2.20. INDIA: GROWTH FOR THE NEXT CENTURY

On August 15, 1947, India **bid farewell to** Britain – and for decades after, it sometimes seemed this vast Asian nation had turned its back on the rest of the world as well. Isolation became the rule, and policies that protected domestic industry **chocked** foreign investment and growth. But those days have ended, since the undertaking of free-market reforms in 1991 under former Prime-Minister Narasimha Rao.

India's **turnaround** began the same year with a balance-of-payments crisis. Foreign exchange reserves had dropped to $1 billion, inflation had **soared** to more than 16%, and the rupee was grossly overvalued. Forced to borrow heavily to stay afloat, the Indian government turned its attention to budgetary reforms **at the behest** of international creditors. In the following two years, taxes were **simplified**, the scope of centralized controls **diminished**, foreign investment liberalized and tariffs **slashed**.

The results have reshaped India: the country's estimated export earnings for 1996-97 are $33.1 billion, and the rupee is stable. Inflation is at 6.4%. GDP growth for the last fiscal year marked a **solid** 6.8%. Agricultural output, which makes up nearly 20% of the country's exports, is up 5.7%, and incomes for agricultural workers have been rising by more than 8% a year – figures that **inspire** investors hoping **to tap** into the growing Indian consumer market.

India continues to suffer from infrastructural **bottlenecks**, and it is estimated that the country will need some $150 billion over the next 5 years to **upgrade** its telecom, power and transport sectors. Such investment have increased more than tenfold since 1990, but India's leaders acknowledge that need to do more.

Ongoing liberalization policies are aimed at insuring that such growth can occur. Import duties are being cut from unrealistically high levels, and capital outflow in the form of overseas investments is expected to increase as India gradually moves toward full capital account convertibility of its currency. Already, such reforms have increased competition and brought a **surge** in business interest. For example, in the automobile sector, well-established local players like MARUTI and TELCO now face a host of entrants, including FORD, GM, DAEWOO, HYUNDAI and FIAT.

The increased competition is only one part of the story. The government is working also to attract both local private investments and direct foreign investments. Key legislative changes with respect to ownership, taxation and investment by insurance companies in the infrastructure sector are anticipated in the next year. India's **boom** in foreign investment shows no signs of **abating**, and the forces behind the surge are apparent: a growing middle-class market, liberalized investment regulations and the opportunity to partner with well-placed domestic partners.