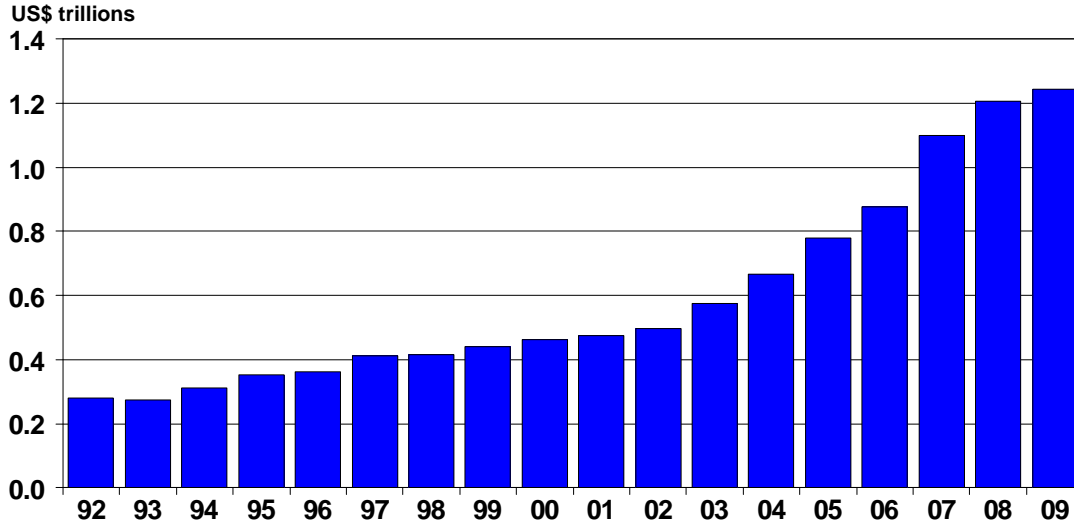


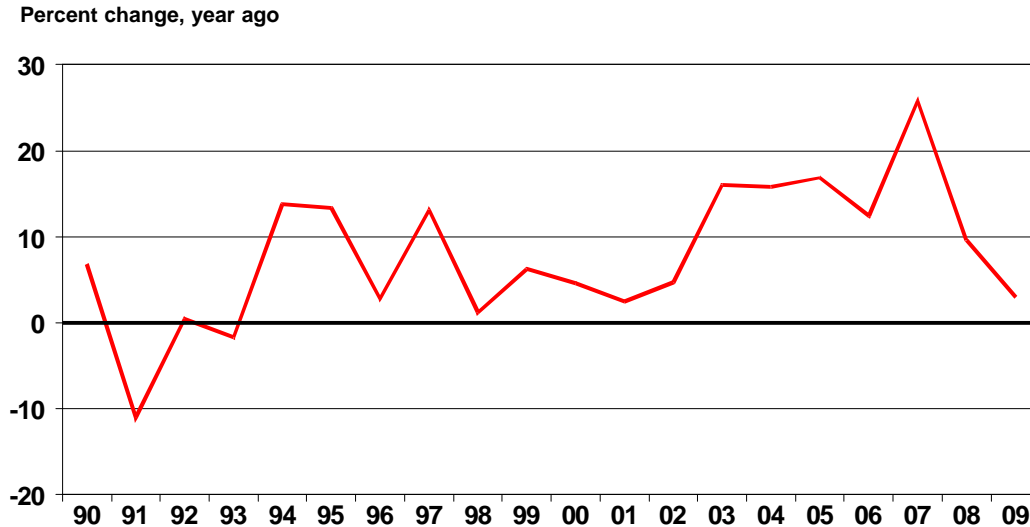


India's nominal GDP is on the rise



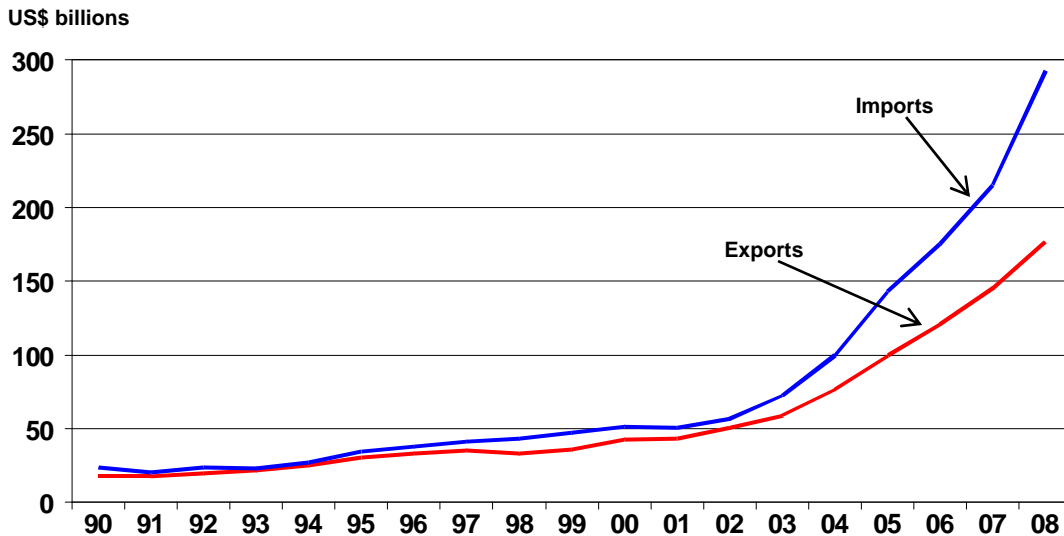
