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Global implications emerging India

Wassenaar
31 March 08



The emerging Indian economy and its global implications

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CPB Netherlands Bureau for Economic Policy Analysis

Netherlands-India Chamber of Commerce & Trade

Annual Lecture

Wassenaar, 6400 km from New Delhi

31 March 2008



Globalisation one of the relevant topics for the CPB

CPB Netherlands Bureau for Economic Policy Analysis makes **independent economic** analyses that are both **scientifically sound** and **up-to-date** and **relevant for policymaking** in the Netherlands.

1. Short-term economic forecasting (used for the Dutch government budget).
2. Medium-term economic scenarios and analysis (used for election platforms and coalition agreements).
3. Economic analysis (labour markets, infrastructure, product markets, **globalisation**, health, etc. etc.)

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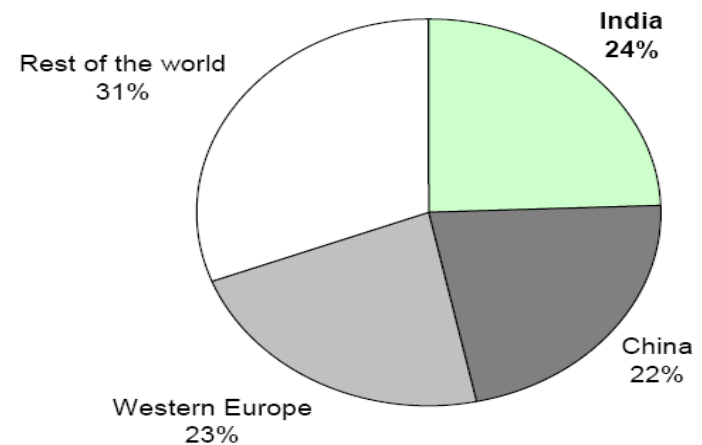
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Emerging India?



