

# Harnessing India's Economic Momentum Through Strategic Bond Allocation

August 2025



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## India's Development Vision and Economic Trajectory

In 2024, Indian Prime Minister Narendra Modi announced a bold vision to transform India into a developed economy by 2047<sup>1</sup>. Achieving this goal would require sustained real GDP growth of approximately 7.5–8% annually over the coming decades - a trajectory that many view as ambitious. While we refrain from making a definitive stance on the attainability of this objective, we do see a credible case for continued robust economic expansion in the medium term.

Key government initiatives such as the “Make in India” are implemented to catalyse investment in infrastructure, boost domestic manufacturing and enhance export competitiveness. These efforts, combined with a large and young population, ongoing policy reforms, and increasing integration into the global economy, position India to capitalize on its long-term structural shifts. To shed new light on the topic, we present illustrative examples that are not commonly addressed by market participants.

## Shipbuilding: A Rising Industrial Powerhouse

Historically, economies have advanced along the supply chain by starting with basic manufacturing and gradually transitioning to higher-value production. While technological advancement is often cited as the primary driver of this progression, favorable demographics play a critical - yet underappreciated - role in enabling sustained industrial upgrading.

Countries that experience rapid growth in shipping activity stand to gain significantly more if they also possess domestic shipbuilding capabilities. India exemplifies this dynamic. With 13 major ports and 200 minor ports, the country has seen its port capacity double over the past decade. Cargo traffic has increased by 50%, growing at an average annual rate of 6%. In FY 2024-25, major ports handled around 855 million metric tons (MMT) of cargo, showing an impressive annual growth rate of 4.3%<sup>2</sup>. The booming shipping industry is creating a strong demand for India's shipbuilding sector.

Currently, global shipbuilding is dominated by China, Japan and South Korea. However, India is emerging as a competitive or even dominant player. Its highly educated population – defined as individuals with upper secondary and post-secondary education – has surpassed China's in absolute terms and is growing at a faster pace. In contrast, Japan and South Korea's highly educated populations are projected to reach their peak between 2030 and 2040. Favorable demographic dynamics suggest India is well positioned to gain increasing prominence in the global shipbuilding industry.

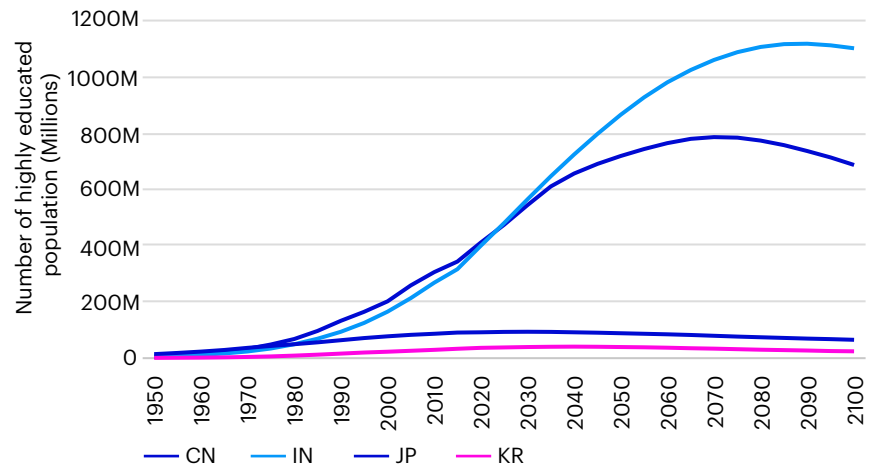
1. Source: Economic Diplomacy Division, Ministry of External Affairs, Government of India. PM Modi announces vision to turn India into a developed nation over the next 25 years. January 10, 2024.
2. Source: Press Information Bureau, Government of India. India's Major Ports Achieve Historic Milestones in FY 2024-25, Driving Growth and Global Competitiveness. May 13, 2025.

