INDIA'S FUTURE

Or prosperity will spread in India but happiness will not, until we fix governance

by

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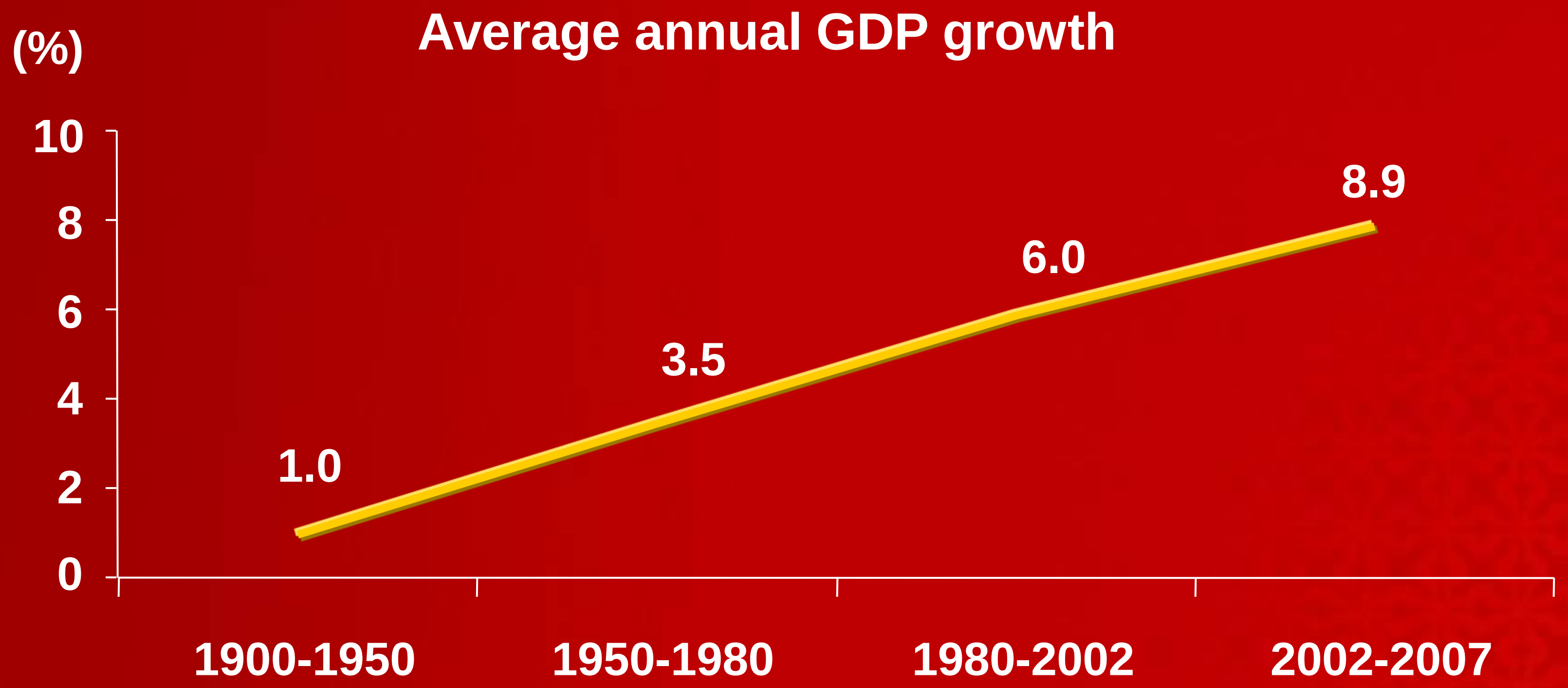
- Where are we coming from?
- Where are we today?
- Where are we going in the future?

