

## **New India: Moving Towards an Exciting World of Opportunities**

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Let me start by saying that I actually envy this graduating class. This is because this is such an exciting time to be starting a career. When I started my career over 40 years ago, we had limited opportunities and a limited level of growth to aspire to. Today, there are endless opportunities across sectors, where young, dynamic people can make a difference. India's growth has to be supported by developments in infrastructure, financial services, healthcare, education, retail, logistics and transportation, technology and communications. The young generation of today is thus spoilt for choice at the beginning of their careers!

Today I am going to talk about some of these opportunities and about where I believe India is headed. But I think first it is important to put in context what we have already achieved. When I came back to India in 1996 after a few years abroad, the economy was facing many difficulties. But I believed that the country was on the right path and that we would in due course see transformation of the economy. There were many skeptics then. But India has demonstrated what this country can achieve. And so today, when we talk about what our country will be like 10 years hence or two decades hence, we do so, on a much

more firm foundation. Ten years ago most of us could not have dreamed of what India is today-but journey gives us the basis to dream even bigger dreams for India and for all of us.

India has made remarkable progress over the last two decades and is viewed today as a land of opportunities. This transformation had its genesis in the process of economic reforms initiated in the 1990s, which unleashed the entrepreneurial abilities of India's people. In addition to opening up to global competition, the transition resulted in a positive structural shift within the economy. It saw the rise of a strong services sector, the growth of new industries like information technology (IT) and biotechnology, and pushed traditional sectors like pharma and automobiles to become globally competitive. While India's potential as an emerging economic power was clear even in the early 2000s, there was a lack of confidence to project where the country would be ten years down the line. The onset economic reforms implied growth was imperative, but we could not have predicted the magnitude of economic expansion and growth till 2011. Today India's fundamentals are even stronger and the events of the past decade not only instil confidence but also enable us to reasonably estimate that the next

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\* Address by Mr. K V Kamath, Chairman, ICICI Bank and Infosys Ltd., at the Graduation Ceremony of the 13th batch of JKSHIM, Nitte held on 30th June, 2012

decade holds an even more exciting future for all of us. Among the many transformational events of the last decade, I would pick four that were truly momentous and significant in their long term impact.

First, we crossed per capita GDP of USD 500 and USD 1,000 in the same decade. While it took over two decades to double our per capita GDP from around USD 260 in 1980 to USD 550 in 2003, it doubled again in just five years and indeed today has crossed USD 1,500. This had tremendous implications for savings growth, consumption demand and the ability to finance investment in the country. Suddenly so many possibilities emerged, not only for growth in traditional business segments but also for building a whole new set of businesses.

Second, the decade gone by saw the rise of the Indian consumer as a key driver of India's growth. As per capita GDP crossed USD 500, driven to a large extent by growth in the services sector, we saw rising demands for homes, for consumer goods, for financial services and a range of other goods and services. These in turn drove economic activity and upward migration of incomes, creating a virtuous cycle of growth.

Third, India quickly adopted and leveraged developments in information and communications technology, in some cases leapfrogging intermediate stages of development. This enabled the quick scale up of new paradigms of distribution and service delivery in a range of areas.

Fourth, the Indian corporate sector has

today become operationally efficient and internationally competitive with significantly stronger balance sheets. Operating cashflows increased over nine fold from 1995 to 2010. This enabled the Indian corporate sector not only to leverage on growing domestic demand, but also to expand outside India, acquiring backward and forward linkages, making Indian brands known globally and also acquiring marquee global brands. The Indian corporate sector emerged from a period of restructuring and repositioning with healthy finances and globally competitive quality and cost metrics.

Globally, there is a shift in focus towards emerging market economies and the rebalancing was accelerated due to the impact of the 2008 crises. The contribution of market economies to the increase in global GDP over the period from 2001 to 2007 was about 40%, which accelerated to over 60% of the increase in global GDP over the period from 2008 to 2011. India today is one of the fastest growing economies in the world, with the domestic economy presenting a number of opportunities for growth and accompanying challenges emerging in step with India's growth: the aspirations of a young population, an expanding corporate sector and the imperatives of inclusive growth. The disruptive impact of technology will play a critical role in meeting these opportunities head on.

In painting a picture of the India of the future, let me share the proxy of China. China grew at a CAGR of 9.5% for over 25 years

since it began its economic reform process in 1979. The impact of such high growth was phenomenal. China's GDP grew tenfold over this period. According to China's official statistics, the poverty rate fell from 53% in 1981 to 2.5% in 2005. The wealth creation and infrastructure development in China is there for all to see. In many ways we are at the same stage as China was in 2003 and therefore the possibilities for the next decade for us are tremendous. Structurally we are in the same position as the economies of China, Japan and South East Asia were just prior to their growth phase and as such we do have the potential of achieving the same results as they have.