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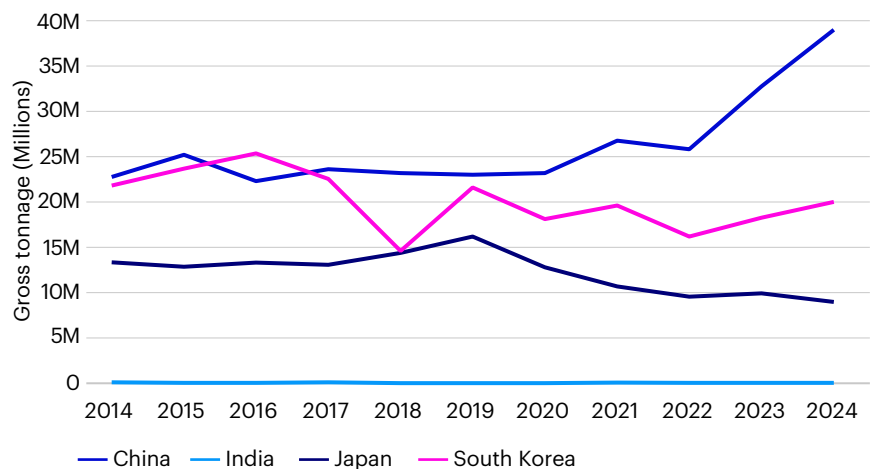
**Figure 1: Highly educated population by country**



Source: Wittgenstein Centre, December 6, 2024.

Historical data shows a strong correlation between educational attainment and shipbuilding output. South Korea and Japan have a relatively high proportion of highly educated individuals. Their shipbuilding industries developed rapidly in the years when the number of highly educated population was increasing. From 2015 to 2025, China's post-secondary education population grew while South Korea and Japan experienced declines, with South Korea's growth rate falling below that of China. During this period, China's shipbuilding industry expanded rapidly, while South Korea and Japan have seen a decrease in the gross tonnage of ships built. Looking forward, India's post-secondary education population growth rate is projected to remain higher than that of China, Japan, and South Korea. After 2030, an expected deceleration in China's post-secondary education population growth rate could pave the way for India's shipbuilding industry to gain global traction.

**Figure 2: Ship built by country of building (Gross tonnage)**



Source: UNCTADstat. Data as of June 2025.

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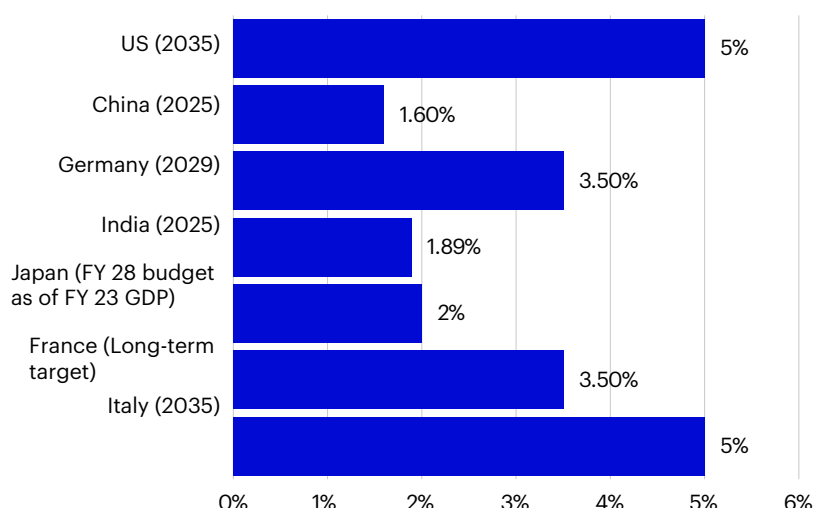
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With diversification of shipbuilding locations, ample government support, and more high-educated labor force, India is becoming an attractive destination for South Korea and Japan shipbuilders. India's shipbuilding industry is estimated to grow to USD 8 billion by 2033 from USD 1.12 billion in 2024, representing a compound annual growth rate (CAGR) of 25%<sup>3</sup>. According to the National Maritime Foundation, the shipbuilding industry exhibits an estimated investment multiplier as 1.82<sup>4</sup>. If India continues to increase its shipbuilding capacity consistently, this rapidly expanding industry will create huge opportunities and drive broader economic growth in India.

