 as against \$ 5.5 billion in 2005-06.

India's National Stock Exchange (NSE)

ranks first in the stock futures trade in the world.

The number of companies with a market capitalisation of \$ 1 billion or more has increased 40 per cent to total 209 at the end of November 2007, compared to 148 at the end of 2006.

Given this backdrop, the Lehman Brothers Asia report is expected but welcome when it predicts stable, yet rapid growth in double digits for the economy. Hovering at slightly above 9 per cent in the past two years, it is predicted to grow by as much as 10 per cent every year in the next decade. A significant aspect of this growth has been the broad-based nature of the growth process, spreading reasonably evenly across various sectors and growth drivers.

This growth has been largely driven by a restructuring of the industrial and service environment, signalling a major transformation. Industrial and services sectors have logged in a 10.9 and 11 per cent growth rate in 2006-07 respectively. Similarly, manufacturing grew by a robust 12.3 per cent in 2005-06 and 2006-07. This augurs well for the 11th Plan, which envisages a growth of 12 per cent for the manufacturing sector – a sector that is largely responsible for our foreign exchange reserves, which stand in excess of \$270 billion and holds out promise of a high sustainable growth rate.

While overall industrial production grew rapidly, it is basic and capital goods (particularly the latter) that present an interesting study. The leap signals that the economy is currently on high-octane fuel. On the one hand, new economy industries like information technology and biotechnology have been growing around 30 per cent. On the other, old economy sectors like steel have also been major contributors to this story. As a case in point, India has moved up two places to become the fifth largest steel producer in the world.

The core infrastructure sector has also continued its upward swing, recording 6.6 per cent growth, with key markers like electricity generation registering a significant increase. Besides being a growth marker in its own right, it is a key driver for industry and commerce as a whole, as investments work towards shoring up the rapidly developing infrastructure across the country.

Finally, the healthy exports growth is balanced by an even stronger growth on the imports end – a clear indicator of India's enhanced market position. No longer content with a one-way engagement with international economies, India counts as a major emerging market and, according to a study by the McKinsey Global Institute, could well overtake Germany to the post of the world's fifth largest consumer economy in the world by 2025.

Although the services success story, riding on the back of the massive growth in IT services and other sunrise sectors like aviation and insurance, is well known, it is interesting to note that it contributed nearly 55 per cent of the GDP in 2006-07. Accounting for 68.6 per cent of the overall average growth in GDP in the last five years between 2002-03 and 2006-07, services continue to record double-digit growth in the current fiscal.

Of course, a large part of this growth is driven by India's pure favourable demographics. As one of the youngest countries in the world, India's youthful population is expected to earn more and spend more over the next two decades, fuelling accelerated growth rates.

Another interesting phenomenon has been the emergence of the Indian multinational company. The rapidly growing Indian companies have shed their traditional image for an aggressive, bullish one. Making short work of several international companies through robust Mergers and Acquisitions policies, India Inc is truly going global! The total outbound deals are expected to breach the \$35-billion level this year in the 2007-08 fiscal!

The first wave of Indian companies, which leveraged global opportunities into expansion strategies, came from the IT domain. Yet, there is no sectoral bias here, with M&A activity stretching across aviation, retail, pharma, auto parts and engineering, energy and financial services. Further, this trend is not limited to major players alone: Smaller and mid-sized companies are gathering steam. So while the stories of Bharat Forge and Sundram Fasteners have already proven the success of the inorganic expansion route, low-profile players are following in their footsteps.

Nor is the economy riding on the back of inorganic growth. Rapidly devel-

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oping a reputation for cutting-edge design and technology work, Indian companies are working at the frontiers of design engineering. From Apple, which has approached NID to develop a handheld computing device to the automobile industry to biotechnological research and applications, India is where the high-tech action is headed. In fact, India is one of the few countries outside of US, Europe, Japan and Korea with the capability to design and build automobiles and is set to triple outsourcing-driven growth by 2010. With architecture and building design growing at 30 per cent per annum, India might well emerge as amongst the major design hubs in this area. Aviation and semi-conductor design are also booming. After IT and BPO, Engineering Services actually has the potential to grow higher in India. A National Association of Software Service Companies (NASSCOM) and Booz Allen Hamilton study reports that while the global engineering services outsourcing (ESO) market is expected to grow exponentially to \$ 150-225 billion by 2020, India's predicted market size at the time will stand at a massive \$ 50 billion.

Preface all of these factors – buoyant consumerism, rapid growth balanced across sectors and India's increasing engagement with the global economy – with a stable macro-economic outlook and we can look forward to riding the economic wave into the New Year. 🌈