

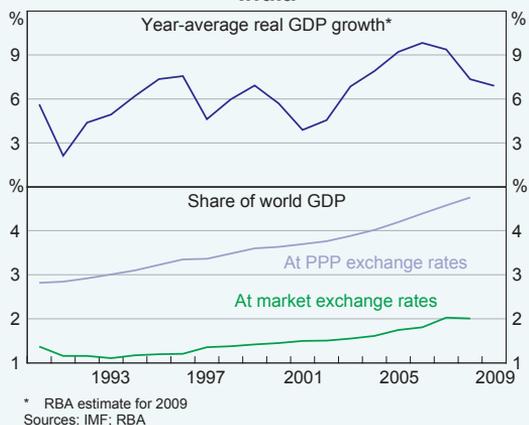
Box B

The Growing Importance of the Indian Economy

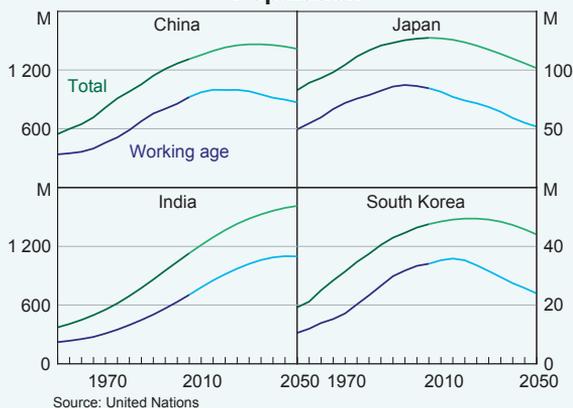
Growth in the Indian economy has gradually strengthened over the past two decades, with annual real GDP growth averaging 6½ per cent since 1990 (Graph B1). Growth has been particularly strong since a drought-related slowdown in 2002, averaging around 8½ per cent. Reflecting a significant monetary easing as well as a relatively low exposure to global trade, growth in India slowed only modestly during the global financial crisis; India is estimated to have been one of the fastest growing economies in the world in 2009. While incomes have grown rapidly, they remain low, with per capita annual income at only just over US\$1 000. As a consequence, while India accounts for close to one-fifth of the world's population, its share of global output remains relatively low, at 2 per cent when output is measured at market exchange rates and around 5 per cent on a purchasing power parity basis.

The Indian economy looks likely to continue to expand at a relatively rapid pace in coming decades and to become an increasingly important part of the world economy. Long-term population projections suggest that, notwithstanding a declining fertility rate, India's population will continue to grow rapidly through natural increase, and United Nations' estimates suggest it will surpass China as the world's most populous nation in around two decades (Graph B2). Further, economic growth in India is expected to continue to benefit from compositional change in its population structure; the working-age share of the population is projected to continue to increase over the next two decades, so India's potential labour force could grow even more rapidly than the anticipated increase in its total population. This contrasts with projected declines in the working-age share of the population not

Graph B1
India



Graph B2
Population



only in the major developed economies, but also in other Asian economies such as China and Korea. In addition to the boost from demographic factors, India's per capita income is likely to rise steadily as the composition of the labour force continues to shift away from subsistence farming towards the industrial and services sectors.

The growing importance of India in the global economy has also been reflected in a rise in India's importance as a trading partner for Australia. Indian demand for Australia's exports has risen sharply, with particularly rapid growth over the past decade. This has seen India's share of Australia's total exports increase to around 6½ per cent – a four-fold increase in less than a decade (Graph B3). Growth has been rapid for exports of both goods and services.

Part of the increase in goods exports to India reflects gold exports, which have risen from negligible levels a decade ago to account for around two-fifths of total Australian gold exports in recent years. Much of these gold exports to India are 're-exports' – gold that has been imported from elsewhere for processing in Australia – and thus the value added of these exports is relatively low.

Coal exports have also risen strongly over the past decade and accounted for over 40 per cent of Australia's total goods exports to India in 2008/09. Coal exports are likely to continue to grow over the next few years, as significant planned expansions in India's steelmaking capacity come online. Liquefied natural gas (LNG) is another likely source of future growth in Australia's goods exports to India. LNG production capacity in Australia and import capacity in India are both projected to increase significantly and long-term supply contracts have recently been agreed for the sale of Australian-produced LNG to Indian buyers (see 'Box D: Investment in the Resources Sector' in the November *Statement*). ✎

Graph B3
Australian Exports to India
Current prices