Even though the world has just discovered it, the India growth story is not new

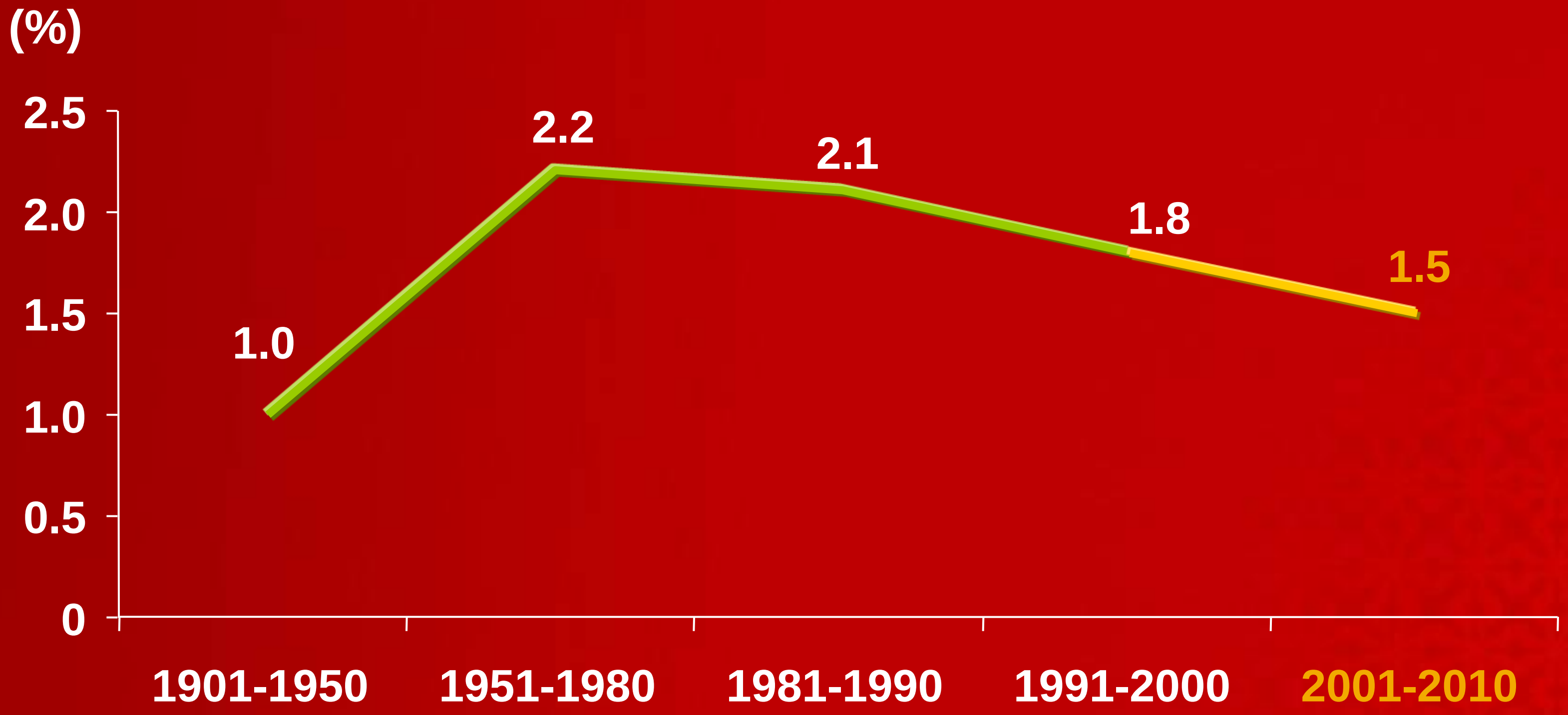
It has been going on for 25 years

What is the India story?