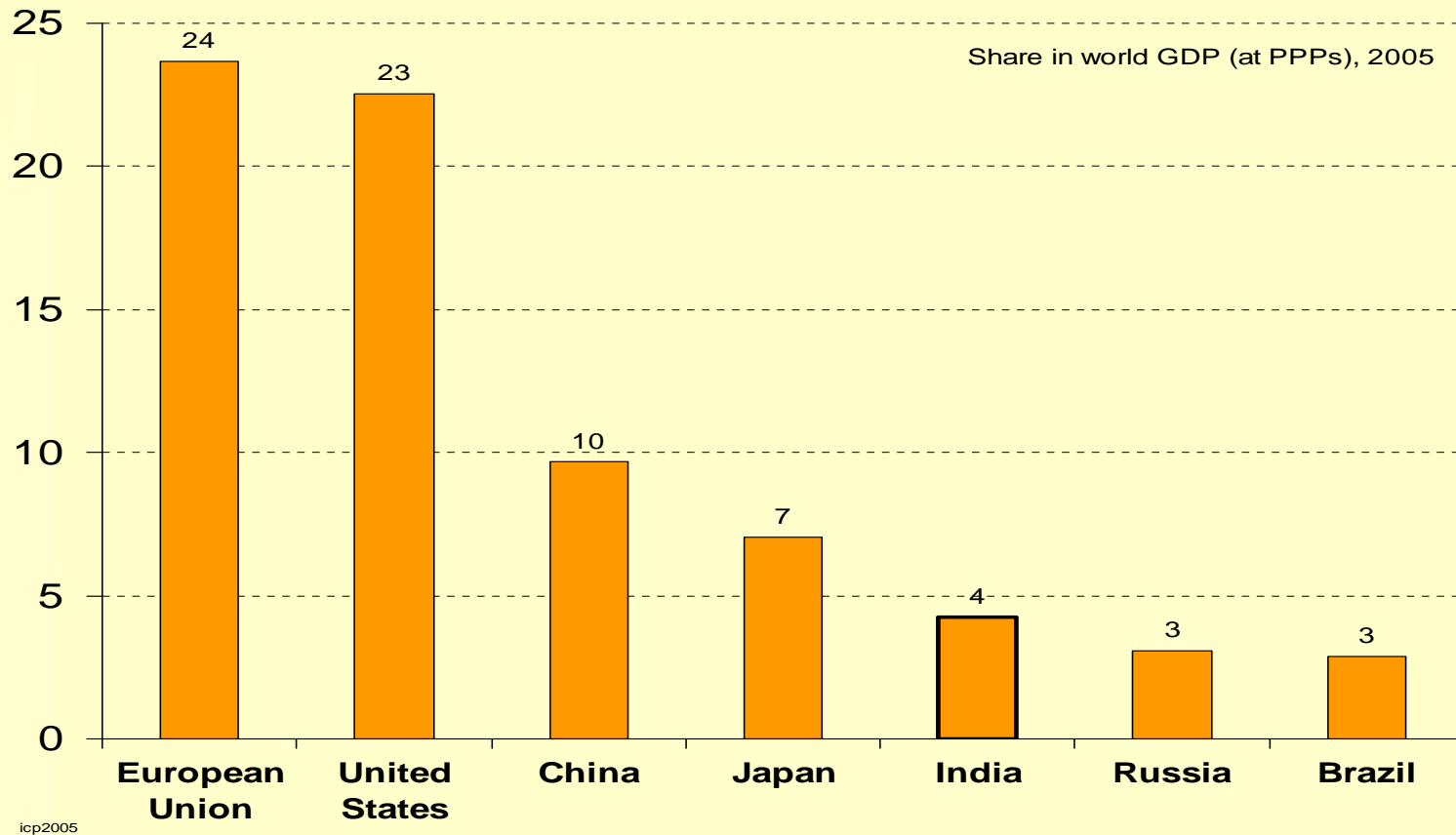
GDP shares in 1700



Overview Lecture

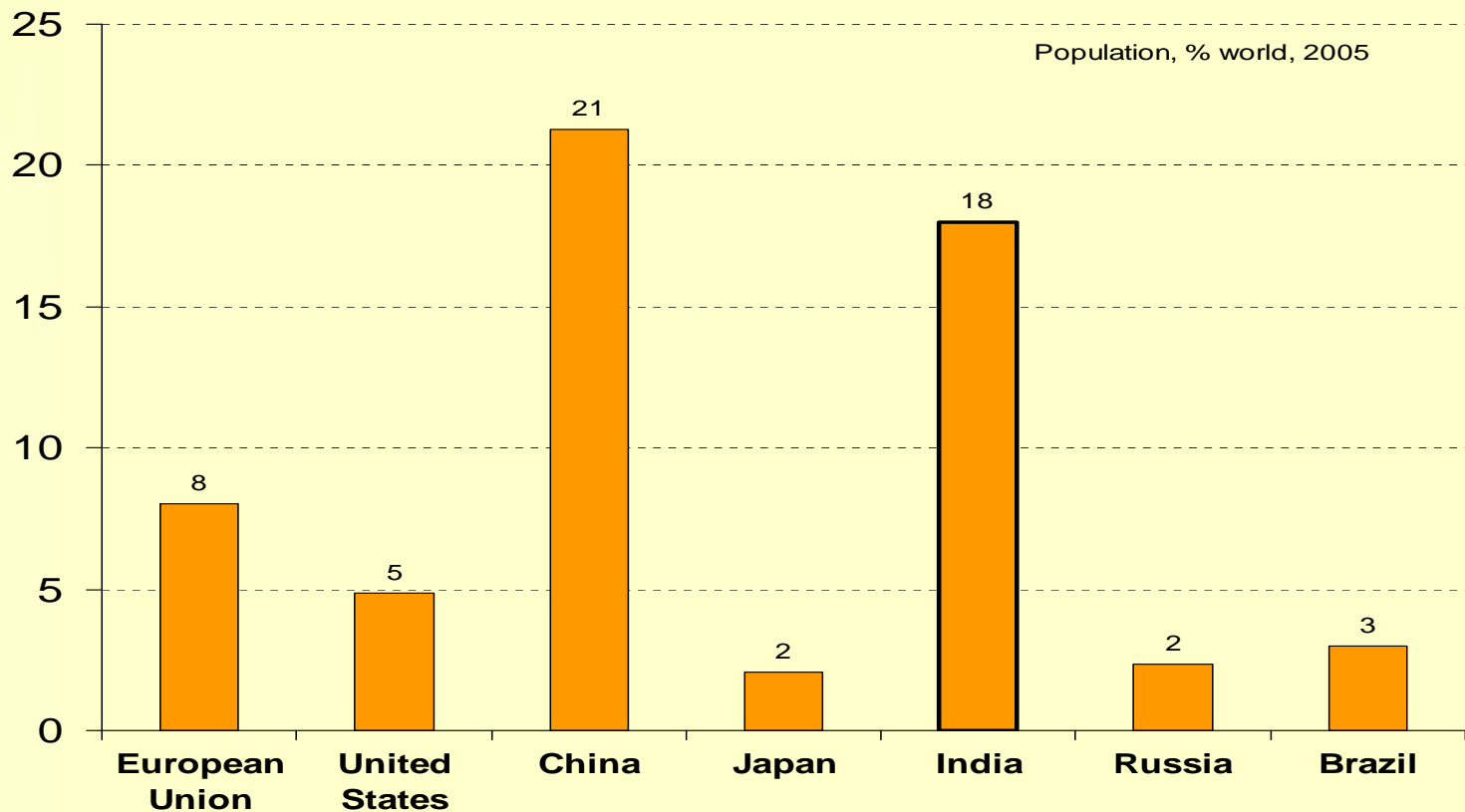
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2. Where does it come from?
3. What is the importance of India for the Dutch economy and Dutch business?
4. Where will India go in the next 20 years?
