

India's Success Story

In sharp contrast to the rest of the world, India remained relatively insulated from the global economic downturn that began in late 2008. By 2015, and much to everyone's surprise, India is now regarded as one of the world's strongest economies and is known for its continued growth and stability. Although India does not yet dominate global trade and continues to exhibit fairly conservative economic policies, its careful stewardship of its own financial markets has made it a new international hub for finance.

How Did This Happen?

Indian economic policies have always been conservative and strongly controlled by New Delhi. As a result, India's industries have not participated fully in global trade, focusing more on the internal market. Throughout the 1990s and early 2000s, India's economy grew largely because the government eased restrictions on internal competition. When the global economy began to sag in 2008, India used its large foreign exchange reserves to prop up the rupee and institute import controls. The immediate impact was on China and South Korea, both of which had exported consumer goods—cell phones, refrigerators, fans, air conditioners, and televisions—to India. By cutting off imports, Indian producers of these same commodities reaped the benefits of the cessation of competition. Demand for quality consumer goods in India grew quickly, forcing Indian manufacturers to improve their production levels and their quality standards.

The Indian financial sector began to allow foreign banks to operate in India only in 2004 and even then only under strict guidelines. A small number of Indians were only gradually beginning to use banks for savings. Mortgages were uncommon. The majority of Indians continued to use informal financial mechanisms. By 2009, India was largely left out of the global bank crisis.

Meanwhile, the financial crisis in Europe and North America continued unabated for several years. Bailouts and stimulus packages, while showing initial promise, failed to prompt a sustained economic recovery. With high unemployment, no purchasing power, and eroding confidence in the markets, businesses closed, bankruptcies soared, and the service sector declined. Chinese manufacturing for export markets, a critical part of China's economic growth in the 1990s and early 2000s, evaporated, leaving China's boom cities struggling as workers flocked back to rural areas to eke out their living from the land.

Although these developments undercut India's role as an outsource center for Western companies, the resultant stable of unemployed Western-trained talent enabled Indian entrepreneurs to augment their ranks at a fraction of the previous cost. With a huge internal demand for goods and services, Indian entrepreneurs had room to grow and did.