## National Defense Manufacturing: Strategic and Economic Leverage

Defense spending, typically accounting for 2-3% of GDP in major economies, is a strong driving force for economic growth. Many of the world's leading countries have set clear targets in recent years to increase defense budgets. At the June 2025 North Atlantic Treaty Organization (NATO) summit, member states committed to ramping up defense and security-related expenditures to 5% of GDP by 2035<sup>5</sup>, aligning with U.S. President Donald Trump's aggressive goal of raising military spending to 5%. Italy has expressed its intention to gradually increase its defense budget to meet the NATO target. Other major economies - including Germany, Japan, UK, and France - have also outlined long-term plans to boost defense expenditure. However, India has not yet set a formal defense spending target, suggesting substantial growth potential in its defense sector as global security dynamics continue to evolve.

**Figure 3: Defense budget target by country**



Source: Bloomberg, Invesco. The numbers are target numbers as of the year in parentheses. Data as of June 2025.

India is currently the world's fifth-largest defense spender, with a 9.5% increase over the previous year. The sector is undergoing rapid growth, with over 4,000 new companies entering the market in the past year. Three Indian firms now rank among the world's top 100 defense companies<sup>6</sup>.

3. Source: Drishti The Vision. Boosting India's Shipbuilding Industry. February 4, 2025.

4. Source: National Maritime Foundation. Navigating Economic Security Through Shipbuilding. January 18, 2024.

5. Source: BBC. Trump says Nato's new 5% defence spending pledge a 'big win'. June 26, 2025.

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India is one of the largest arms importers, accounting for 10% of total global arms imports.<sup>7</sup> India's defense manufacturing sector is undergoing a significant transformation, driven by the country's ambition to achieve self-reliance and strengthen national security. The private sector is playing a leading role, supported by government initiatives such as the Atmanirbhar Bharat, which aims to boost domestic defense manufacturing. The Indian government and industry are expanding exports of defense products, targeting USD 6 billion in aerospace and defense exports by 2029. Early achievements are already visible – India ranks among the front runners in self-made weapons and is also “making for the world”. Companies like Hanwha and Airbus have established joint ventures in India to manufacture defense equipment. Additionally, Global Capability Centers (GCCs) based in India are actively developing software and digital solutions for major international defense manufacturers.

India's defense budget is estimated to account for 1.9% of GDP in FY2025-26<sup>8</sup>, with enormous room for growth. There are often demands for the Ministry of Defense (MoD) to allocate a higher share of the GDP to meet external and internal security challenges. According to various academic studies, India defense expenditure has a GDP multiplier of approximately 1.2<sup>9</sup>. If defense expenditure rises to 3% or higher of GDP<sup>10</sup>, it could contribute over 1.3% to overall GDP growth.

## **Railway infrastructure: The Engine Behind Expansion**

To achieve its ambition of becoming a USD 5 trillion economy, India is accelerating infrastructure development at an unprecedented pace. The government has launched the National Infrastructure Pipeline (NIP), along with several initiatives, to drive growth across the sector. In the Union Budget 2025-26, capital investment for infrastructure was increased to USD 128.64 billion – equivalent to 3.1% of GDP<sup>11</sup>. Infrastructure projects such as construction development, and townships have also attracted more foreign portfolio investments (FPI). Substantial advancements have been achieved across highways, railways, and airports, and intra-city infrastructure is also gaining momentum.