28 years of high growth

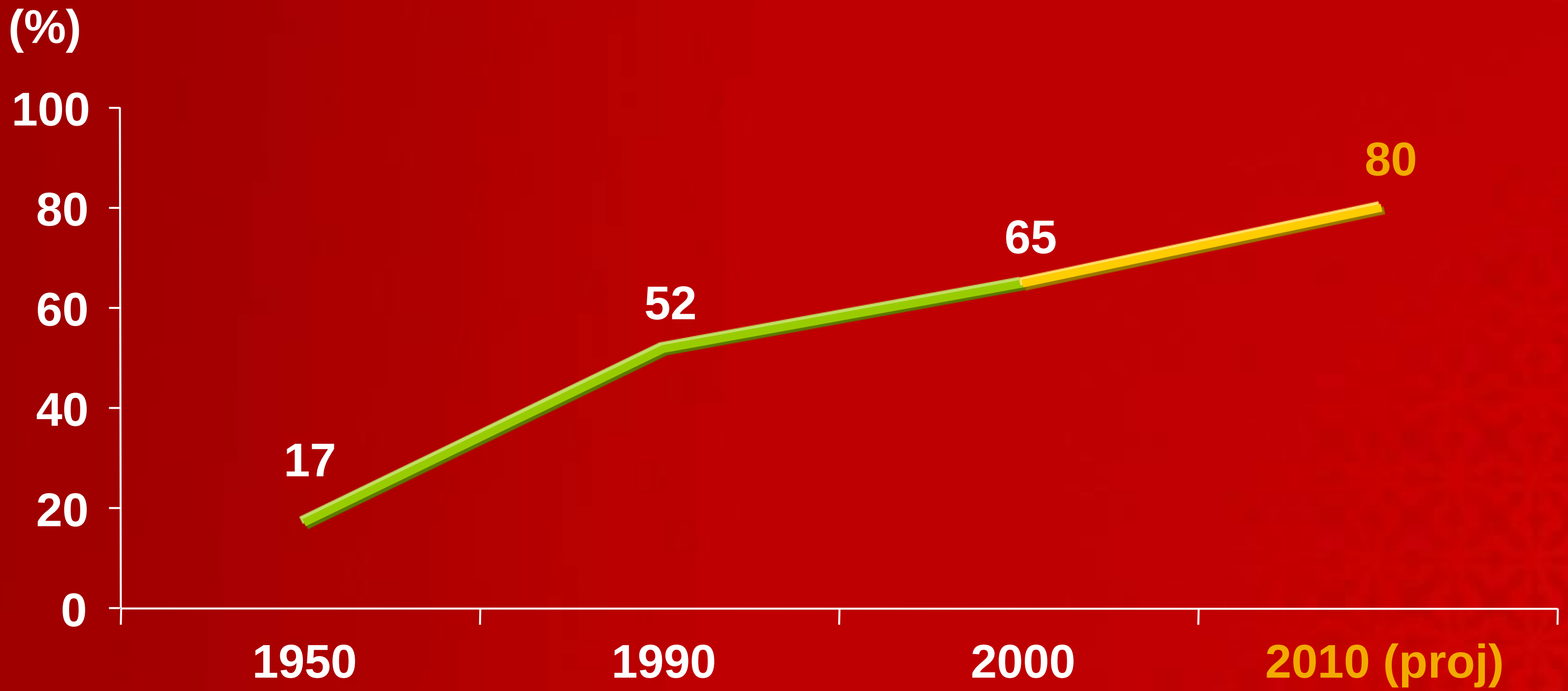


Population growth is slowing



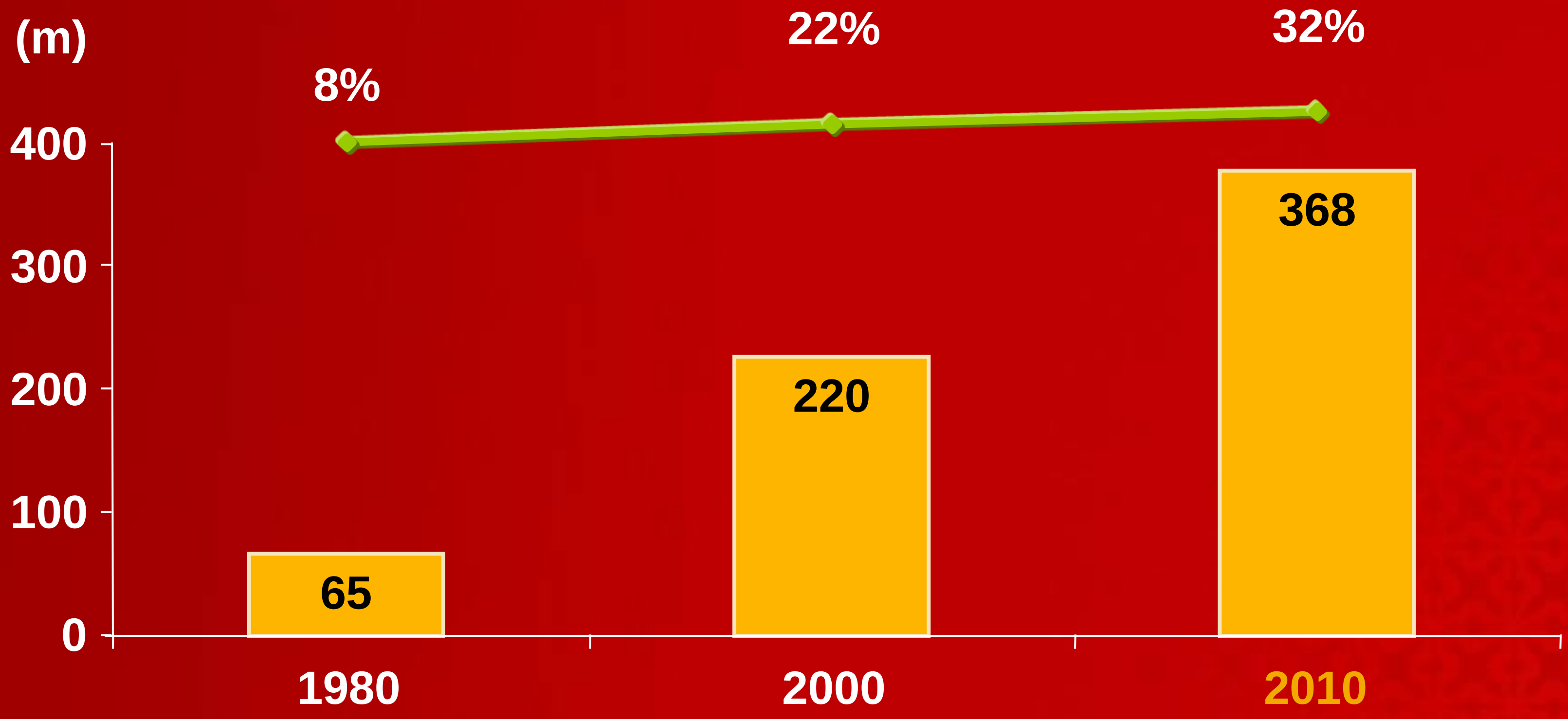
Sources: 1900-1990: Angus Maddison (1995), Monitoring the World Economy, 1990-2000:Census of India (2001)

