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The road to growth: In transportation, India will require 350 to 400 km of new subway lines annually (more than 20 times the subway capacity built over the last decade) and between 19,000 and 25,000 km of roads (nearly equivalent to the amount India has built over the last 10 years), representing significant opportunities for businesses

Urbanisation, climate change to drive growth

Infrastructure spend will crank up, as will demand for commodities and clean systems

By PRASAD PADMAN

MAINAINING a profitable growth is the dream of any organisation. But, sustaining the growth momentum is a perennial challenge, more so in times of uncertainty. We are in an era where corporate performance is measured on a quarter-to-quarter basis. The traditional strategy adopted by most companies is to keep looking for opportunities to grow organically, inorganically and diversify the portfolio to broad base the offerings.

The last two years have been a testing period for most companies. Thanks to the generous stimulus package by various governments, what started to look like a great depression has been tamed and most of the emerging economies in the Asia Pacific are back in high growth mode.

The growing asset bubble in the developing economies and deflation fears in the developed world pose new challenges as the stimulus effects fade away.

Learning from the recent experience, it is quite clear that companies need to constantly identify where the next growth wave would come from and what are the macro trends that will enable and drive this growth. As of today, urbanisation, climate change and an ageing population are going to be major changes sweeping across the Asia-Pacific region. And these changes certainly bring with them opportunities for businesses to identify and peg their growth.

Growth drivers in Asia-Pacific

Urbanisation: A few years ago, the world crossed a threshold. For the first time

more than half of the human race are living in cities. By 2050 the figure will rise to 70 per cent. We are adding the equivalent of seven New Yorks to the planet every year. Much of Asia's growth over the next five years and beyond will be in its cities.

China and India are in the vanguard of a wave of urban expansion that is restoring the global prominence that Asia enjoyed before the European and North American industrial revolution. According to a recent report by the McKinsey Global Institute (MGI), it is estimated that by 2025, nearly 2.5 billion Asians will live in cities, accounting for almost 54 per cent of the world's urban population – driving key infrastructure and energy systems to the limits. Already many Asian cities classify as mega cities with population of 10 million or above. These include Tokyo, Mumbai, Delhi, Shanghai, Kolkata, Dhaka, Karachi, Manila, Beijing and Osaka.

This fundamental demographic shift is likely to have significant consequences for the world economy and offer exciting new opportunities for businesses. By 2025, the number of urban households with true discretionary-spending power in India could increase sevenfold, to 89 million households and quadruple to nearly 280 million in China. For businesses, the significant increase in per capita urban incomes and middle income households offers the potential of vibrant new markets to serve.

Climate change: Global warming and sustainability of current energy consumption patterns have become one biggest challenge that the world is facing. The world is still divided on the impact of greenhouse gas emissions on climate change but low carbon growth strategy is still increasingly a key driver for growth primarily driven by

the quest for a sustainable development model. India has already made public its intentions of reducing emissions per unit of output by 25 per cent from 2005 levels by 2020. It is also working on a low carbon growth strategy to be part of the next five year plan. Meanwhile, China has announced that it will reduce emissions per unit of output by 40-45 per cent from 2005 levels by 2020.

Shift towards renewable energy sources represents only part of the opportunity. More than half of the different measures to cut carbon emission would have to come from energy efficiency in residential as well as industrial applications. Today more than two-thirds of the industrial electricity is used in running motors and most of the motors that are currently used in industrial application are not energy efficient, an opportunity for innovation to change the market towards energy efficient systems.

Driving business advantage

So what markets are likely to benefit the most from these trends? By 2025, the largest markets in India and China will be transportation and communications, food and health care, followed by housing and utilities, recreation, and education. Even slower-growing spending categories in Asia will represent significant opportunities for businesses.

In transportation, India will require 350 to 400 km of new subway lines annually (more than 20 times the subway capacity built over the last decade) and between 19,000 and 25,000 km of roads (nearly equivalent to the amount India has built over the last 10 years). Even Japan and Korea have plans to step up investments in mass transportation systems. Japan an-

nounced in its 2010 budget allocation of 260 billion yen (\$3.9 billion) for new Shinkansen bullet train projects. The railway boom is also aiding growth in advancement of technology in the areas of simulation (for training drivers), sway, tilt and vibration control systems.

Another area that is witnessing investments in the area of transportation is electric vehicles (EVs). Japan and China are making real progress with electric vehicles while Australia and Korea are at early stages but could catch up. In Japan, Subaru and Mitsubishi launched EVs in 2009 and Nissan will launch its Leaf in the next few months. The Japan Post Service plans to convert its entire fleet of 20,000 vehicles to EVs by 2016. In China, most large auto makers are developing EVs. BYD, in which Berkshire Hathaway owns a 10 per cent stake, is focusing exclusively on EVs.

The multiplier effect

The rapid growth from urbanisation driven by China and India in Asia-Pacific is not just going to push up infrastructure spend and energy consumption, but it is going to have a resultant demand for commodities, increase in carbon emissions, spiral demand for clean water and health care and last but not the least the need for efficient mass transportation systems.

These are interesting times for companies with business interests in the Asia-Pacific region. As China and India push the momentum in the region, other countries like Indonesia and emerging markets of Vietnam, Thailand and Philippines are likely to help sustain the momentum for a few decades to come.

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