

From the Desk of...

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Issue No.60 - May 2011



Adit Jain - Has India Reached Its Tipping-Point?

As part of the Café Insights series of interviews with inspiring speakers, The Insight Bureau recently caught up with Adit Jain, Chairman of IMA India and leading commentator and speaker on Indian business and key economic and political developments.

When you think back to 10 - 15 years ago India seemed to be so full of promise and great potential, yet today, more than a decade later, we still seem to be talking about India in terms of promise and potential. However, we've recently seen growth rates move up from the modest 5-6% level to more like 8-9%, so has India finally made it? Is India now permanently on a faster growth trajectory?

I think it has. I remember the old days when we talked about India having a promising future, but I think that in the wake of the global financial crisis, and rather abruptly, that future is already here. For several reasons, I think the most important amongst them is the fact that India will grow in the decade ahead, at about 9-9.5% per year, because of certain fundamental structural changes in the economy.

It is a structural shift for the following reasons; the most important reason is that India's savings rate is now 36-38%, with an incremental capital output ratio (which is basically jargon for efficiency in the economy) of 4. You divide 36 by 4, using an empirical formula and you get 9. So, I believe that the average growth rate going forward will be in the reasonable 9%.

What can we really put this higher performance down to?

I think you would have noticed this as well, if you look at other Asian economies, we have seen physical transformation take place in their infrastructure, such as better roads, better ports, better airports and nicer hotels. That happened when their savings rate actually exceeded 50%. This is happening in India too, albeit at a slow, wobbly pace. But now, you will see nicer airports, motorways and expressways, and the infrastructure is actually coming up. So, the first driver of growth would be a higher savings rate and a more efficient economy.

I think the second driver is going to be the effective

privatisation of the economy. I was looking at some sums which suggested that in the year 2000 the private sector share of GDP (in turn the total revenue of private sector companies) was 40% and state enterprise was 60%. Ten years down the road, the private sector share of total revenues was 68-70%. So, we did a very rough plot and ten years forward what we noticed is that the economy is effectively being privatised because the private sector is growing faster. And what that actually means is that you have more efficiency. So, greater efficiency will drive growth.

The joke that does the rounds is that the Indian economy only grows during the night when the government is asleep and can't therefore get in the way. What's your view on governance across the various shades of government over the past decade?

You are quite right that our performance and efficiency has not really been the result of good governance. I think India will grow at 9%, despite the best efforts of politicians. But, there is a silver lining to this cloud, which stems from the rise of civil society. For the first time, politicians and senior bureaucrats are going to jail for the crimes they have committed and I think that is very important. The most important legislation which is being debated is the Lokpal bill which is basically the appointment of an ombudsman to examine corruption. If that bill is passed, even a prime minister could be charged whilst he is still in office.

Do you think that the reform initiatives, which have been underway in India now for over 15 years still have a long way to go? I remember it was Manmohan Singh back then as the Finance Minister leading the way?

Yes, I think they have been plodding on but I think the pace of reforms has narrowed, rather slowed, and I think a lot of them have moved from the Federal Government to the States. I

mean there are a few important reform initiatives that the federal government needs to undertake; The first one I mentioned is about passing the anti-corruption bill. The second one is actually on its way, which nobody has even mentioned or discussed openly, which is very surprising because it will be a very important game changer. This is the Unique Identification Number (UID). The UID Authority of India is chaired by Nandan Nilekani, who used to be the Chairman of Infosys. The idea is to give every Indian a unique PIN number or Smartcard which will essentially ensure that government services that are delivered to people, for example, subsidies – fertilizer subsidies food subsidies, and education vouchers – can all be delivered more efficiently. Currently, the efficiency rate of government delivery is no more than 20%. I cannot claim that this will reach 100%, but even if it were to double, then suddenly you will find a more productive India. That is the second reform.

The third reform that is pending is the goods and services tax. If this were to go through it would add, to my mind, additional revenue of 3% of GDP per year. I did some sums which suggested that, over a 10 year period, this would amount to an extra 1 trillion dollars in the treasury coffers which they would not have received. So, I think there are three or four important legislations which are pending. If they happen, I would be quite happy.

Right now, the world economy has Asia to thank for dragging it out of the recent global recession, but it is China, rather than India or other economies, powering this.