Literacy is rising



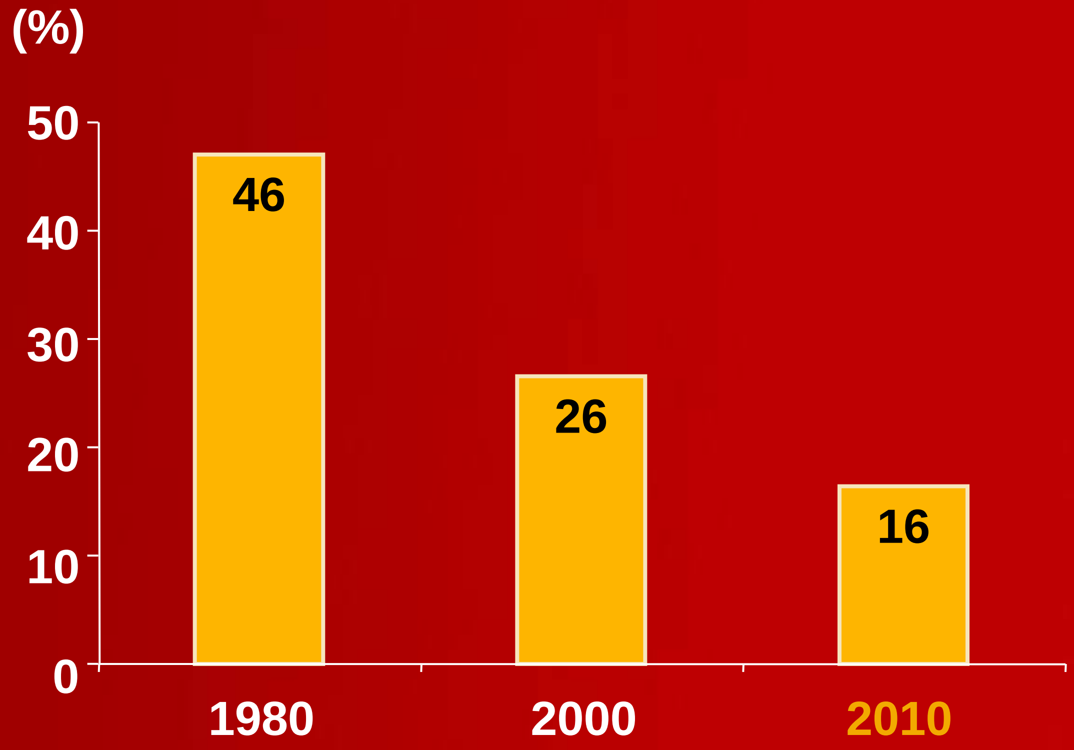
Source: Census of India (2001)

