Tracking global trends
How six key developments are shaping the business world

Sudhir Kapadia
Inside

1. Six global trends
2. Outlook for emerging market economies
3. India: Economic and fiscal outlook
Six global trends interconnected by three drivers of change
Six global trends interconnected by three drivers of change

Drivers of change
1. Demographic shifts
2. Reshaped global power structure
3. Disruptive innovation

- Emerging markets increase their global power
- Cleantech becomes a competitive advantage
- Global banking seeks recovery through transformation
- Governments enhance ties with the private sector
- Rapid technology innovation creates a smart, mobile world
- Demographic shifts transform the global workforce
1. Emerging markets increase their global power

- Leading emerging markets will continue to drive global growth
  - Emerging markets attract about 50% of FDI global inflows and 25% of FDI outflows
  - 70% of world growth to come from emerging markets – 40% from China and India

- Emerging market leaders will become a disruptive force in the global competitive landscape
  - EM Cos critical competitors in home markets while increasing outbound investments E.g. Tata Motors’ USD 2,900 Nano
  - Used to “institutional voids’, Cos possess more innovative, entrepreneurial culture

- Rising population & prosperity drive new consumer growth and urbanization
  - Combined purchasing power of the global middle classes estimated to more than double by 2030 to US$56 trillion - over 80% of this demand to come from Asia
  - Infrastructure in Asia alone will need estimated US$7.5 trillion investments by 2020

- Emerging markets will become the new battleground for first mover advantage
  - E.g. China’s investment in Africa
  - Global influence grows in world economic policy
2. Cleantech becomes a competitive advantage

- Evolving energy mix - renewables, natural gas and nuclear power to have greater contribution
- Clean energy is a national competitive advantage
  - Cleantech investments will yield other benefits e.g. job creation & innovation-led growth
  - Private investment flowing to countries with long-term energy policies aimed at incentivizing renewable energy use
- Companies make clean tech a strategic priority
  - Search for cleaner products will break apart many traditional industries promoting efficiency and reducing carbon emissions
- Governments and companies move to secure valuable raw materials and to ensure energy security
  - Companies are reconfiguring supply chains to mitigate raw material shortage
  - Countries are becoming more protective of their natural resource supplies
- Organizations become more transparent about their sustainability practices
  - Increasing pressure from stakeholders to disclose social and environmental impact of their business activities
3. Transformation in global banking

► Emerging market financial institutions are gaining global stature
  ► Capitals of finance in Asia rise in rankings & increase their presence on global scene
  ► Emerging market banks well positioned to benefit from strong domestic credit growth
  ► A significant pool of unbanked or underserved consumers exists in emerging markets
► G20 initiatives, as well as the Dodd-Frank Act, will require increased regulatory oversight
► Regulation will drive up the cost of business for many large financial institutions
  ► Regulatory uncertainty & fragmentation of regulations is a big challenge
► Financial services will realign
  ► Enhanced regulatory environment and higher cost of doing business will affect business models
► Alternative asset managers may be positioned to benefit from realignment of the financial services industry
4. Enhanced government – private sector ties

- **Developed countries rebalance their finances**
  - During 2006-09, developed country debt-GDP ratio rose from <80% to 90%
  - Deficit reduction plans will affect significant groups in society and create friction

- **Emerging markets countries expand their social benefits**
  - Need to boost social spending on pensions, health care and infrastructure
  - Effectiveness of tax administration needs to be strengthened
  - PPP will become important vehicles for investment in infrastructure

- **Aging populations, immigration inflows pose new spending challenges**
  - Median age-related public spending for developed economies expected to rise from 17% to 27% of GDP by 2050 vs 11% to 17% of GDP for emerging market countries
  - Cross border migration of workers create greater need for public infrastructure

- **Governments direct their economies**
  - Enormous wealth remains concentrated under state control in the form of SWFs
  - State owned enterprises will remain important in defending strategic industries and guaranteeing adequate infrastructure

- **Governments balance global cooperation with pursuit of national interests**
5. Rapid technology innovation creates a smart, mobile world

- Businesses will compete on analytics to differentiate themselves
  - Business intelligence for enhanced decision making is growing in importance
- Smart mobility will change the way people interact
  - Emerging market Cos will be significant competitors, providing many opportunities
- Technology blurs boundaries
  - Cos explore new revenue models e.g. mobile commerce & payment systems
  - ‘Semantic web’ may not remain a science fiction
- Cloud computing takes off
  - Transformation of current IT hardware, software & database markets into infinitely flexible utilities despite concerns about data security
- The power of the individual will spur innovation
  - ‘Social listening’ possibilities enable businesses to understand customer & employee needs
- Government’s role in innovation grows
  - Governments will continue their regulatory role and considering regulations to protect citizens’ privacy and corporations’ data
6. Demographic shifts transform the global workforce

