

Box A: The Rise of India

With a population of nearly 1.1 billion, India is the second most populous country in the world, behind China with 1.3 billion people. India's economy has performed strongly in recent years, with GDP growth averaging an impressive 6.1 per cent annually over the past 10 years (Graph A1). While not as rapid as the growth of China in that period, this growth performance has steadily increased India's weight in the global economy. It is now the world's fourth largest economy on a purchasing power parity basis, behind the US, China and Japan, and accounts for some 5.7 per cent of world output. At market exchange rates, India ranks as the 12th largest economy, accounting for 1.6 per cent of world output. Contributing to this performance has been a program of economic liberalisation, including increased openness to foreign trade and investment, financial sector deregulation and a more prominent role for the private sector.

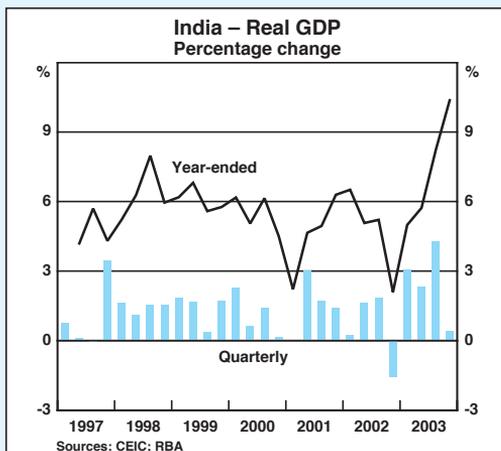
Agriculture accounts for nearly 25 per cent of India's GDP, although this proportion has been declining over time as the services sector and, to a lesser extent, manufacturing have become more important. The industrial sector makes up around 25 per cent of GDP,

while services currently account for just over 50 per cent. Most of the labour force, however, still works in the agricultural sector.

International trade accounts for a relatively modest share of economic activity in India. India's openness to trade as measured by the sum of exports and imports as a ratio to GDP was around 30 per cent in 2003. This is well below the median level of openness globally, which was around 75 per cent in 2002. However, this is not surprising given that large economies – in terms of area and population – typically have a very large share of trading activity occurring within national borders. Also, India still has relatively restrictive foreign trade policies compared with international norms, notwithstanding recent reforms in this area. Overall, India accounted for 0.8 per cent of world merchandise trade in 2003, up from 0.6 per cent in 1990, leaving it outside the top 20 trading nations. This compares with China's current rank as the third largest trading nation in the world, accounting for around 6 per cent of world merchandise trade.

Nonetheless, India's trade has been increasing rapidly, growing at an average annual rate in real terms of around 13 per cent over the past 10 years – twice the rate of overall world trade. India's largest trading partners are the euro area and the US. However, trade with Asia (particularly China) has been growing very rapidly in recent years. Although India runs a merchandise trade deficit (2½ per cent of GDP in 2002/03), it has a modest surplus on the current account (0.8 per cent of GDP in 2002/03), owing to sizeable inward current transfers and a surplus for net services. In real terms service exports have been growing at an average annual rate of close to 20 per cent over the past 10 years. Software and information technology services have

Graph A1

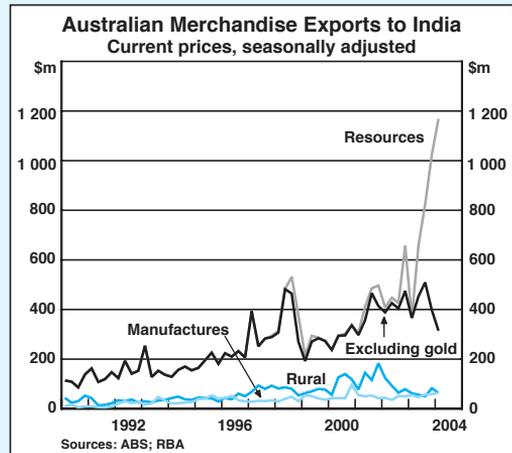


been key drivers of this growth, and make up almost half of India's service exports.

India accounted for 2.2 per cent of Australian merchandise exports in 2002/03, making it Australia's 11th largest export market. Australia exports mostly resources to India, including coking coal and metal ores. More recently, India has also become a much more important destination for Australian gold exports. Exports of gold are largely responsible for the sharp increase in resource exports to India over the past year, although this has been at the expense of alternative markets such as in east Asia and the EU, as Australia's total gold exports have not increased significantly over this period. Excluding gold, growth in resource exports to India has been much more subdued (Graph A2).

In contrast to exports, India accounts for only a small share of Australian merchandise

Graph A2



imports, at around 0.7 per cent in 2002/03. Australia imports mainly manufactured items from India, with the most important items by value being textiles and clothing, machinery and non-metallic minerals.