When middle class is 50% then the politics will also change



Source: The Consuming Class, National Council of Applied Economic Research, 2002

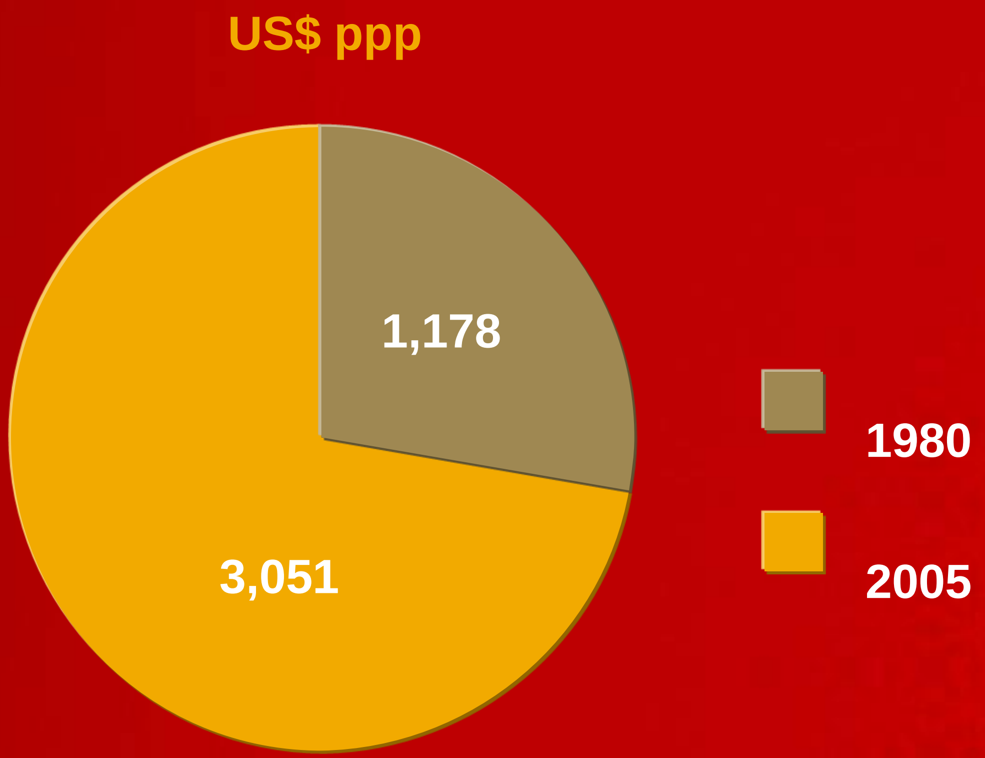
Poverty is declining



1% of the people have been crossing poverty line each year for 25 years

Equals ~ 200m

Per capita income gains



Source: World Bank

India is now the 4th largest economy

It will overtake Japan between 2012 and 2014 to become the 3rd largest

The India model is unique

Drivers of growth

India

- Domestic

East and S.E. Asia

- Exports

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India

- Domestic
- Services

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- Manufacturing

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- Investment

Drivers of growth

India

- Domestic
- Services
- Consumption
- High tech, capital intensive industry

East and S.E. Asia

- Exports
- Manufacturing
- Investment
- Low tech, labour intensive industry

Implications of India model

‘Domestically led’ means:

- Insulation from global downturns
- Less volatility
- We will come out of the global crisis faster

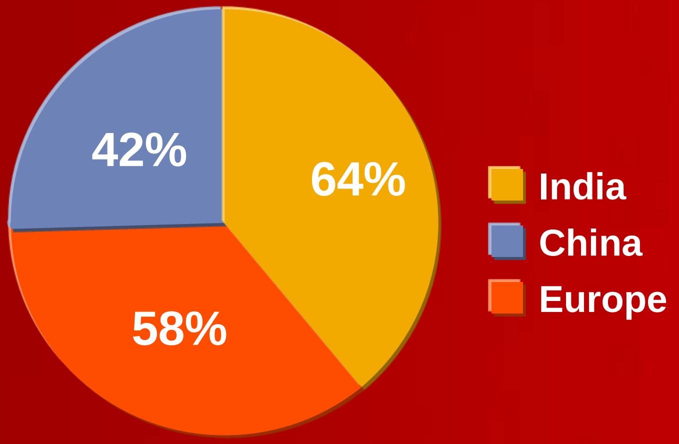
Implication of India model

‘Services led’ raises uncomfortable questions:

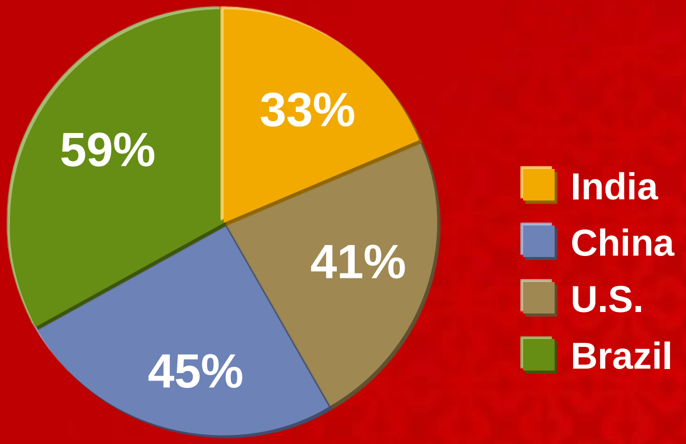
- Have we skipped the industrial revolution?
- How do we take people from farms to cities?
- Will SEZ’s be our tipping point?

Implication of India model – Consumption led

People Friendly: Consumption as % of GDP



People Friendly, Less inequality: Gini Index



Will India become the next big consuming economy after the U.S.?

Reasons for success

India’s success is market-led whereas China’s is state induced

The entrepreneur is at the centre of the Indian model

Rise of globally competitive Indian companies

RELIANCE

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Applying Thought

bharti

HDFC BANK

RANBAXY

BHARAT FORGE

TATA

TATA
CONSULTANCY SERVICES

ICICI Bank

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- 80% credit goes to private sector (v~10% in China)

Public space is a problem

We have

- Dynamic democracy with honest elections
- Free, lively media and press

But we also have

Poor governance!