Source: International Monetary Fund.

India's GDP growth



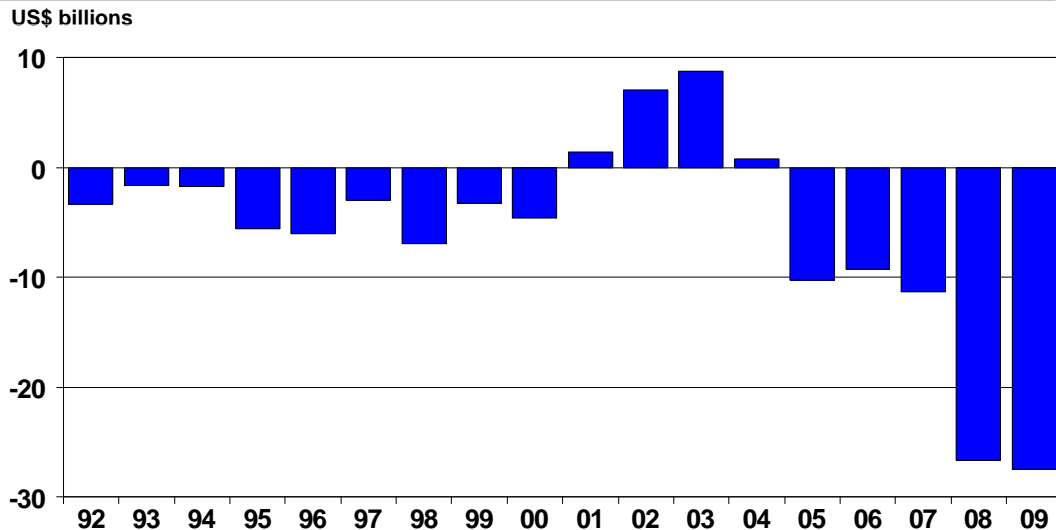
Source: International Monetary Fund.