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6. What is the short-term outlook for India and the world economy?

India's present international position: small share in world output



- India ranks 5th in share in world GDP, far behind EU and US but also much behind China and Japan.

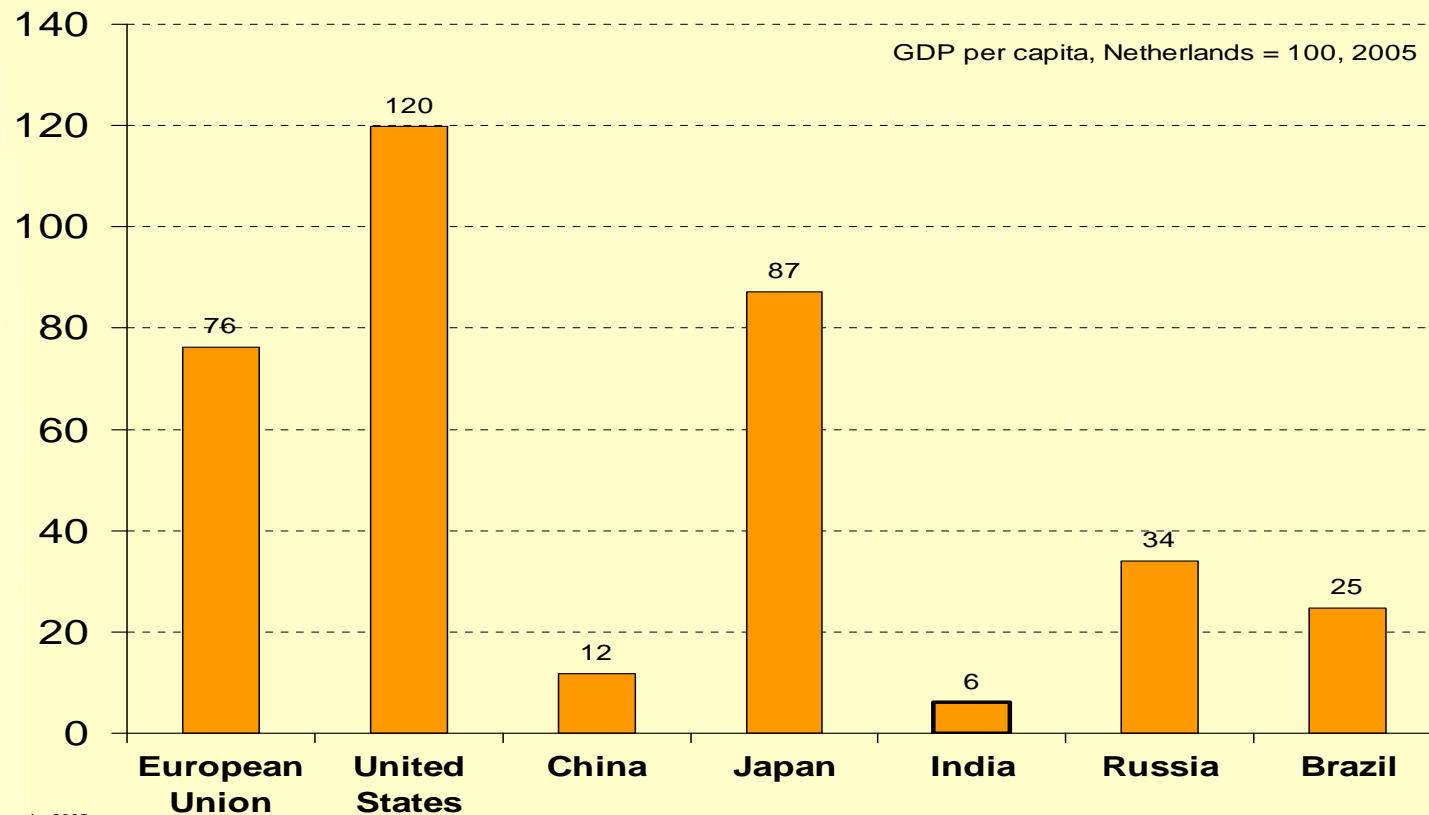
India's present international position: huge share in world population