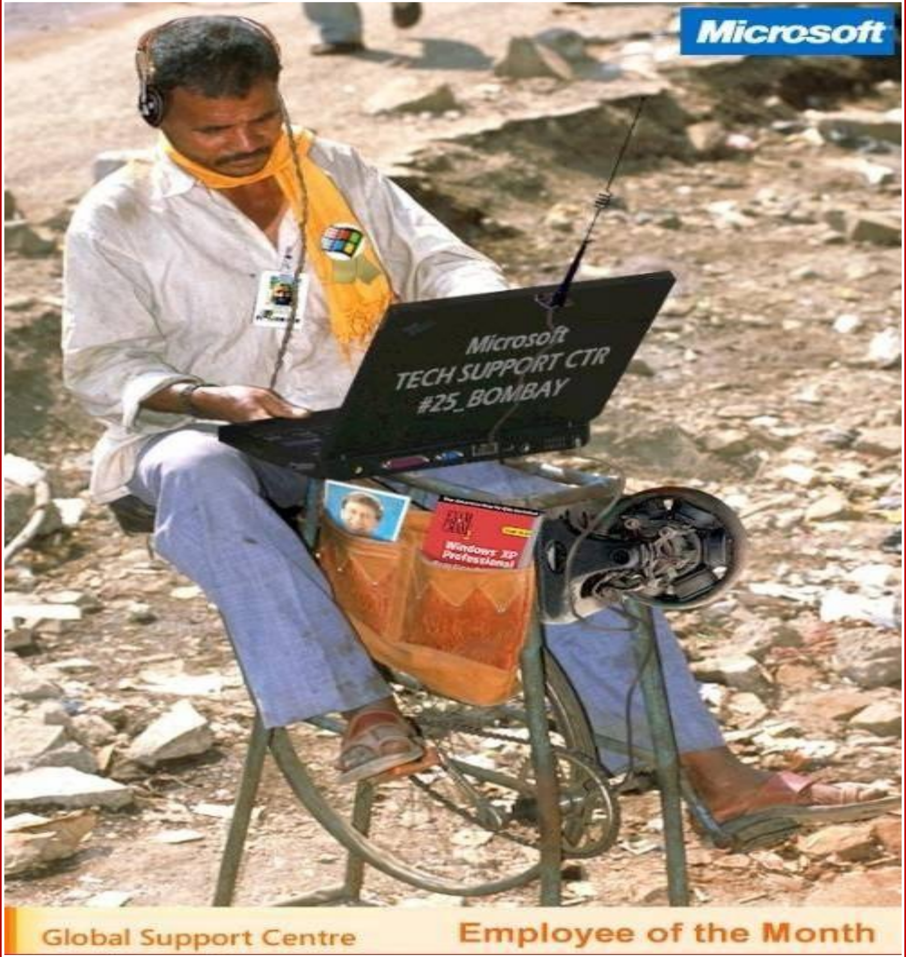
Governance Failures

- Not the minister caught with a bribe
- 1 out of 4 school teachers absent in government schools
- 2 out of 5 doctors absent in primary health centers
- Delhi’s water
- Land titles
- Etc

Ironically, we used to have world class institutions from 1950-1980, but our problem was growth.
Now we have growth, but our institutions are failing

- Bureaucracy
- Judiciary
- Police

The economy grows at night when the government is asleep


Microsoft
Microsoft
TECH SUPPORT CTR
#25_BOMBAY
Windows XP
Professional
Global Support Centre
Employee of the Month

Key reforms

- Opened economy to trade and investment
- Dismantled controls
- Lowered tariffs
- Dropped tax rates
- Broke public sector monopolies

Understanding India’s economic success

- Remarkable --every government has reformed (slowly) since 1991
- Even slow reforms add up
- 65 countries have done the same reforms – why did India become the second fastest in the world?
- Unappreciated fact – rule of law

“By 2010 India will have world’s largest number of English speakers”

“When 300 million Indians speak a word in a certain way, that will be the way to speak it.”