India's trade balance



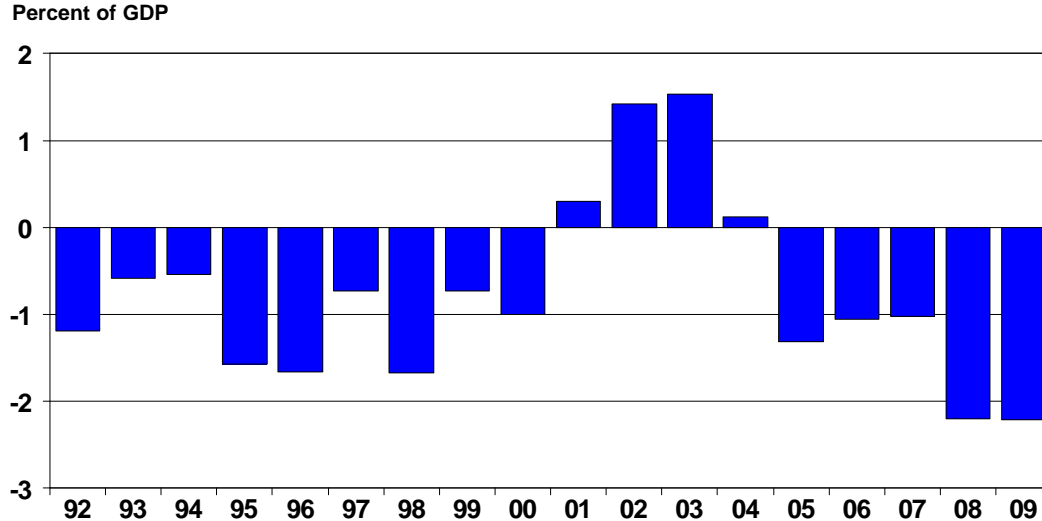
Source: UNCTAD.

India's current account balance



Source: International Monetary Fund.

India's current account balance

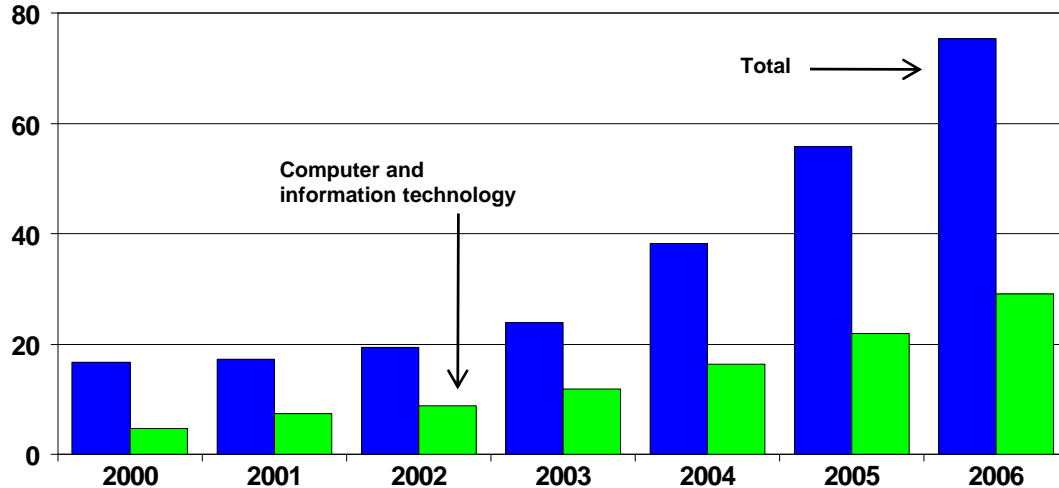


Source: International Monetary Fund.



India's services exports on the rise

US\$ billions



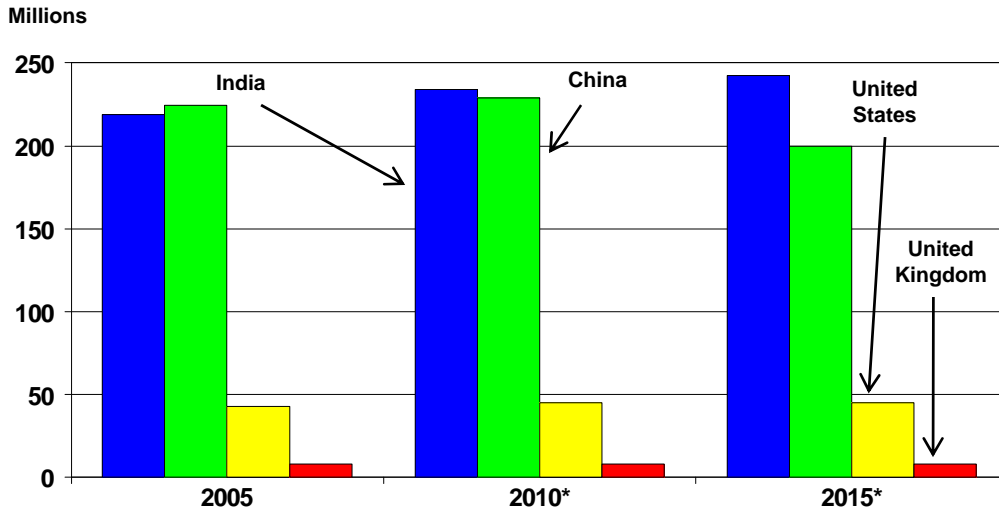
Source: UNCTAD.