icp2005

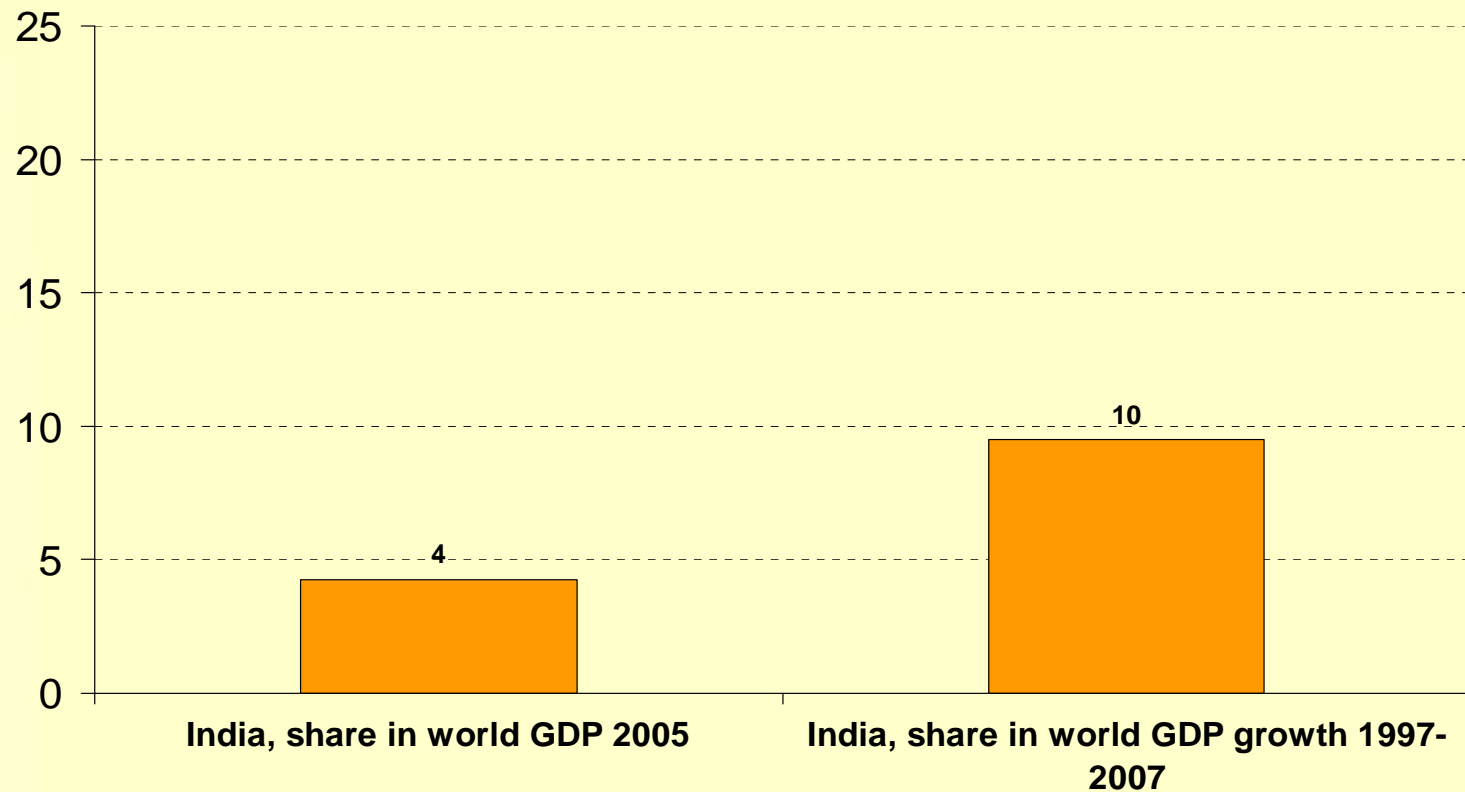
Indian population almost a fifth of global population.

India's present international position: low GDP per capita



- GDP per capita of India is fraction of that of the Netherlands and lowest of Bric-countries.

Two dimensions of global importance of a country: level and change



- Share of India in world GDP is still limited: 4% in 2005.
- But India's share in world GDP growth in the past 10 years is substantial: 10%.

