

Mark Thirlwell

Booming India deserves attention

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South Asia has the potential to reshape the global economy, says **Mark Thirlwell**

MOST of the headlines about global trade policy in recent weeks have been grabbed by the Australia-US free trade agreement. And even as that debate wrapped up, attention has shifted to the prospect of another important FTA, this time with China. But although a focus on these heavyweights is inevitable, they are not the only game in town. In particular, India's emergence as a growing force in the world economy and as an increasingly important trading partner for Australia is of great significance.

Not too long ago, that would have seemed a strange assertion. After all, India spent much of its post-colonial history in determined retreat from the global economy. Attracted by Soviet-style planning and driven by a self-fulfilling pessimism about the prospects for export-led growth, India's development model in the years following independence was based on public sector ownership of the economy's commanding heights -- and eventually many of its foothills -- and a complex system of controls, licences and regulations. The result strangled the private sector and restricted growth to about 3per cent per annum.

Yet beginning in the 1980s, with a cautious shift to a more pro-business environment, and accelerating in the next decade after a financial crisis in 1991, Indian economic policy has taken a different direction. A series of governments have liberalised domestic markets while seeking to re-engage with the global economy. True, the resulting reforms have been cautious, partial and at times faltering. Policy-makers still have to grapple with tough challenges, including fiscal fragility and regional inequality. But reform has transformed India into one of the fastest growing economies.

What has been particularly intriguing about this transformation is that it has taken a uniquely Indian path. Economic development in East Asia has tended to follow a standard model, based on the mass production of manufactured goods and a gradual move up the value chain. In contrast, India is making its mark in the global marketplace by exporting services, competing in areas that traditionally were thought to be the preserve of more developed economies.

India's growth model rests on a marriage of technological progress in the telecommunications sector with a large supply of well-educated, English-speaking and relatively low-cost labour. This has allowed India to grab market share in the information technology and business process outsourcing sectors. In principle, India has the potential to be competitive across an even broader range of services.

The more successful India that is being forged by this model has the potential to reshape the global economy. It will mean a higher standard of living for more than 1 billion Indians, about 17 per cent of the world's population. And with an estimated one-third of the world's poorest people living on the subcontinent, a healthier Indian economy will have a significant effect on global poverty.

IT should also be good news for the rest of the world. A stronger and more dynamic India means new markets for goods and services. India's development model, moreover, gives the international economy access to an enhanced supply of high-quality skilled workers. Over

time, this boost to the effective global stock of human capital should provide a spur to international productivity and hence to global growth prospects.

India's rise will also bring adjustment strains for other countries. Its growing presence in the market for services is leading to the birth of a truly global labour market, with all the challenges that entails. As services account for the largest share of output in developed economies, that means the eventual effect of India's service revolution on patterns of employment and growth in the developed world could prove to be greater than that of East Asia's manufacturing revolution.

At the same time, India's growing importance, combined with a powerful China, will accelerate the shift in the geographic distribution of economic power back towards Asia. This in turn has implications for the architecture of international economic diplomacy. Existing mechanisms for governing the world economy will have to adapt to this changing balance of power or lose relevance.

Historically, India has been relatively neglected by an Australia focused more on the opportunities offered by East Asia. India's emergence as an economic power means that should change. Australia's prospects have repeatedly benefited from the rise of Asian economies, with Japan, South Korea and China all providing an important economic stimulus. The birth of another Asian economic giant is the latest instalment in this good news story.

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