- Labor force demographics will shift profoundly
  - Working age population declining in many countries
  - Emerging market economies with young labor force stand to gain, provided educational skills and economic opportunities are provided to them

- There is a growing mismatch between the skills employers need and the talent available
  - Rising skill level needed in the evolving global economy
  - Failure of educational systems to produce adequate talent base

- “Generation U” and women to fill the skills gaps and create a new focus on broader segments of the talent pool
  - Cos in fast growing economies becoming more accepting of diverse employees

- The talent market is increasingly global and mobile
  - Cross border migration has grown by 42% in the last decade
  - Most traffic directed towards OECD countries, however ‘reverse migration’ also happening with the growth of emerging economies

- Employees gain more bargaining power
Winners and losers

► The winners will be organizations that:
  ► Constantly monitor broad trends in the external environment
  ► Embrace technology
  ► Look for the right talent globally
  ► Navigate multiple jurisdictions and regulatory frameworks
  ► Adapt to local environment while creating global workforces
  ► Fit cleantech into their growth plans
  ► Seek ways to meet growth agendas while reducing cost structures and future debt obligations

► The successful will shape tomorrow’s global trends
Outlook for emerging market economies
Emerging markets, Drivers of the world

- Emerging markets will count for two-thirds of the world economy a decade from now
  - They now account for half the world economy in terms of total output
- Growth looks sustainable in emerging markets
  - EM as a group growing at 6% or more: 2-3 times faster than advanced countries
  - Their global market share is rising 1-2% every year
- Debt levels in developed markets may be unsustainable
  - On current trajectories the national debt/GDP ratio of advanced countries could be 200% vs 50% for EM
- Developed and emerging economies will decouple
  - The gap between EM and rich countries has widened through the recession
- Resource-rich countries must beware the “resource curse”
  - They must develop their resources and institutions
## Some key points

### Africa
- Average GDP growth in sub-Saharan Africa will be a relatively strong 5.5% in 2011 and 2012.
- FDI in the region is expected to top US$40 billion in 2011.
- An emerging middle class represents a potentially large consumer market.
- Geographic distances and cultural diversity are significant, while infrastructure is lagging.
- Social and political upheavals in some countries may derail progress in others.

### Brazil
- Despite its overvalued currency and inflationary pressures, Brazil is a global market favorite.
- FDI in Brazil has nearly doubled in the past four years.
- Major new investment opportunities include infrastructure, oil and gas, alternative energy and iron and steel works.
- The implementation of International Financial Reporting Standards is a big move toward improved corporate governance, but tax complexity remains a challenge.

### Eastern Europe
- Despite strains to their banking systems due to the global economic crisis, no Eastern European country has come close to sovereign default.
- Eastern European countries have had much higher growth rates than their Western European counterparts, and they are set to grow even faster in the years ahead.
- Businesses take note: they may not grow quite as fast as other emerging markets, but this region is now the home of upper middle-income countries.
<table>
<thead>
<tr>
<th>China</th>
<th>East Asia</th>
<th>India</th>
</tr>
</thead>
<tbody>
<tr>
<td>China may already be on its way to being</td>
<td>East Asia is likely to remain the powerhouse of the global</td>
<td>Capital flows have been coming steadily to</td>
</tr>
<tr>
<td>the largest economy in the world.</td>
<td>economy for some time.</td>
<td>India, attracted by high growth and high</td>
</tr>
<tr>
<td>At current rates, trade could be three</td>
<td>The World Bank forecasts growth in the region to be 5% to</td>
<td>returns.</td>
</tr>
<tr>
<td>times the size of the US in 10 years.</td>
<td>6% in 2011 and 2012.</td>
<td>The outlook for the economy remains very</td>
</tr>
<tr>
<td>Productivity and costs will continue to</td>
<td>These economies are highly dependent on trade and are</td>
<td>positive, with growth in the 7.5-8% range.</td>
</tr>
<tr>
<td>rise as China grows more urban and</td>
<td>vulnerable to trade disruptions from any source.</td>
<td>Entrepreneurship is a vibrant engine of</td>
</tr>
<tr>
<td>employment in state enterprises declines.</td>
<td>An aging population will pose demographic challenges.</td>
<td>growth.</td>
</tr>
<tr>
<td>Growth may continue at double digits for</td>
<td></td>
<td>Policy complacency, heavy bureaucracy and</td>
</tr>
<tr>
<td>20 or 30 years.</td>
<td></td>
<td>weak governance are stumbling blocks to</td>
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<tr>
<td></td>
<td></td>
<td>investment.</td>
</tr>
<tr>
<td><strong>Middle East</strong></td>
<td><strong>Turkey</strong></td>
<td><strong>Russia</strong></td>
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</tbody>
</table>
| ► The recent uprisings provide a great opportunity to lay the foundation for a socially inclusive growth agenda.  
► Average real GDP growth (excluding Libya) is projected to reach 4.9% in 2011, up from 3.5% in 2010.  
► The region has a dynamic and young population, vast natural resources and access to key markets.  
► Skills mismatches and tight labor market regulations pose challenges. | ► Capital inflows are strong, with FDI totaling about US$85 billion in 2010.  
► GDP is poised to grow about 5% a year over the next few years.  
► The automotive and electronics industries are rising in importance in Turkey’s export mix.  
► Possible admittance into the European Union could make Turkey a game-changer. | ► Despite setbacks during the recession, the Russian economy, the sixth largest in the world, remains generally strong.  
► Russia’s main trading partners include the Netherlands, Italy, Germany and China; bilateral trade with India is growing rapidly.  
► About 80 million middle-income and lower-middle-income consumers make for a promising market.  
► Heavy reliance on energy exports, bureaucracy and rigid state controls on foreign investment pose challenges. |
India: Economic and fiscal outlook
Global scenario a challenge to Indian growth