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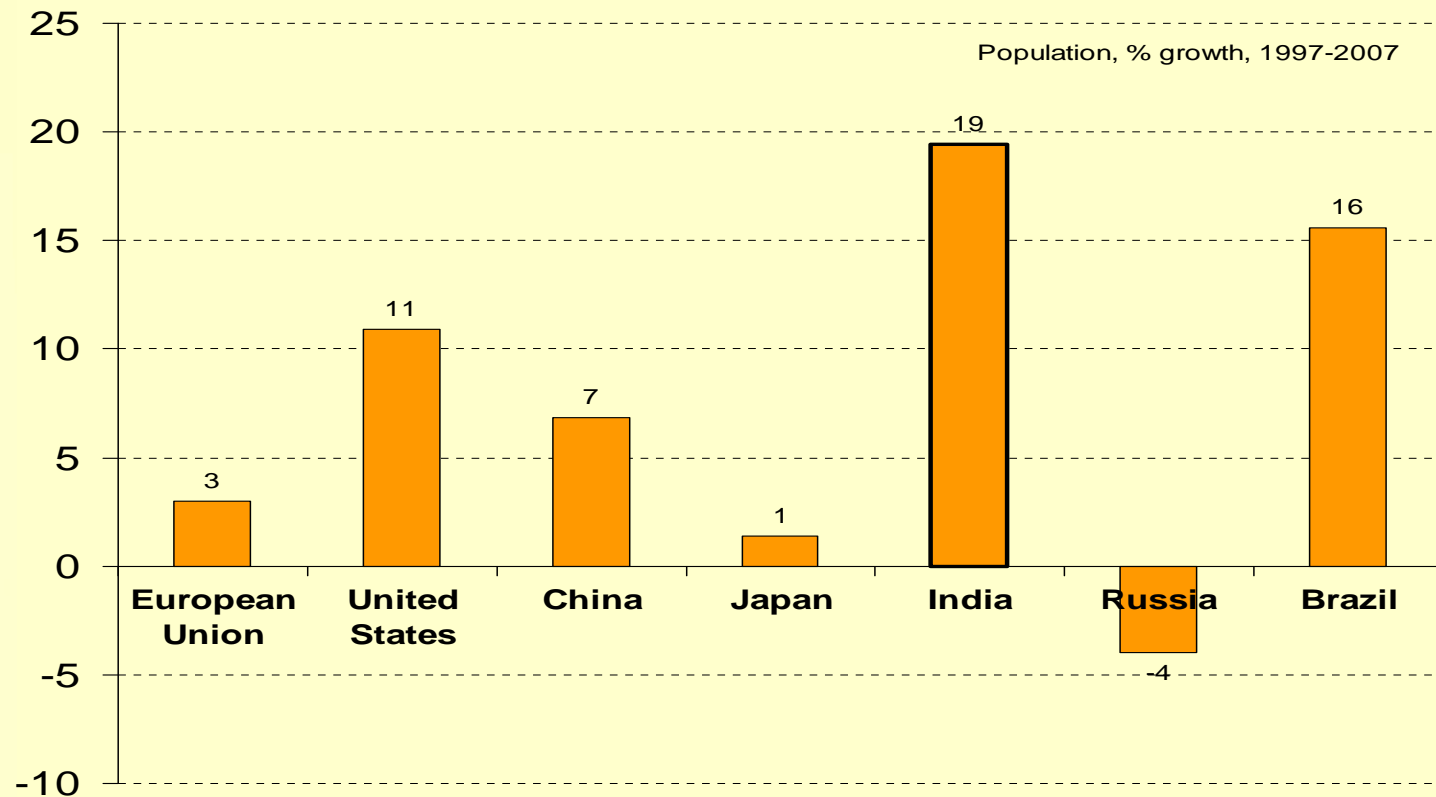
India is already a big global player in computer services (25% world exports)



Overview Lecture

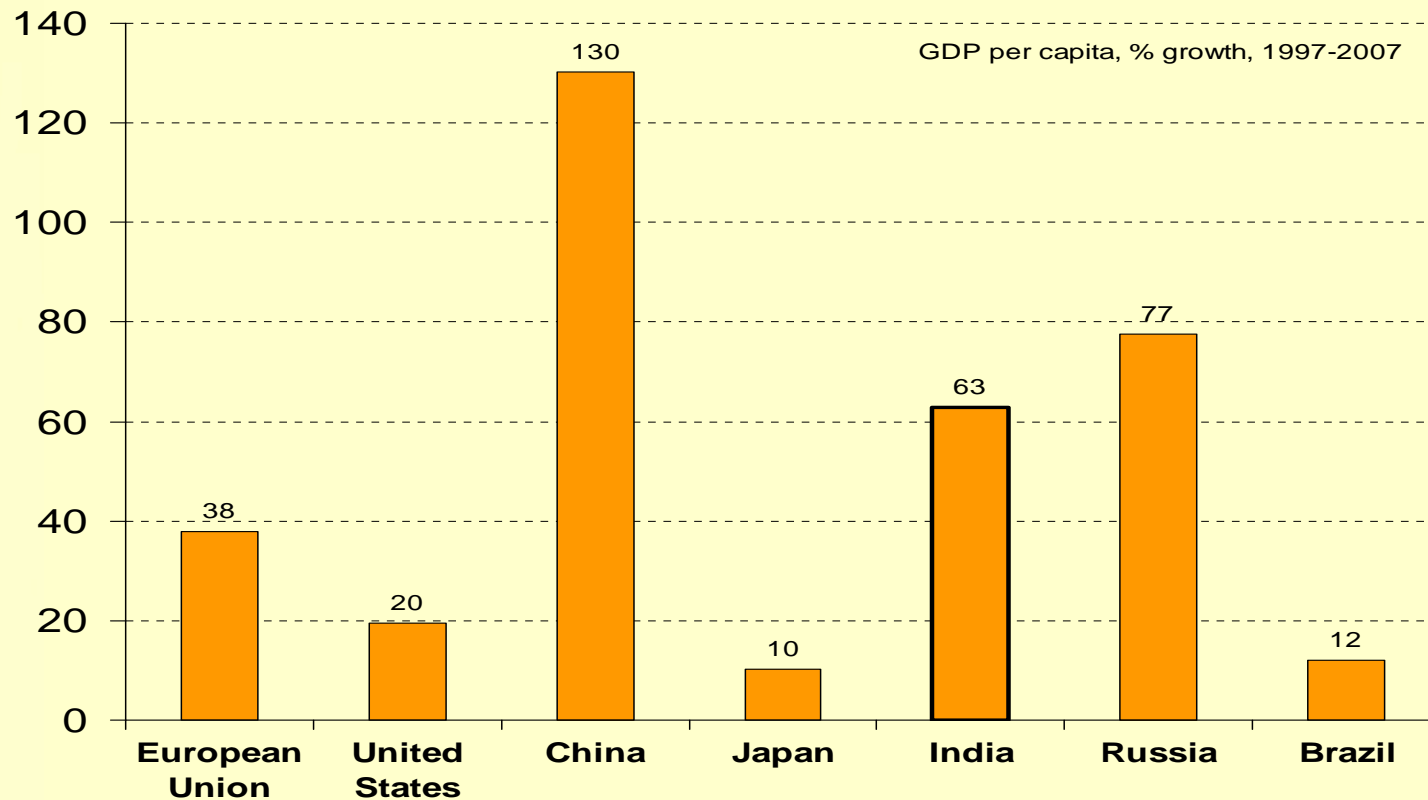
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India in the past 10 years: strongest population growth



■ India's population growth is highest in the world.