Indian railways achieved a historic milestone, transporting over 30 million passengers in a single day on November 4, 2024<sup>12</sup>. However, India still has low railway length per capita. From 1995 to 2023, China doubled its railway length per capita from 0.052 meter to 0.112 meter. Although India saw higher total operating length of its railways, its railway infrastructure has not kept pace with its population, resulting in the current level similar to China's in the 1990s. This gap highlights the urgent need for investment and development in India's railway system.

7. Source: Stockholm International Peace Research Institute. The SIPRI Top 100 arms-producing and military services companies in the world, 2023. Data as of 2023.

8. Source: Delhi Policy Group. India's Defence Budget 2025-26. February 12, 2025.

9. Source: RAND Corporation. How Does Defense Spending Affect Economic Growth? May 7, 2021. International Monetary Fund. Fiscal Multipliers: Size, Determinants, and Use in Macroeconomic Projections. September 2014.

10. Source: PRS Legislative Research. Demand for Grants 2025-26 Analysis: Defence, February 4, 2025.

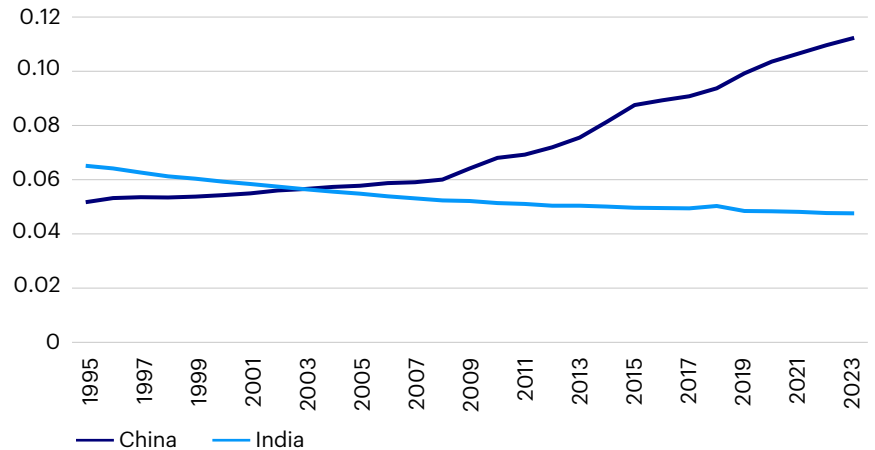
11. Source: India Brand Equity Foundation. Infrastructure Sector in India. April 2025.

12. Source: Government of India, Press Information Bureau. Indian Railways sets new record: Over 3 Crore passengers traveled in Indian Railways in a single day on 4th November, 2024. November 6, 2024.

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**Figure 4: Railway length per capita (meter/person)**



Source: Bloomberg, World Bank, Invesco. Data as of June 2025.

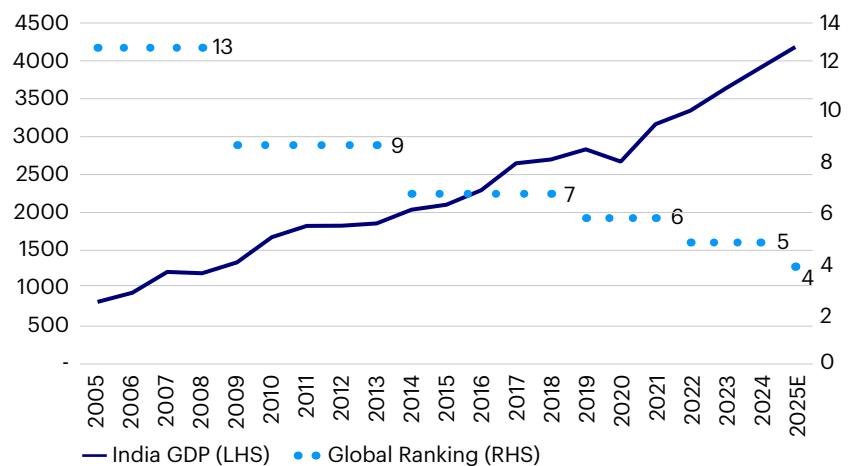
According to the World Bank, India will need to invest USD 840 billion in infrastructure over the next 15 years to meet the demands of its fast-growing population<sup>13</sup>, representing a tremendous opportunity for growth.