<table>
<thead>
<tr>
<th>Region / Countries</th>
<th>2009</th>
<th>2010</th>
<th>Y-o-Y projections</th>
<th>Diff. from June 2011 projections</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>2011</td>
<td>2012</td>
</tr>
<tr>
<td>World Output</td>
<td>-0.7</td>
<td>5.1</td>
<td>4.0</td>
<td>4.0</td>
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<tr>
<td>Advanced Economies</td>
<td>-3.7</td>
<td>3.1</td>
<td>1.6</td>
<td>1.9</td>
</tr>
<tr>
<td>USA</td>
<td>-3.5</td>
<td>3.0</td>
<td>1.5</td>
<td>1.8</td>
</tr>
<tr>
<td>Eurozone</td>
<td>-4.3</td>
<td>1.8</td>
<td>1.6</td>
<td>1.1</td>
</tr>
<tr>
<td>Japan</td>
<td>-6.3</td>
<td>4.0</td>
<td>-0.5</td>
<td>2.3</td>
</tr>
<tr>
<td>UK</td>
<td>-4.9</td>
<td>1.4</td>
<td>1.1</td>
<td>1.6</td>
</tr>
<tr>
<td>Canada</td>
<td>-2.8</td>
<td>3.2</td>
<td>2.1</td>
<td>1.9</td>
</tr>
<tr>
<td>Other advanced economies#</td>
<td>-1.1</td>
<td>5.8</td>
<td>3.6</td>
<td>3.7</td>
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<tr>
<td>Emerging/Developing Econ.</td>
<td>2.8</td>
<td>7.3</td>
<td>6.4</td>
<td>6.1</td>
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<tr>
<td>China</td>
<td>9.2</td>
<td>10.3</td>
<td>9.5</td>
<td>9.0</td>
</tr>
<tr>
<td>India</td>
<td>6.8</td>
<td>10.1</td>
<td>7.8</td>
<td>7.5</td>
</tr>
<tr>
<td>Asean 5*</td>
<td>1.7</td>
<td>6.9</td>
<td>5.3</td>
<td>5.6</td>
</tr>
<tr>
<td>Brazil</td>
<td>-0.6</td>
<td>7.5</td>
<td>3.8</td>
<td>3.6</td>
</tr>
<tr>
<td>Russia</td>
<td>-7.8</td>
<td>4.0</td>
<td>4.3</td>
<td>4.1</td>
</tr>
</tbody>
</table>

*Other than G7 & Euro area
* Indonesia, Malaysia, Philippines, Thailand, Vietnam

Source: World Economic Outlook, IMF, Sep 2011
## India’s Growth Outlook (RBI Q2 Review 2011-12)

