

## ECONOMIC CONTEXT

### Economic History

Since the late 1970's there has been a gradual re-thinking of India's model of development. Although India managed to achieve rapid industrialization and make advances in reducing poverty, it has not made the economic advances that its fellow Asian neighbours (e.g. China) have. The inefficiencies associated with government intervention, protectionist trade policies, the collapse of the Soviet Union, and an economic crisis in 1991 forced the government to change its policies. The result has been a series of economic reforms aimed at increasing the role of the private sector and liberalizing trade. Specific features of this process have included: opening up more sectors to private investment; encouraging foreign direct investment; delicensing of industries; decontrol of location and technology transfer aspects; devaluation of the rupee; conversion of certain import quotas into tariffs and phased reductions in import tariff rates; and liberalisation of capital markets.

### Current Economy

India has a population of 931 million, which makes it second only to China as the world's most populous nation. While poverty is widespread, India also has a middle class of at least 250 million<sup>1</sup>. In terms of numbers, the middle class constitutes a large market and generates an increasing demand for consumer products that either use paper indirectly (packaging, etc.) or directly (cultural paper products such as newspapers, fax paper, etc.). In terms of industrial output and technological achievement it is dissimilar to most "developing countries". India has one of the largest highly trained technical labour forces, an indigenous expertise in fields ranging from nuclear energy to deep-sea oil drilling and a solid industrial infrastructure. Economic activity is widely spread throughout India although it is heavier in some areas than in others. It is particularly concentrated in the western states of Maharashtra (includes Mumbai, i.e. Bombay) and Gujarat, as well as Haryana, Punjab, Goa, and to a lesser extent Karnataka (includes Bangalore). Poverty and underdevelopment tend to be clustered in some north-eastern regions such as Bihar, Orissa and the eastern part of Uttar Pradesh.

The 5.3% growth in the Indian economy (1994/95 fiscal year) was fuelled by an 8% growth in the industrial sector, and complimented by a 5.7% growth in the service sector. The overall growth in the economy was up from 4.3% the previous two years.<sup>2</sup> For the 1995/96 fiscal year, the Economic Intelligence Unit is forecasting growth 4.6% while the Wharton Econometrics Forecasting Associates are forecasting an impressive 6.3% growth. The reasons for the divergent projections are different interpretations of the fundamentals of the economy. It is important to note that even given divergent views, all projections indicate a healthy growth in the Indian economy.