India has relatively young population

15-24 year age group



MILKEN INSTITUTE



* estimated

Source: United Nations.

India's electricity shortage in 2008-2009



MILKEN INSTITUTE

	Energy(MU)	Peak(MW)
Requirement	777,039	109,809
Availability	691,038	96,785
Shortage	86,001	13,024
Shortage (percent)	11.1	11.9

Source: Central Electricity Authority, Government of India.

Existing infrastructure

	2009
Length of roads (kilometers)	3,516,452
Main roads (kilometers)	666,452
Paved roads (percent)	47
Access to all-season-roads (percent)	61
Road density (kilometers/1000 sq. kilometers)	1,115
Rail track length (kilometers)	63,327
Number of ports	199
Turnaround time (days)	3
Airports	125
International airports	11

Sources: Government of India, World Bank.

Investment requirements in infrastructure

2007-2011



MILKEN INSTITUTE

Sector	US\$ billions
Transportation	115-154
Roads	50-55
Railways	45-68
Ports	11-20
Airports	9-11
Power and other sectors	191-250
Total	306-404

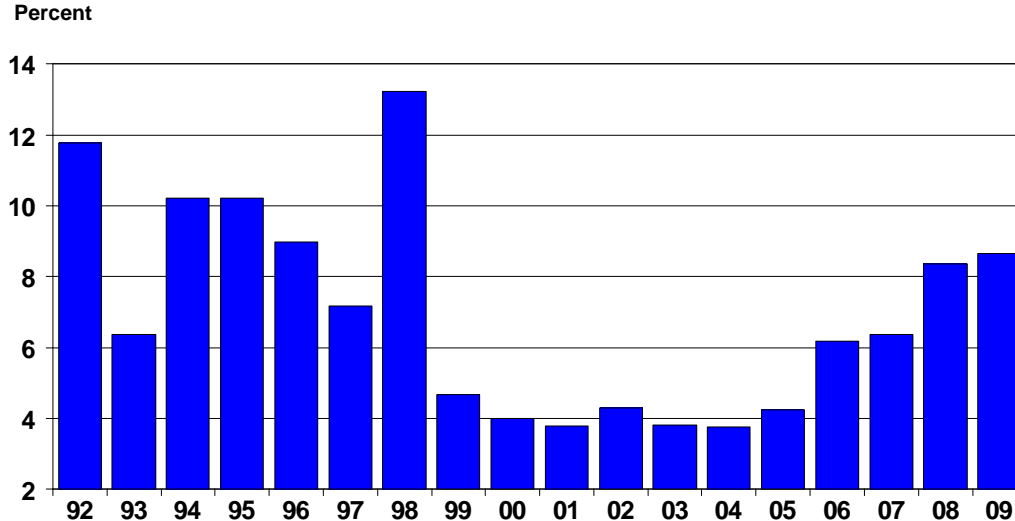
Sources: Government of India, World Bank.

India's inflation rate on the rise



MILKEN INSTITUTE

Annual percent change of average consumer prices



Source: International Monetary Fund.