Well, I think currently it remains a China story. But, if you were a multi-national executive running a large business, you would look at India 10 years henceforth and I think in 2020 50% of global growth will come out of India and China. I think China will contribute 30% of global growth and India will contribute 20%.

The comparisons with China are inevitable and often talked about in too simplistic terms but they are starkly different systems; do you ever see a day when India will honestly rival China as an economic power?

I think we will have a younger population, at least for the next 25 years. The other important point is we talked about global growth and market opportunities. In 2020, India will be a 5.5 trillion dollar economy. So, big companies like GE, Samsung and LG will have to place their bets in India, as they are doing now.

Adit, you are one of the most comprehensively well-placed people to advise international companies on India, you regularly engage with India's Government ministers and other politicians, economists and captains of Indian businesses and you are bringing foreign subsidiary CEOs and CFOs together throughout the year to talk about business in India. Do you think global companies have

changed their perceptions of India?

Yes, in very serious ways; the most tangible way is that the chap running the India business now reports directly to someone in America or Europe. So, the concept of India reporting into Singapore or Hong Kong is dying. In fact, a lot of our 1,400 clients who run India are actually running a number of other countries too. So, that shows a rise in the pecking-order. One important example is GE, which has moved away silos – from vertical product structure into a country structure. So, the guy running India actually has plainer responsibility -- they want to become a 20 billion dollar business in a few years. A lot of the larger companies are already worth 10 billion dollars in India, so it is in fact a very large market. So, if you were to cast China aside in the equation, you would find that in non-Japan Asia, apart from China, India is the only country that can provide such a large market opportunity.

When you brief CEOs of American, British, European companies, or present to Boards, perhaps it is hard to generalise, but do you find that there are frequent misunderstandings or wrong assumptions they tend to make?

Yes, I suspect these misperceptions might arise. I think they might over-judge the ease of tapping into opportunities in India. I think the opportunity is very large but clearly the biggest challenge and competition does not stem from other multinational companies. Their challenge actually stems from taking on Indian companies, who are run more efficiently, have better cost structures and are able to attract good people. So, there is no question that a few of them will go wrong.

India has a reputation for simply not getting its act together -- especially on hard infrastructure projects that let the economy down, but also soft infrastructure (despite its booming population) of sufficiently well educated managers and professionals. Is that unfair? Does this continue to put-off international companies or prevent them from making the kinds of returns they should from India?

I think you are quite right. Eventually, we will be able to fix the hard infrastructure, though it will take a lot longer than it did in other countries, by virtue of the fact that we are fundamentally inefficient. I think it will be a lot harder to fix the soft infrastructure. The biggest challenge these days for most managers is to find people. But, I think the way forward is to fix education and the way to do that is to allow private universities to be set up, so as to produce competent and educated people who can actually spell, read and write. That will be a longer challenge and a slower process, and until we get a grip on it, the struggle will continue. Also, our costs are going up with salaries rising at an average of 12-15% a year, with a currency that is appreciating at 2-3% a year.

I believe China's problems are different but they are also there. I think China's cost structures are rising and some of it is the government's intent for domestic consumption to rise as the economy rebalances from exports to domestic consumption. Coupled with that, the RMB will also rise by about 15% over the next three years. So China will have its problems too, but I guess they will handle them better.

Sitting here in Singapore, dealing with international business people and hearing the general enthusiasm for India, one could easily get the impression that India has now reached its "tipping-point" and that progress on a number of fronts is gaining momentum

and that India is finally breaking away from its past. How would you sum this up?

I think you are right, but I am sure there is a high probability that India will get stuck as a middle income country, where you achieve mediocrity and you go so far but no further. We could increase our per capita income to US\$ 8,000 to US\$10,000 a year and get stuck there without becoming a first world country in the next 50 years. There are several reasons why that could happen, one of them being a lack of governance, the evolution of oligarchies and conspiracies between politicians, businesses and governments. Unless we are able to fix that, we might just find that we have gone thus far and no further.

Café Insights

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About Adit Jain and The Insight Bureau

Adit Jain is a leading commentator and speaker on Indian business and key economic and political developments. He regularly provides briefings to Boards of major international corporations in the US, Europe and Asia. He is a frequent speaker at emerging market seminars across the world. www.insightbureau.com/AditJain.html

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