India in the past 10 years: strong rise in income per capita



India ranks 3rd in the world.

Causes of India's outstanding economic performance past 10 years

1. Towards a market economy
 1. More limited role of state enterprises, fewer restrictions private investment, liberalisation financial sector.
 2. Fewer import restrictions, lower import tariffs, fewer restrictions on Foreign Direct Investment.
2. Substantial and rising domestic savings.
3. Reasonable/good macro-economic policy.
4. India starts from very low productivity level. So, there is a lot of scope for catching-up (if policy is correct and proper incentives are in place).

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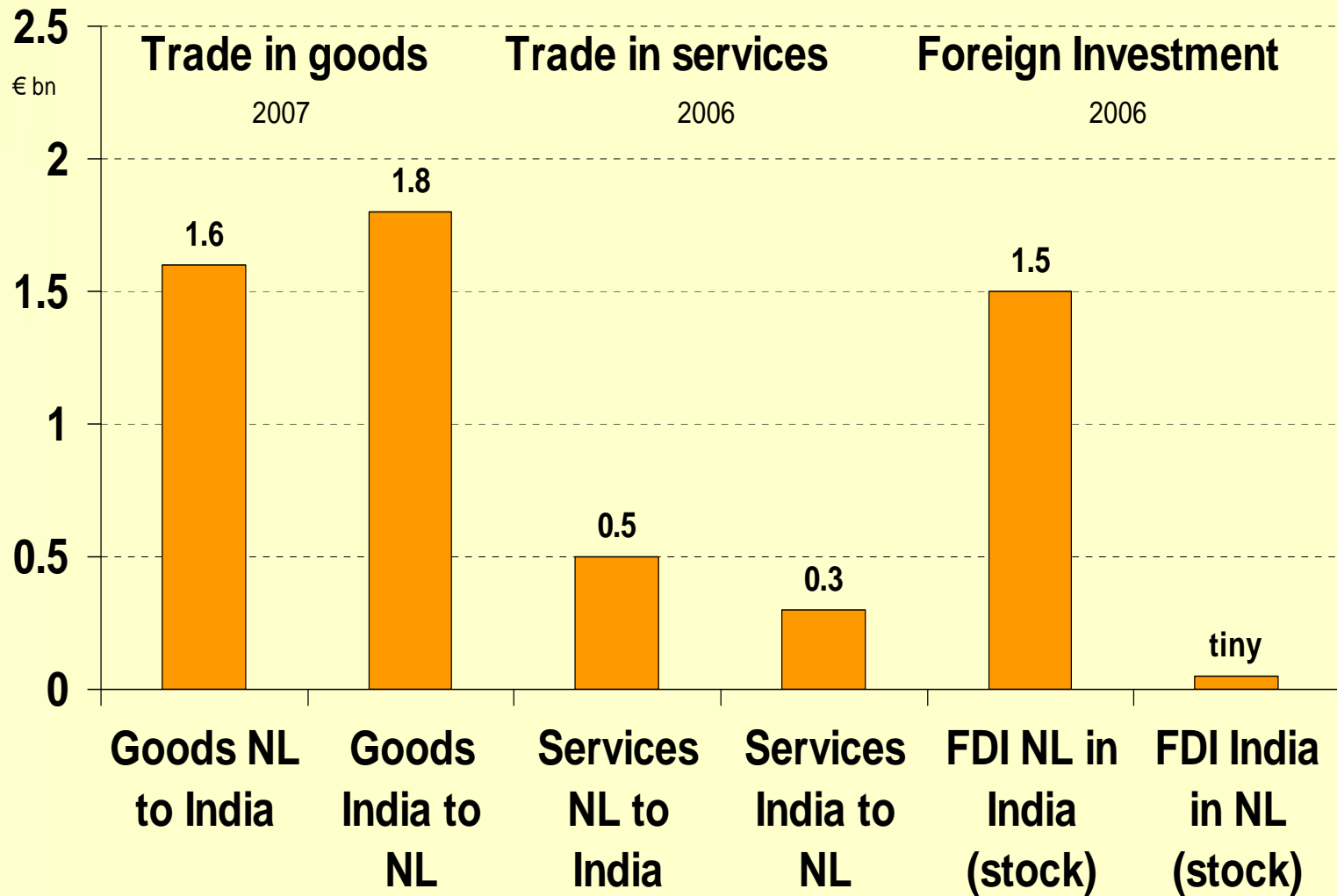
Rapid economic development does not come without problems



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Dutch-Indian economic relations: key facts