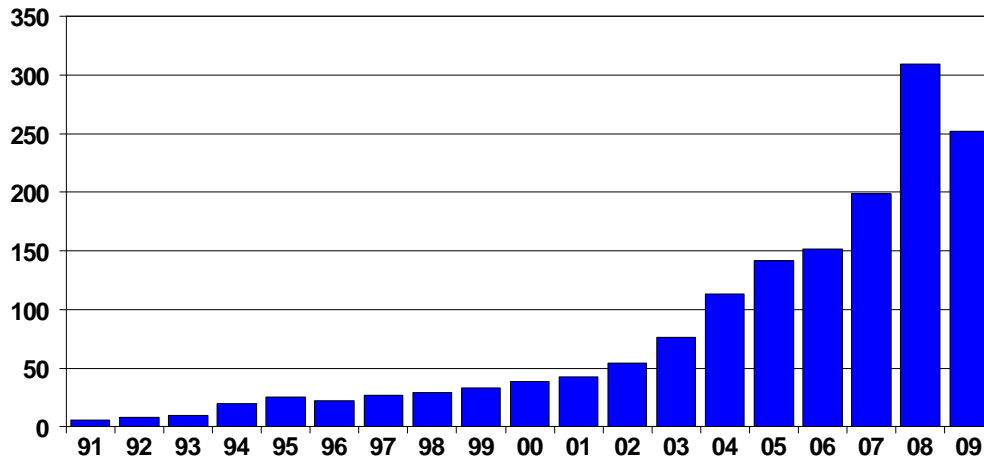
India's foreign exchange reserves

As of end of March



MILKEN INSTITUTE

US\$ billions



Source: Reserve Bank of India.

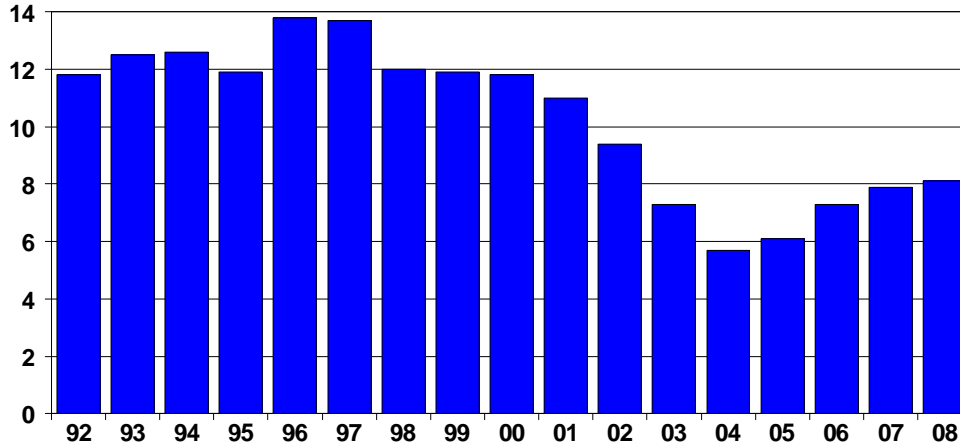
India's interest rates



MILKEN INSTITUTE

Central(Federal) government's securities, weighted average

Percent



Source: Reserve Bank of India.

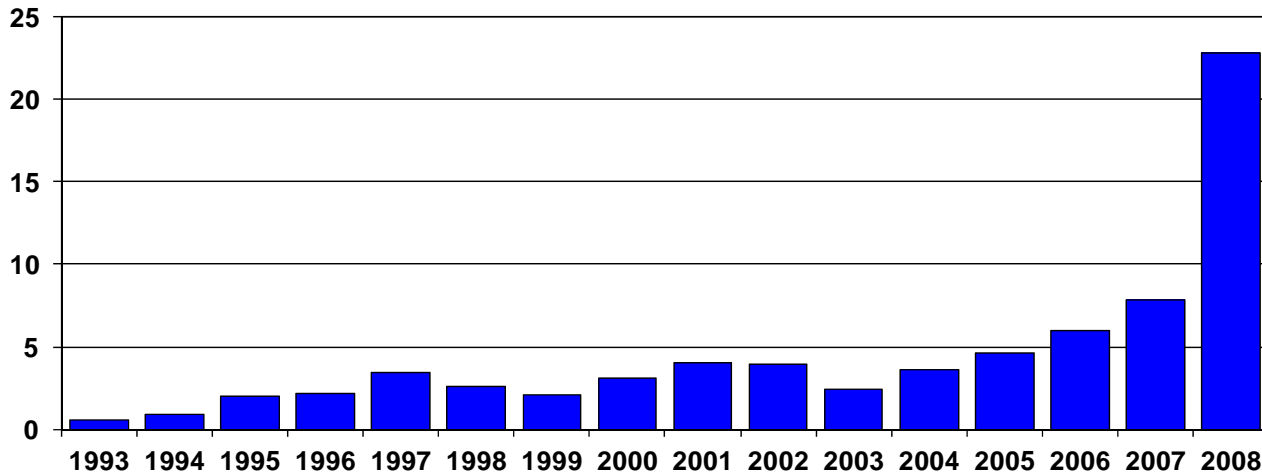
India's foreign direct investment

Net = inflows - outflows



MILKEN INSTITUTE

US\$ billions

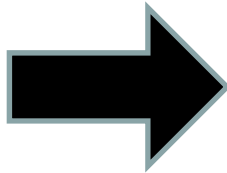


Source: International Monetary Fund.