<table>
<thead>
<tr>
<th></th>
<th>2009-10 (QE)</th>
<th>2010-11 (Rev)</th>
<th>Q1</th>
<th>2010-11 Q2</th>
<th>Q3</th>
<th>2010-11 Q4</th>
<th>Q1</th>
</tr>
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<tbody>
<tr>
<td><strong>GDP Growth</strong></td>
<td>8.0</td>
<td>8.5</td>
<td>8.8</td>
<td>8.9</td>
<td>8.3</td>
<td>7.8</td>
<td>7.7</td>
</tr>
<tr>
<td>- Agr. &amp; allied activities</td>
<td>0.4</td>
<td>6.6</td>
<td>2.4</td>
<td>5.4</td>
<td>9.9</td>
<td>7.5</td>
<td>3.9</td>
</tr>
<tr>
<td>- Industry</td>
<td>8.3</td>
<td>7.8</td>
<td>9.7</td>
<td>9.0</td>
<td>6.2</td>
<td>5.3</td>
<td>6.7</td>
</tr>
<tr>
<td>- Services</td>
<td>9.7</td>
<td>9.2</td>
<td>10.1</td>
<td>9.5</td>
<td>8.6</td>
<td>8.6</td>
<td>8.9</td>
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<tr>
<td><strong>Final Consup. Expd.</strong></td>
<td>8.7</td>
<td>8.0</td>
<td>9.1</td>
<td>8.5</td>
<td>7.4</td>
<td>7.5</td>
<td>5.7</td>
</tr>
<tr>
<td>- Private Consup. Expd.</td>
<td>7.3</td>
<td>8.6</td>
<td>9.5</td>
<td>8.9</td>
<td>8.6</td>
<td>8.0</td>
<td>6.3</td>
</tr>
<tr>
<td>- Govt Consumption Expd.</td>
<td>16.4</td>
<td>4.8</td>
<td>6.7</td>
<td>6.4</td>
<td>1.9</td>
<td>4.9</td>
<td>2.1</td>
</tr>
<tr>
<td><strong>Gross FCap Formation</strong></td>
<td>7.3</td>
<td>8.6</td>
<td>11.1</td>
<td>11.9</td>
<td>7.8</td>
<td>0.4</td>
<td>7.9</td>
</tr>
<tr>
<td><strong>Net Exports</strong></td>
<td>-7.2</td>
<td>-5.6</td>
<td>-7.7</td>
<td>-7.6</td>
<td>-3.8</td>
<td>-3.9</td>
<td>-8.6</td>
</tr>
<tr>
<td><strong>Growth in IIP (2004-05 series)</strong></td>
<td>5.3</td>
<td>8.2</td>
<td>8.7 (Apr – Aug 2010-11)</td>
<td>5.6 (Apr– Aug 2011-12)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Economic Outlook for 2011/12, Prime Minister’s Economic Advisory Council
To add to the challenge…

► India's exports fell to a 12-month low of $19.9 billion in October 2011 due to global demand contraction
  ► Trade deficit pushed to a four-year-high of $19.6 billion – at this rate it may breach the $150 mark for 2011-12
  ► CAD may widen to 3% of GDP from 2.6% in 2010-11

► The twin deficits raise macroeconomic concerns for India
  ► Can increase pressure on the rupee, which has depreciated 10.5% against the dollar this year

► The government is faced with higher expenditure because of mounting subsidies

► Slowdown in the indirect tax collections in the past few months
  ► Collections in Oct 2011 drop 2.5% as against collections in Oct 2010
  ► Attributable to poor industrial performance and duty reduction on petro goods
The fiscal scenario

<table>
<thead>
<tr>
<th></th>
<th>2009-10 (Actual)</th>
<th>2010-11 (RE)</th>
<th>2011-12 (BE)</th>
<th>2012-13 (Target)</th>
<th>2013-14 (Target)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Tax Revenue</td>
<td>9.6</td>
<td>10.0</td>
<td>10.4</td>
<td>10.8</td>
<td>11.3</td>
</tr>
<tr>
<td>Fiscal Deficit</td>
<td>6.4</td>
<td>5.1</td>
<td>4.6</td>
<td>4.1</td>
<td>3.5</td>
</tr>
</tbody>
</table>

*(% of GDP)*

Source: Economic Survey, 2010-11 and Budget Documents, 2011-12

<table>
<thead>
<tr>
<th>(In Rs Crores)</th>
<th>2011-12 (BE)</th>
<th>Sep 2011 (Actuals)</th>
<th>% of Actuals to BE Current Yr</th>
<th>% of Actuals to BE Prev. Yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Receipts</td>
<td>8,44,912</td>
<td>3,06,635</td>
<td>36.3</td>
<td>55.6</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>12,57,729</td>
<td>5,99,093</td>
<td>47.6</td>
<td>48.5</td>
</tr>
<tr>
<td>Fiscal Deficit</td>
<td>4,12,817</td>
<td>2,92,458</td>
<td>70.8</td>
<td>34.9</td>
</tr>
</tbody>
</table>

Source: Media Reports about latest Controller General of Accounts Data

- 70% of the fiscal deficit BE already achieved in first half of the fiscal year
- Economic slowdown may lead to revision in target fiscal deficit of 4.6% to close to 5%
In the current eco-fiscal backdrop…

► What would be the shape of India’s Tax Policy?
► Key issues:
  ► Increased focus on fiscal consolidation
  ► Maintain international competitiveness of the country
  ► Greater coordination and cooperation at a cross-jurisdictional level
Thank you

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