



India: A Future Global Engine of Growth

By **Kenneth A. Cutshaw**

India: Global Business Opportunity

India's economy is on the fulcrum of an exponential growth period. With positive indicators such as a stable 8 percent annual growth, rising foreign exchange reserves of more than U.S. \$150 billion, a booming capital market with the popular "Sensex" index topping the magical 8000 mark, flowing foreign direct investment (FDI) in excess of U.S. \$10 billion, and a remarkable 25 percent surge in exports, it is easy to grasp why India is a leading destination for foreign investment. In a nutshell, India appears to offer a global economic opportunity. This article seeks to critically review its global opportunities for growth.

Overview and Process of Economic Reform

With a population of over a billion people, India is the world's largest democracy. It is a country of contrasts where people of different religions, colors, and faiths live together in harmony. India offers an ideal example of unity in diversity with a democracy bridging the differences.

Over the last 15 years, India has undergone massive transformation on its economic, political, and cultural fronts. Remarkably, despite these wholesale changes, its guiding policy of economic reform has not been impeded. Indeed, the benefits of the process of liberalization have widely been acknowledged and are increasingly reflected in the levels of disposable income of the common people, the creation of jobs, and economic development. India has

Director Summary: With a strong economic growth rate and an even brighter forecast, experts project India to join America and China as the third pole in the global economy within the next 20 years. The author examines the case for India as a strong global opportunity for economic growth.

consistently affirmed its commitment to the World Trade Organization (WTO) Agreement and aligned its laws with the provisions of the Agreement. It has substantially eliminated restrictions on foreign exchange controls, FDI regimes, tariffs on goods and services, and several other non-tariff barriers. The process of privatization of public entities is ensuring both the efficient allocation of resources within the economy and healthy competition. India is taking active initiative through a series of regional trade agreements (RTAs) to further liberalize its trade policies. These RTAs are no longer confined to Asia alone, but are spread across the world.

The Legal Infrastructure

India's common law system, inherited from colonial British rulers, offers significant economic advantages as well. Resting on the pillars of a modern Constitution establishing the rule of law, the legal system supports economic liberalization and modernization when appropriate. The Supreme Court of India has adopted measures to drastically reduce the backlog of pending litigation, and the result has been an efficient and flexible system. Intellectual property rights, bankruptcy, foreign exchange control, data protection, competition, and other laws have been overhauled to boost foreign investors' confidence. The introduction of the Independent Regulatory Agencies in specialized economic activities like the capital markets, power, telecom, and insurance sectors has augmented economic growth. The taxation regime has been simplified. Additionally, a value-added tax (VAT) regime was instituted on April 1, 2005, as part of India's most ambitious tax reform. In short, India is developing the necessary legal infrastructure to fuel and sustain the economic growth it is experiencing.

Economic Growth

Buoyed by the steady growth of its service and outsourcing sectors, the Indian economy has posted an excellent average GDP growth



of 6.8 percent since 1994. This number is projected to rise to 11 percent by 2025, which would make India the third pole in the global economy along with America and China. At that point, experts project the Indian economy to be about 60 percent the size of the U.S. economy, and by 2035, India is likely to be a larger growth driver than the six largest countries in the E.U.

Infrastructure Development

The Planning Commission of India has accorded this sector the highest priority. India has undergone tremendous infrastructure improvements recently, as power plants are being built across the nation alongside steel and petrochemical facilities. Infrastructure projects like the golden quadrilateral and the development of the rural area through the “Bharat Nirman” scheme will give the much needed impetus to India’s infrastructure sector. In turn, India will ostensibly become a “hot” destination for foreign investment. Through infrastructure improvements, India should sustain its momentum and achieve an annual growth rate of 7–8 percent over the next five years.

Foreign Investments and Exports

India’s foreign exchange reserves crossed the U.S. \$100 billion mark in December 2003, and in March 2005 reached U.S. \$142.13 billion. Factors contributing to the rise of India’s foreign exchange reserves include capital inflows, current account surplus, the valuation gains arising from appreciation of the major non-U.S. dollar global currencies against the U.S. dollar, and, most importantly, export growth. India’s rating on payment to overseas trading partners has been advanced by Coface, the French global leader in export credit ratings, risk assessment, and insurance for receivables. This rating is especially indicative of India’s markedly improved business climate.

Saga of Outsourcing: Strength of Knowledge-Based Industry

India has garnered 85 percent of the global outsourcing market not only from competitive cost advantage, but also from its abundance of skilled workers. With a thriving educated middle-class, India graduates over 3 million scientific and technical graduates annually. These skilled, English-speaking workers have propelled India to the forefront of the outsourcing arena. Moreover, India appears to boast a demographic advantage that should help it retain this business. In contrast to developed countries, India will have a comparatively young population for the next 50 years, with half of the nation’s 1.1 billion residents under the age of 25.

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India: Player in International Policy

India’s fast-paced economic growth is reflected in its geopolitical landscape. India is increasingly gathering support for a permanent seat on the United Nations Security Council. Recently, the E.U. declared India a “strategic partner,” and India was invited to attend the talks with finance ministers of the Group of Seven (G-7) industrial nations on February 4, 2005. The North Atlantic American Treaty Organization (NATO) initiated a strategic dialogue with India on January 13, 2005, and in the same month the Indian government issued a policy statement that it would accept bilateral aid only from G-8 countries and the European Commission.

India and U.S. Relations

Considering India’s potential, the United States has identified India as a strategic global partner. In the wake of the successful bilateral discussions that occurred in Washington, D.C., during July 2005, President George W. Bush has promoted improving ties between the nations, and he will be traveling to India in 2006. Both President Bush and Prime Minister Singh have publicly expressed their commitment to a stronger Indo-U.S. partnership, and this relationship should serve both nations well in the future.

India: Land of Opportunity

India’s policy of economic reform, its favorable legal system and infrastructure, and its thriving outsourcing industry have positioned it to join the world’s elite industrial giants. With a flourishing economy poised for even more rapid growth, India presents a significant global economic opportunity for foreign investment. ■

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