Dutch-Indian economic relations: assessment

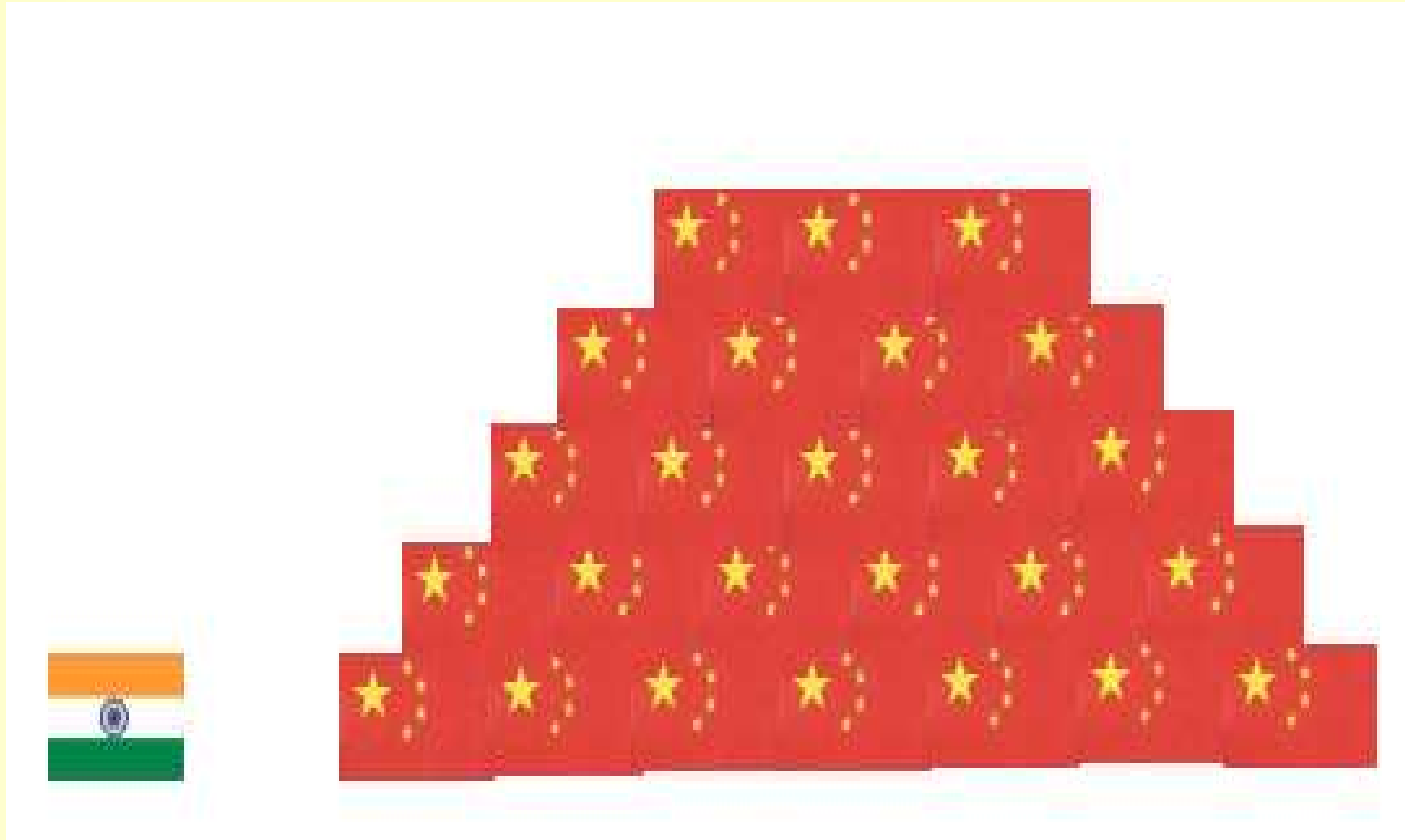
1. Bilateral trade relatively small.
2. Exports to India account for 12000 Dutch jobs.
3. Dutch imports from India are rising.
4. India and Netherlands export different products. So, no direct competition.
5. FDI: India is minor destination for Dutch firms, but still the Netherlands are one the biggest investors in India.

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Containers arriving in Dutch harbours from India and China



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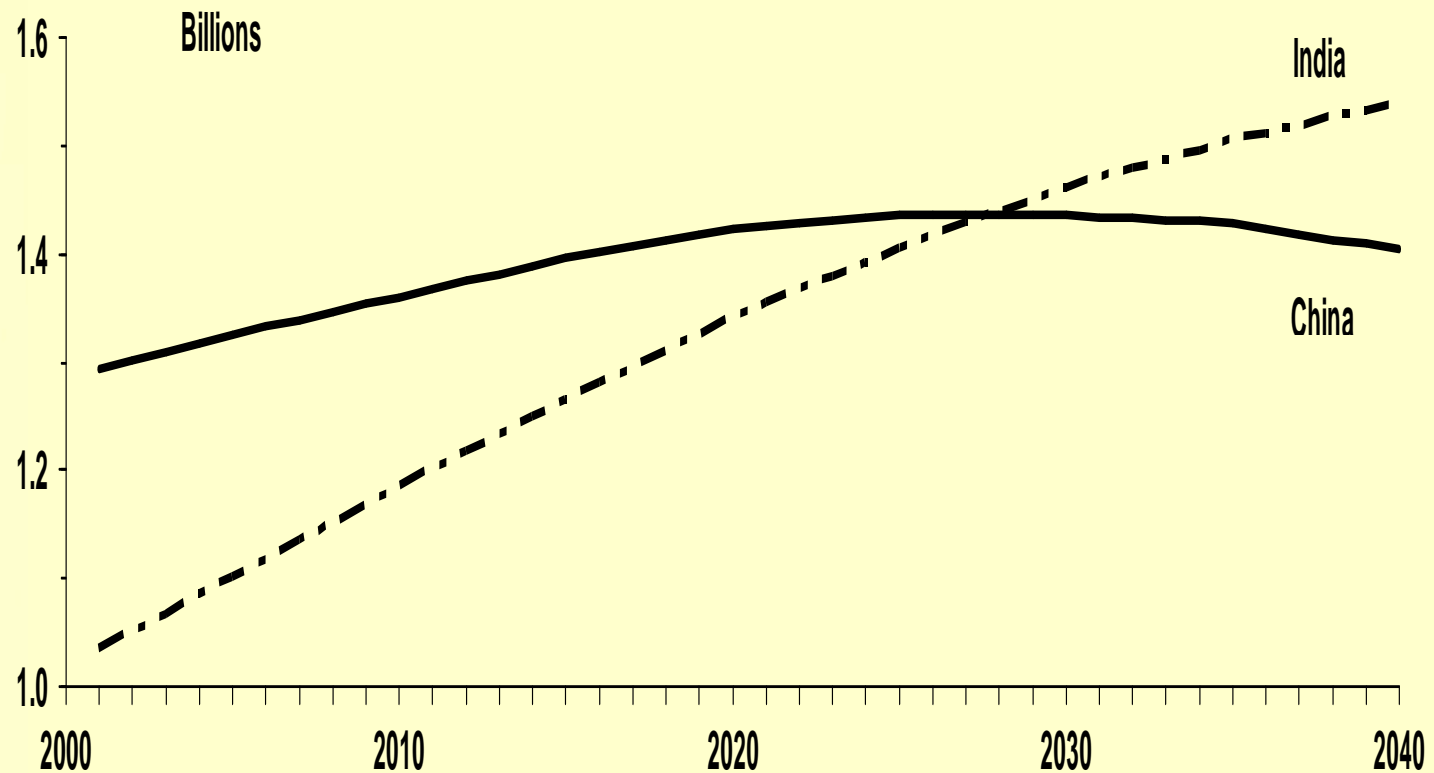
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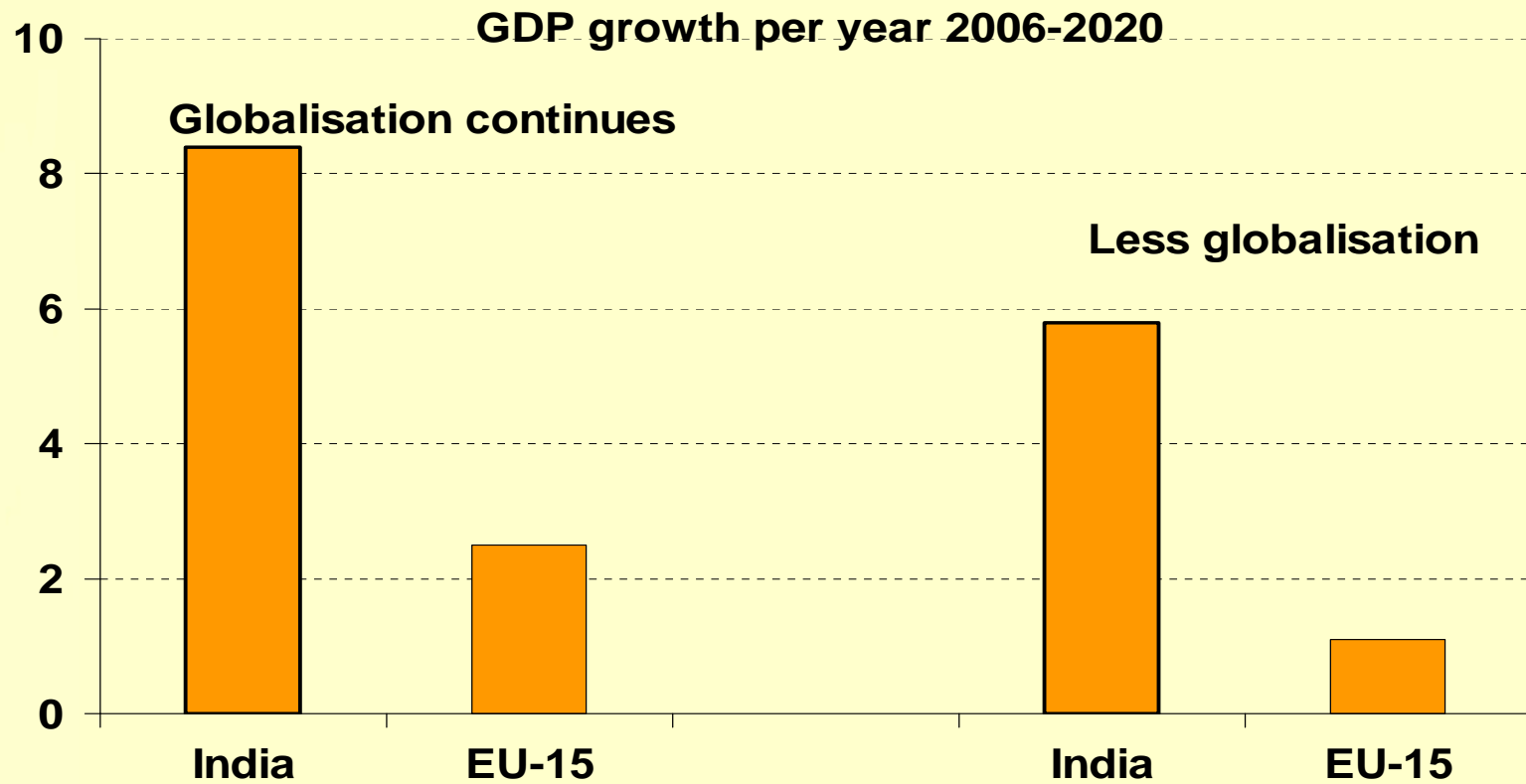
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India the next 20 years: 1. Population: India will overtake China



