

## U.S.-INDIA INSIGHT

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India's Emerging Economy:  
Sector by Sector

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There is broad consensus that the global center of economic growth is moving to Asia, and as a large emerging nation with a growing middle class, India has captured the attention of developed economies looking for new investment and trade opportunities. By some estimates, India's economy will grow from its current \$1.8 trillion GDP to be the world's third largest in 2030, with a GDP of close to \$30 trillion. A recent report by the National Intelligence Council (*Global Trends 2030: Alternative Worlds*) states that by 2030, "India could be the rising economic powerhouse that China is seen to be today."

Despite the interest in India's economy, its dynamism is still often perceived in the United States as being driven by the information technology (IT) sector. However, the IT industry accounts for only 7.5 percent of India's GDP and employs just a fraction of the population. The IT sector enables nearly every other sector in India, but it is only *one* of the many drivers of India's economy. As India leapfrogs rapidly from an agrarian society to a knowledge-based economy, and fills the gaps in between, the perception that IT remains the main sector driving India's growth is outdated.

It is in this context that the Wadhvani Chair saw the need for a deeper dialogue on under-explored aspects of the emerging Indian economy. We launched a [year-long public lecture series](#), hosting top executives from key sectors to discuss the pressing policy challenges they face. Each one of these sectors provides vital inputs into the economy, enabling business and investment to flow into and out of India, as well as within its borders, like never before. These flows are anticipated to boost job creation, human capital, and development indicators throughout the country. The lectures provided many insights into India's economic future and clarity on the opportunities and challenges key sectors face. Here are some of the highlights:

## Energy Woes

There is arguably no sector more critical to India's future growth than energy. With a chronic energy shortage, inadequate infrastructure, and an insatiable demand coupled with environmental concerns, energy looms large over India's economic potential. **Vikram Mehta of the Shell Group of Companies (India)**, stressed that India must find a way to handle a surge in energy demand, highlighting that technology is underutilized, the environment is threatened, and New Delhi has an inadequate policy

## Sectors by the Numbers

Infrastructure

- \$1 trillion: The amount of money projected to be spent on infrastructure development over the next five years, nearly half of which is expected to come from the private sector.
- 600–650 million: The number of Indians expected to be living in cities by 2030, further taxing an already insufficient infrastructure.

Energy

- 600 million: The number of Indians without power for two days as a result of the massive July 2012 electricity blackout, which is nearly half of India's population or 10% of the entire world population.
- 400%: The expected rise in energy demand by 2030, exacerbating an already significant energy deficit.
- 80%: The amount of crude oil that India imports, up significantly from 27% in 1980.

Health Care

- 9: The number of hospital beds in India per 10,000 people, putting India 64th out of 194 countries surveyed by the WHO.
- 48%: The percentage of Indians who are chronically malnourished.

Manufacturing

- 36%: The percentage of jobs that remains vacant in India's automotive manufacturing sector due to a lack of qualified candidates.
- 100 million: The number of manufacturing sector jobs the government hopes to create over the next decade.

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framework through which to address these issues.

Mehta recommended boosting domestic production by establishing more public-private partnerships; using natural gas as a bridge between current supplies and a future with renewable energy; rationalizing fuel prices; and leveraging existing technology to improve recovery rates. Perhaps most importantly, Mehta suggested an energy “super-ministry,” which would allow for a more strategic energy policy—currently more than eight ministries oversee some aspect of the energy industry. If India were to create an institutional framework that allows for a more integrated energy policy, it would be able to address many of the difficulties it currently faces.

### Infrastructure Needs

**Rajiv Lall of the Infrastructure Development Finance Company** used the term “infrastruggles” to describe the obstacles facing the private sector for the delivery of infrastructure-related services. Private infrastructure investment has grown rapidly since 2003 and currently stands at \$60–70 billion per year. Port capacity, power generation, telecom penetration, roads and highways have all seen rapid expansion; and the scale and speed with which these have been built is unprecedented, but much more can be done. Lall highlighted the importance of land acquisition, balancing the rights of rural populations and the environment with the need to access coal reserves; long-term capital for infrastructure finance; building administrative capacity; and building regulatory capacity and independence. Rapid urbanization also remains a serious challenge facing the country.