India is investing heavily in railway construction to improve railway services and shorten travel time. One flagship project is the Mumbai–Ahmedabad High-Speed Rail Corridor, which will connect Mumbai in Maharashtra with Ahmedabad in Gujarat, spanning approximately 508 kilometers. Developed with Japan's Shinkansen technology, the project is expected to be fully operational by 2028-29. The trains are expected to run at speeds up to 350 km/h, reducing travel time between the two cities from over 7 hours to just 2 hours<sup>14</sup>. It marks a significant step towards modernizing the nation's transport infrastructure and connecting its major cities with world-class rail services.

## Positioning for Investment: A Market Too Large to Ignore

India is undergoing a period of rapid economic development, notably in manufacturing sectors like shipbuilding and national defense, as well as infrastructure development, particularly railways. With its economy poised to become the top three globally, it is emerging as a market too large for global investors to ignore.

**Figure 5: India's historical/forecasted GDP growth and global ranking (USD billion)**



Source: Bloomberg, World Bank, International Monetary Fund, CNBC. Data as of May 2025.

13. Source: World Bank Group. India's Urban Infrastructure Needs to Cross \$840 Billion Over Next 15 Years: New World Bank Report. November 14, 2022.

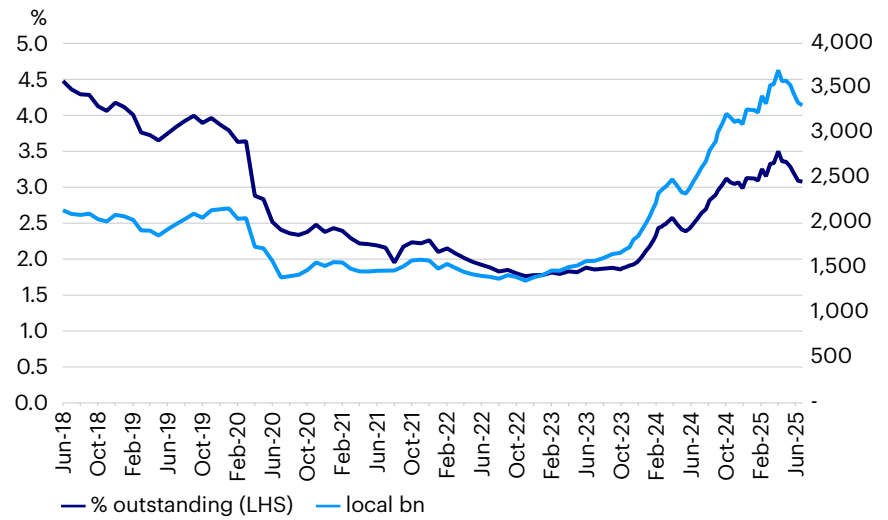
14. Source: The Government of Japan. The Mumbai-Ahmedabad Bullet Train: The First Step Toward a Safe, Sustainable Society. September 8, 2023.

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Despite this, foreign ownership in key industries remains relatively low compared to other major economies. For example, foreign ownership accounts for only around 3% of local currency government bonds, though participation has been rising since 2022. This relatively low level of foreign participation indicates significant untapped potential for global investors to capitalize on India's robust growth.

**Figure 6: Foreign Ownership of Local Currency Government Bonds**



Source: The Clearing Corporation of India Limited, Invesco. Data as of June 2025

Amid rising geopolitical risks across the globe, India is comparatively well-insulated. Investing in Indian fixed income shows low correlation with other asset classes, providing diversification benefits. Combined with India's robust growth momentum, healthy corporate financials, and policy stability, India presents a compelling case for increased allocation in global portfolios.

\*With contributions from Daisy Wang

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