- Total population: India overtakes China just before 2030.
- Working-age population: India overtakes a couple of years earlier.

India the next 20 years: 2. Fast economic growth will continue



- India's fast economic growth will continue
- If: 1. current globalisation persists.
- 2. proper economic policy in India.

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Global implications of continuing rapid Indian economic growth

1. India will become a more important market for European and US business (European exports to India up by 9% per year).
2. Rapid Indian economic development will contribute to price increases of commodities in short supply.
3. But do not underestimate the supply reaction in the longer run to price increases for those commodities.
4. India will become a more important supplier for the European market (+10% per year).
5. Netherlands as gateway to Europe for India. Dutch firms can benefit from this.

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World economy is slowing down

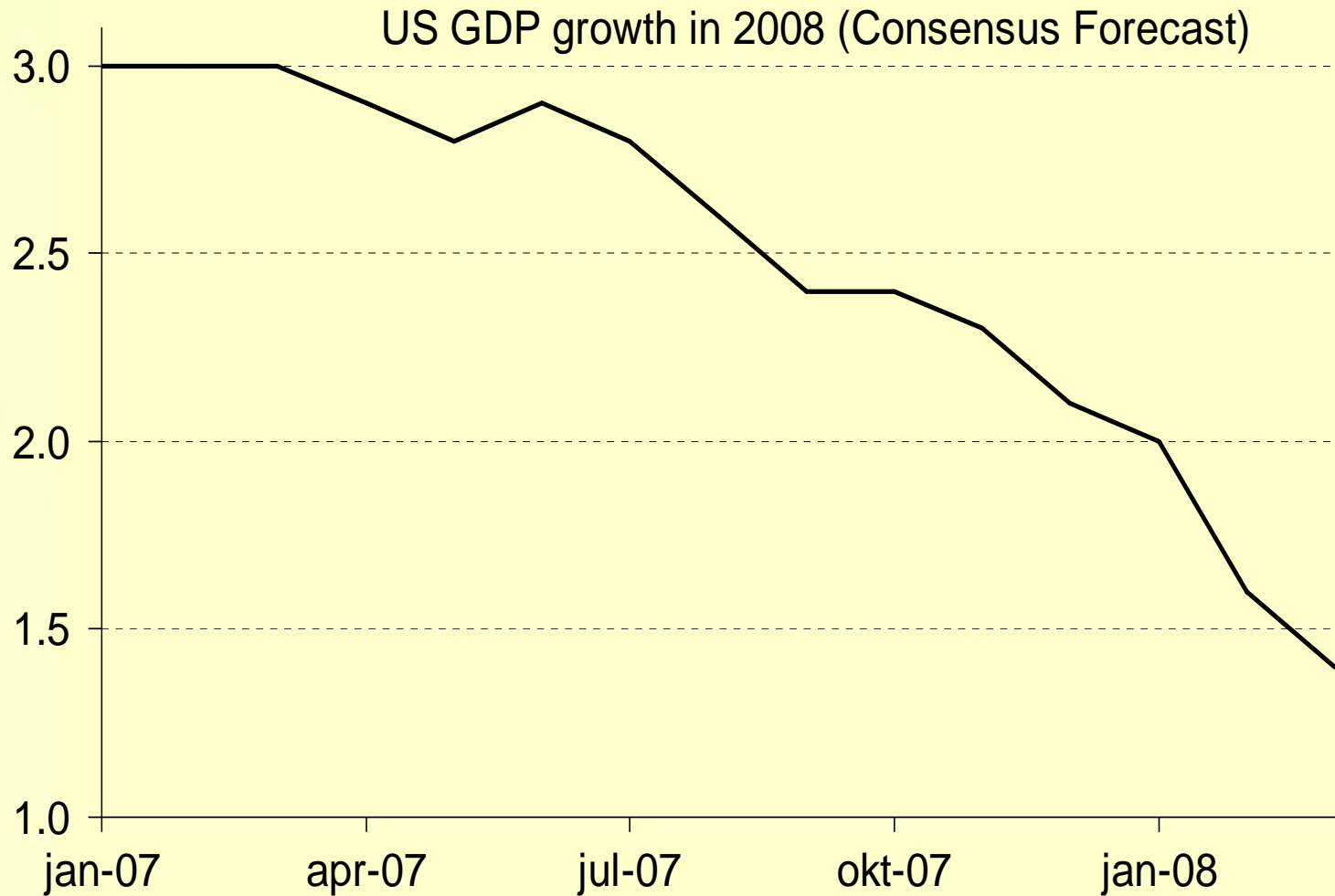


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US Outlook is rapidly revised down

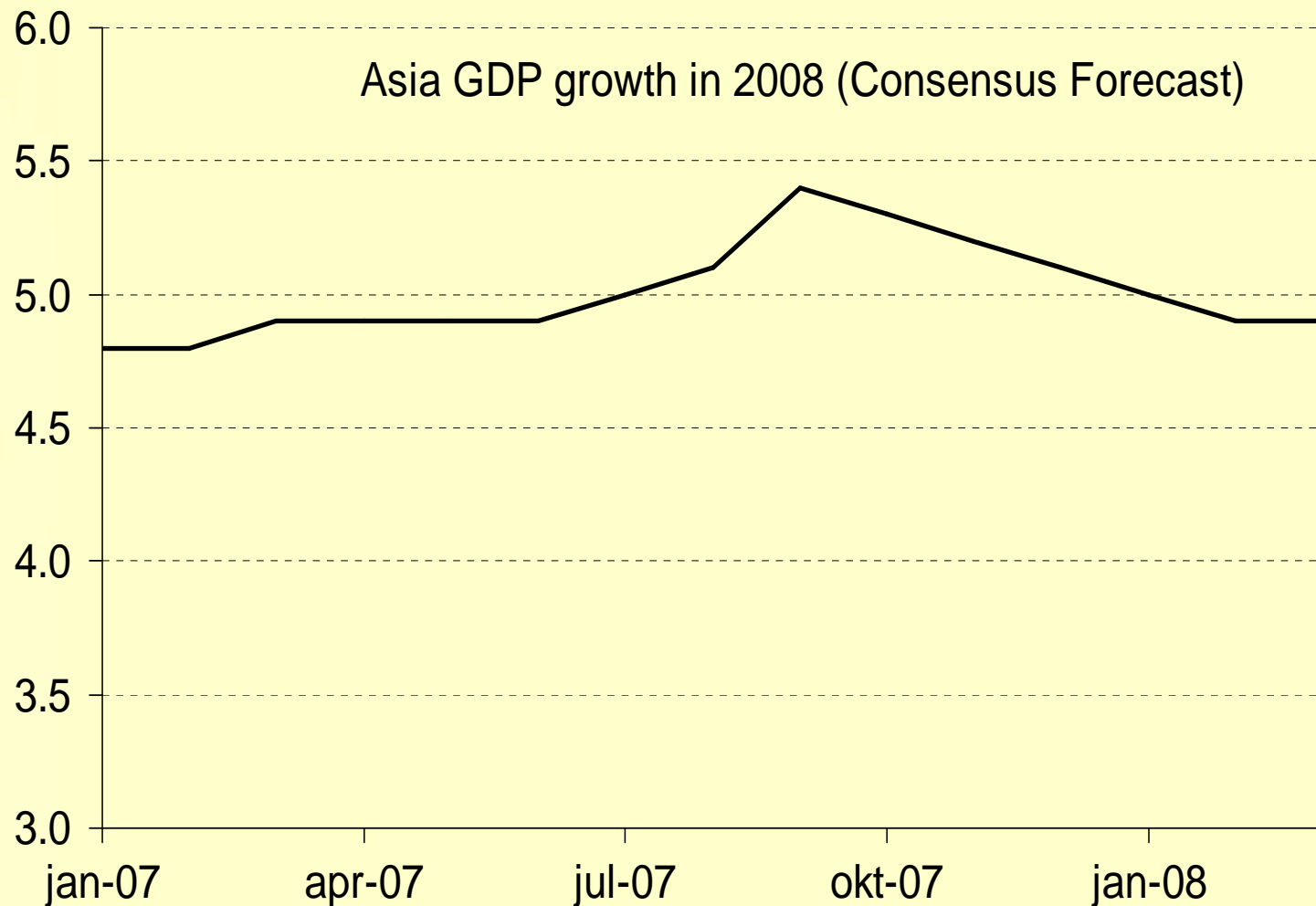


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Asian Outlook: stable and strong



India positive short-term outlook

1. Openness Indian economy less than of rest of the world.
2. Increasing trade with other emerging economies.
3. Nevertheless, some downward effects of slowdown in US and Europe (Through trade and financial markets).
4. Also some downward effects of necessary tight monetary policy.
5. Indian GDP growth outlook: around 8% in 2008 and 2009 (down from 10% in 2006).

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धन्यवाद

Thank you.

Dank U.

For further reading

- W. Suyker, H.L.F. de Groot and P. Buitelaar (2007, editors): 'India and the Dutch economy. Stylised facts and prospects', *CPB Document*, no. 155, The Hague, downloadable from www.cpb.nl