**John Flannery of GE India** suggested that governments should view infrastructure as a top national priority after national security. Innovative, efficient infrastructure enables many other vital sectors to flourish. He highlighted two policies warranting significant attention: the availability of long-term financing and a muddled tax policy. India’s 2012 budget included tax provisions that highlighted “a willingness to change the basic rules of the game well after the game has already started,” which sent shockwaves through the investor community. While a change in the mindset of policymakers is paramount, implementation of already existing policies is needed. As multimillion dollar projects sit idle, giving a green light to a small number of them would set in motion a series of events that would enhance India’s image and increase investor confidence.

### Health Care Horizons

India’s health care industry faces many challenges, as many citizens still have no access to care. The industry’s biggest challenges include ramping up capacity to serve hundreds of millions of citizens and a growing incidence of noncommunicable diseases, according to **Pratap Reddy of the Apollo Hospitals Group**.

More tools are needed to address these issues, and utilizing IT to transform health care delivery is at the top of Reddy’s list. India should rely more on existing technological innovations like electronic medical records. He also emphasized a more holistic approach to fighting disease—from ancient medicines to IT innovations—and encouraged India to use both in order to improve health outcomes. Reddy also recommended enhancing the existing workforce under India’s National Rural Health Mission to increase the number of health care workers throughout the country. The United States currently spends 15 percent of its GDP on health care and finding lower-cost alternatives is an area for potential collaboration.

- 10: India’s global rank in terms of manufacturing (by share of nominal gross value added).

#### Education and Human Capital

- 800 million: The number of Indians currently under the age of 35, a demographic dividend that could help spur further economic productivity and growth.
- 1,000 and 50,000: The number of universities and colleges (respectively) that India will need to create in order to meet the government’s goal of adding 10 million new seats in higher education.
- 650,000–850,000: The number of jobs the Indian economy will need to create each month in order to keep pace with new entrants into the labor force.

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## Manufacturing Ramp-up

India's National Manufacturing Policy plans to increase the sector's share of GDP from 16 percent to 25 percent, including creating 100 million new jobs. Explaining how India can accomplish this, **Arvind Goel of Tata AutoComp Systems** referred to a number of policy instruments, including the recent creation of National Investment and Manufacturing Zones, zones in which state and central governments modify regulations on difficult issues in order to encourage greater manufacturing growth.

Goel also discussed chronic energy shortages and persistently high inflation as problems. High inflation increases capital costs for key auto manufacturing inputs such as steel, making their already tight margins even tighter. Stronger fiscal and monetary policy to control inflation and economic and market uncertainty would help create more stable cost structures for manufacturers.

Human capital also remains a major issue, as many jobs in the automotive manufacturing sector remain vacant due to a lack of skilled manpower (see sidebar). The talent gap is an issue felt acutely in both the United States and India, making workforce development and training another area of potential bilateral collaboration.

## Delivering for the Millennials

In each sector covered by the speakers, similar themes arose, all predictably connected directly to the emergent middle class in India. It is difficult to overstate the importance of the rise of India's middle class—they represent a new India and have different outlooks, expectations, and aspirations than the old India. Frustration from business leaders (both American and Indian) toward India's policymakers was evident throughout the lecture series, and the bureaucracy's inability to deliver basic goods to ordinary citizens was viewed with distress.

Arvind Goel, in his remarks, advised, "What got you here will not get you there" to drive home the point that while India's recent dynamism has produced remarkable growth, policies and attitudes must evolve and adapt in order to sustain the emerging economy for the decades to come. Our full Signature Series report, to be published in early 2013, will include the complete remarks of our speakers, and thus provide a deeper understanding of the macro- and micro-economies across India's key sectors, and what actions the government and the private sector should take in order to turn the potential for further economic growth into reality. We look forward to sharing those (and many more) insights with you in the New Year.

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