Demography has been and will be one of the most important drivers of growth in India. By 2020, the demographic advantage in India relative to the rest of the world, including China, will become even more significant. India is a young with 50% of its population under 30 years of age. The median age of our population is 25 years – this is projected to be at only 30 years even in 2025. It is estimated that India will add around 11 million to the workforce every year for the next five years and will account for 25 % of the global workforce by 2020. These are indications of the demographic dividend the country enjoys, creating a growing consuming class and the human capital to drive growth.

GDP per capita of USD 1,000 is the first important threshold beyond which an economy sees increased affordability and aspirations for a better lifestyle. With a per

capita GDP over USD 1,500 we are at the next inflexion point in terms of rising purchasing power and demand for goods and services. It is estimated that the next decade should see around 200-250 million people coming into the consuming class in India. It is estimated that by 2020, the middle class population in the country would be close to 580 million and per capital income would USD 4,000. The ramifications of this are immense resulting in demand for a better living environment and an accelerating consumption cycle. The consumption and savings dynamics the country has witnessed in the last few years are unprecedented in our history, and will only accelerate in the years ahead.

Economic growth leads to a demand for better services, better infrastructure and a spurt in consumption demand. Shift in income levels and lifestyle will lead the Indian consumer to fulfill his aspirations at a younger age with an optimal combination of debt and equity. With income levels poised to improve further and the favourable demographic profile ensuring that a large proportion of the population is in the economically active working age group, consumer finance will continue to grow in the coming years.

Economic growth and rising per capita income will lead to demand for better infrastructure, growing ability to finance projects and Willingness to pay for infrastructure facilities. Infrastructure development will be a key priority and investment in infrastructure is projected to increase to over 9% of GDP. While just over

22,500 MW of power capacity was added in the five years from FY2001- FY2006, about 50,000 MW during the next years FY 2006- FY2011. The Twelfth Plan estimates capacity addition to the tune of 100,000 MW during FY2013-2017. It also estimates investment of USD 1 trillion in infrastructure of which 50 percent will come from the private sector, including public –private partnerships. This level of infrastructure investment will have been a significant positive impact on overall economic growth, with its linkage to other sectors in terms of demand for their output, its generation of employment and its improvement of national productivity.

Economic progress will inevitably lead to higher degree of urbanization. The urban population grew from 220.0 million (26%) in 1991 to 340.0 million (30%) in 2008. In the next twenty years the urban population is estimated to grow to 590.0 million (40% of total population) as 250.0 million more people join the urban population. This will require the emergence of new cities and significant urban rejuvenation in existing cities. A significant proportion of the growth is expected to come from the next level of cities. The number forecasts for India are extraordinary. The top three cities themselves will grow to a size equivalent of countries today. Eg. Mumbai will grow from GDP of US\$ 36.00 billion in 2010 to US\$ 265.00 billion in 2030 (Malaysia GDP was US\$ 220 billion in 2010). Similarly Delhi and Kolkata would grow to a GDP of US\$ 250.00 billion and US\$ 200.00 billion respectively by 2030. The next

six cities in 2030 are expected to become 2-4 times the size of Mumbai today!

The changing character of and potential in rural India should further catalyse our progress. The traditional belief that India's rural economic is agriculture driven is gradually changing. In the last decade, there has been a marked shift in the composition of India's rural economy. According to estimates, India's rural economy had a share of 48% in net domestic product, much higher than the share of the agriculture sector. The share of agriculture in the rural economy has come down from 39% in Fy2005 to 30% in Fy2010. Several initiatives taken in recent years in rural development, supply chain management, communication technology and financial services have redefined the business needs of the rural incomes will grow, it will create a vast consumption market and the demand for consumer goods and consumer finance will increase.

It is important to realise that we need significant efforts to perform to our potential. This entails outlining of our priorities such that the process of building the nation continues to translate to an improved quality of life across India. Inclusive growth is not just about subsidies or unemployment benefit schemes – at its core it is about building capacity in the poorest communities in our country to lead productive lives and earn a decent livelihood. Investment in basic healthcare, primary education and vocational training are critical to making this happen. Skill building is especially important. Though over 90% of new

entrants into the workforce are literate today, the institutional capacity for providing skill training is insufficient. The challenge today is in terms of upgrading skills and meeting industry requirements. Both the private and the public sector have to jointly provide wide-scale vocational training to quickly enhance capabilities of people.

This brings me to the careers that you will pursue given the emergence of new opportunities. You will be managers in a world where emerging economies will be at the forefront. You are in a country where affluence is fast gathering pace and aspirations are rising more than ever before fuelled by economic growth. To provide a numerical perspective, bank deposits In India grew from USD 195

billion in 2000 to 995 billion in 2010. By 2020, bank deposits which are an indicator of savings and purchasing power are expected to grow to USD4.7 trillion. It is a whole new India you will be living and working in by the early part of your careers and therefore your aspirations can soar!

You are the best and chart your path accordingly. You are some of the most talented people today under whose leadership the country will emerge as an economic powerhouse. Sticking to these fundamental values shall stand you in good stead to build an exciting future for India and indeed, an exciting future for yourselves.

My congratulations and best wishes to all the graduating students.