



Asia as a key driver of the global economy

Speech by

Mr Palaniappan Chidambaram

Finance Minister of India

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1. We meet at a time when a consensus is maturing within the international community about the key role to be played by Asia in determining the future global economic prospects. The most striking feature in this 'Asian' vision is the importance attached to fast developing countries in Asia. An analysis of the current growth trends in various parts of the world points to the crucial role being played by such countries, and by China and India in particular, in imparting momentum to global growth. Indeed, the displacement of the Euro Zone by developing Asia as a key driver of global growth in the medium term is probably one of the most significant developments in contemporary world economy.
2. Asia's economic progress has been the most remarkable aspect of global economic history following the end of the Second World War. The pioneer in this regard was Japan, followed by the East Asian economies in the decades of seventies and eighties and finally China thereafter. In recent times, India has added a new chapter to the Asian growth saga. India is one of the largest nations in the world, and is showing distinct signs of becoming a major player in global trade and business in the future. This will not only imply greater gains for the Asian region, but will also mean higher prosperity for the entire world.
3. Asia's economic outlook indeed appears shining if the continuing economic advances of China and India are viewed together with the economic recovery in Japan. The latest World Economic Outlook (WEO) of the International Monetary Fund notes that these are the three leading economies of the world, whose growth projections have not been moderated for the near term. Last three years' average growth of India (assuming a growth rate of 7-7.5% for the current year) was over 7%, that of China over 8% and the world's average stood at around 4%. Steady recovery in Japan for over two years now is a salutary development, with the Japanese economy registering 1.6% growth in the last fiscal.
4. It is heartening to note the rebound in the Japanese economy, driven by a sharp recovery in domestic demand, rather than exports, which has been the traditional driver of the Japanese growth. The solidity displayed by domestic demand underlines marked increases in the propensities to consume, as well as invest, which reflect positively upon the ability of Japan's domestic economy to sustain the resurgence.
5. While this enlightened audience is apprised of the developments in the Japanese economy, and the Chinese story hardly requires reiteration, let me take this opportunity to reflect on India.
6. In recent years, India has distinguished itself as one of the fastest growing world economies. Since 2003-04, India has embarked on a steep, high-growth trajectory. Following a remarkable 8.5 per cent growth in GDP in 2003-04, the Indian economy achieved almost 7.0 per cent growth in 2004-05, and is likely to do better in the current fiscal 2005-06. Apart from China, no other major economy in the world has achieved such impressive rates of growth in recent years.
7. The most striking feature of India's growth is undoubtedly its broad-based nature. Manufacturing and services have been almost equal partners in the growth story. While comparing China and India, many tend to opine that China is the most efficient location for production of manufactures, while India is for services. Without disputing the tremendous efficiency gains which China and India, respectively, have achieved in manufacturing and services, it must be mentioned that Indian manufacturing is taking long

and noticeable strides. By growing at around 9 per cent in recent months, manufacturing has imparted strong momentum to overall industrial growth, which has complemented the robust growth in the various segments of services. However, the popular notion that only the services sector is doing well is not correct as the manufacturing sector growth rate is over 9% and capital goods sector is at 15.9% in the current year. Overall Industrial growth rate in the current year is more than 8%, maintaining the momentum of the previous year. Exports are also growing at more than 18 per cent per annum.