India

Building a Knowledge Economy

Arbitrage



Innovation

Innovation types

- Technology
- Business model
- Process

Solutions for the developing world

- Easy to deploy/use
- Easy to maintain
- Easy to change
- Easy on the wallet

The Economist

APRIL 17TH-23RD 2010

economist.com

Three years to save the euro

The arrival of Big Solar

Poland: tragedy and hope

How to find aliens in space

Why Napoleon lost in Russia

The new masters of management



A 14-PAGE SPECIAL REPORT ON
INNOVATION IN EMERGING MARKETS



MILKEN INSTITUTE

The world turned upside down

Also in this section

First break all the rules

The charms of frugal innovation. Page 6

Easier said than done

Emerging-market consumers are hard to reach. Page 8

Grow, grow, grow

What makes emerging-market companies run. Page 10

Here be dragons

The emerging world is teeming with new business models. Page 13

New masters of management

Pervasive innovation adds up to a new management paradigm. Page 15

The power to disrupt

Business innovations from emerging markets will change the rich world too. Page 16



The emerging world, long a source of cheap labour, now rivals the rich countries for business innovation, says Adrian Wooldridge

IN 1980 American car executives were so shaken to find that Japan had replaced the United States as the world's leading

obvious reason is that the local companies are dreaming bigger dreams. Driven by a mixture of ambition and fear—

of even
nam or
imbing
market
highly
is, they

stment

The emerging world, long a source of cheap labour, now rivals the rich countries for business innovation, says Adrian Wooldridge

system of making things that was quickly dubbed "lean manufacturing".

This special report will argue that something comparable is now happening in the emerging world. Developing countries are becoming hotbeds of business innovation in much the same way as Japan did from the 1950s onwards. They are coming up with new products and services that are dramatically cheaper than their Western equivalents: \$3,000 cars, \$300 computers and \$30 mobile phones that provide nationwide service for just 2 cents a minute. They are reinventing systems of production and distribution, and they are experimenting with entirely new business models. All the elements of modern business, from supply-chain management to recruitment and retention, are being rejigged or reinvented in one emerging market or another.

Why are countries that were until recently associated with cheap hands now becoming leaders in innovation? The most

obvious reason is that the local companies are dreaming bigger dreams. Driven by a mixture of ambition and fear—of even nam or imbing market highly is, they stment

around 21,500 multinationals based in the emerging world. The best of these, such as India's Bharat Forge in forging, China's BYD in batteries and Brazil's Embraer in jet aircraft, are as good as anybody in the world. The number of companies from Brazil, India, China or Russia on the Financial Times 500 list more than quadrupled in 2006-08, from 35 to 62. Brazilian top 20 multinationals more than doubled their foreign assets in a single year, 2006. At the same time Western multinationals are investing ever bigger hopes in emerging markets. They regard them as sources of economic growth and high-quality brainpower, both of which they desperately need. Multinationals expect about 70% of the world's growth over the next few years to come from emerging markets, with 40% coming from just two countries, China and India. They have also noted that China and to a lesser extent India have been pouring resources into education over the past couple of decades.

Acknowledgments

As well as the people mentioned in the text, the author would like to thank the following for sharing their insights and expertise: Ge Dengbin, Wen Diliang, Juan Antonio Fernandez, Bill Fischer, Vinod Kantar, A.S. Lakshminarayana, Sandeep Mahi, Arnaud De Meyer, George McKinnon, Charles O'Connell, Jaideep Prabhu, Navi Radjou, Sumant Kanan, V. Raja, A.R. Srinath, James Wang and Songsheng Zhou.

A list of sources is at

economist.com/specialreports

An audio interview with the author is at

economist.com/audiovideo



MILKEN INSTITUTE