8. For the last fifteen years, India has carefully crafted a policy of calibrated integration with the global economy. The policy has emphasized on seizing the opportunities offered by globalization, while simultaneously guarding against its pitfalls. As a result, India has made trade virtually free, progressively removed various capital controls, moved towards a market-determined exchange rate regime, and introduced investor-friendly policies for both long term as well as short-term capital flows. The results have been striking. India has the sixth largest reserve holding in the world right now, with a net reserve of over USD 139 billion at the end of 2005. The Indian rupee is displaying admirable flexibility in adjusting to the various twists and turns taking place in global foreign exchange markets. Besides, portfolio inflows, particularly in terms of FII investment have gone up sharply in India, as FII funds have come to appreciate India as one of the best markets in terms of risk-return payoffs. FII inflows stood at USD 10.9 billion in 2003-04, USD 8.3 billion in 2004-05 and USD 4.2 billion in the first half of the 2005-06.
9. India's sustained high growth and enabling policies have succeeded in creating a new identity for the economy as one of the most lucrative destinations for doing business in the world. India has been recognized as one of the most attractive destinations for FDI – in high value-added R&D-intensive activities, as well as retail trade. In recent years, India's credit rating has also experienced sharp improvement with almost all global agencies deciding to upgrade the country.
10. In the coming years, the unfolding of India's growth story will be determined decisively by a unique demographic advantage, which the country enjoys. In the medium term, the country is expected to possess one of the largest working age populations in the world. While almost all leading economies in the world, including China, are expected to acquire a greater proportion of non-working citizens as part of their total populations, India will experience steady accretions to its work force. People in the age group 15-44 are expected to increase from 477.2 million in 2001 to nearly 600 million in 2013. India, thus, will have a growing work-age population and, to put it colourfully, is actually growing 'younger'. Given India's notable prowess in harnessing a large body of technically competent manpower and its well-developed and globally reputed scientific and technical institutions, the human capital reserve of the country is expected to be among the world's best in the coming days.
11. Progressively strengthening economic fundamentals, along with improved ratings as a business destination, has resulted in India becoming a global hub for diverse business interests. I am glad to say that Japanese investors are not an exception to this trend. Right now, Japanese FDI in India is prominent in key sectors like automobiles and electronics. Leading Japanese automobile companies like Honda, Mitsubishi, Suzuki, and Toyota, are producing from India. On the other hand, companies like Mitsubishi Chemicals have acquired a strong foothold in the chemicals industry, while Sony and National have

become household names in consumer durables. Japanese companies are also keen on exploiting India's enormous potential and skills in Information Technology (IT)-enabled services. We also understand that leading Japanese companies like Kansai Paints and Daihatsu are planning to invest heavily in the coming years, as are Mitsubishi Chemicals, Toyota and Honda.

12. India is a large country with pronounced regional variations in terms of topography and resources. The country presents numerous challenges to policymakers in respect of creating an appropriate set of regulations and institutions, conducive for greater economic growth. Enhancing the quality and availability of infrastructure is a key issue in this regard. While government support to infrastructure continue to increase, private initiative as a key role to play in augmenting such facilities. Over a period of the next five-to-seven years, the infrastructure sector in India has the potential to absorb investments to the tune of US \$ 150 billion or 15 trillion Yen. We have introduced innovative mechanisms like 'viability gap funding' for enabling effective use of private-public-partnerships (PPPs) in various components of infrastructure. We are aware that in many of these sectors, the Japanese companies have core technical competence and the required financial muscle. We look forward to Japanese collaboration in this regard. Delhi Metro already stands out as a shining example of Indo-Japanese cooperation. We would like the same to continue. Very recently, the Japanese Government has indicated that JICA will take up a detailed study to establish High-Axle Load Railway Freight Corridors in India, which are expected to cost around 500 billion Yen. There is a commitment from both the Governments to take the freight corridor process forward.
13. In a globalized world, sustained progress cannot occur without effective partnerships. Indeed, globalization has created a situation, where growth is directly correlated with synergies obtained from partnerships. We firmly believe that Japan and India can become meaningful partners for securing mutual benefits in almost all segments of trade and commerce. Within Asia, we have been enlarging the scope of our association with almost all our neighbours by forging appropriate institutional arrangements. Fashioning such institutional linkages between India and Japan for cultivating hitherto untapped synergies, do exist. Both countries are devoting attention to such initiatives.
14. The visit of Prime Minister Junichiro Koizumi in April 2005 to India culminated in the Joint Statement of our Prime Ministers heralding India-Japan Global Partnership in the New Asian Era. A Joint Study Group has been set up under the Joint Statement to suggest detailed practical policy recommendations for overcoming barriers to trade and investment and to address the feasibility of a comprehensive economic partnership agreement. My visit to Japan is another step that we take under the India-Japan Partnership with the object of bringing close and stronger ties. I am confident that this visit will be a success and both countries will benefit from the India-Japan Partnership.