Professor David Crystal

Cambridge Encyclopedia of the English Language

Understanding India's economic success

- Mental revolution among the young
- 'I want to be Bilgay'
- Raju's secret of success
- Banianisation of society
- 180 TV channels; 65 news channels
- The rise of Hinglish

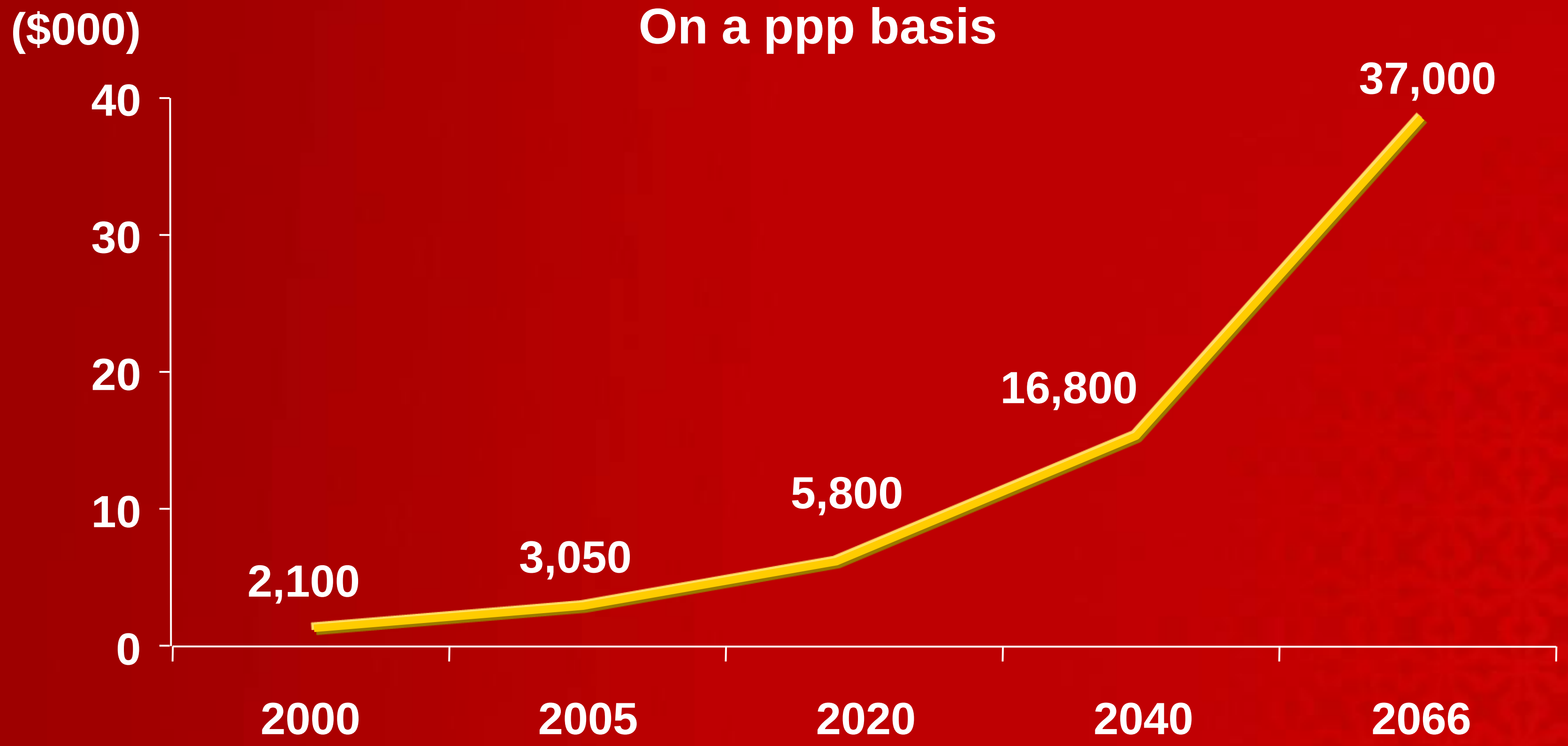
Where are we today?

- Growth fell to 6.7% in 08-09; 7% in 09-10
- Pain has been less than in China
- Competitive companies have recovered faster.
- Risk of protectionism has receded
- Recovery has been ahead of the world

Where are we going?

- Base case post recovery is 7.5 % – 8.5 % GDP growth
- Democracy will not permit more than 8% unless you have a Thatcher
- 1.5% population growth
- Demographic dividend – growth will continue beyond China’s

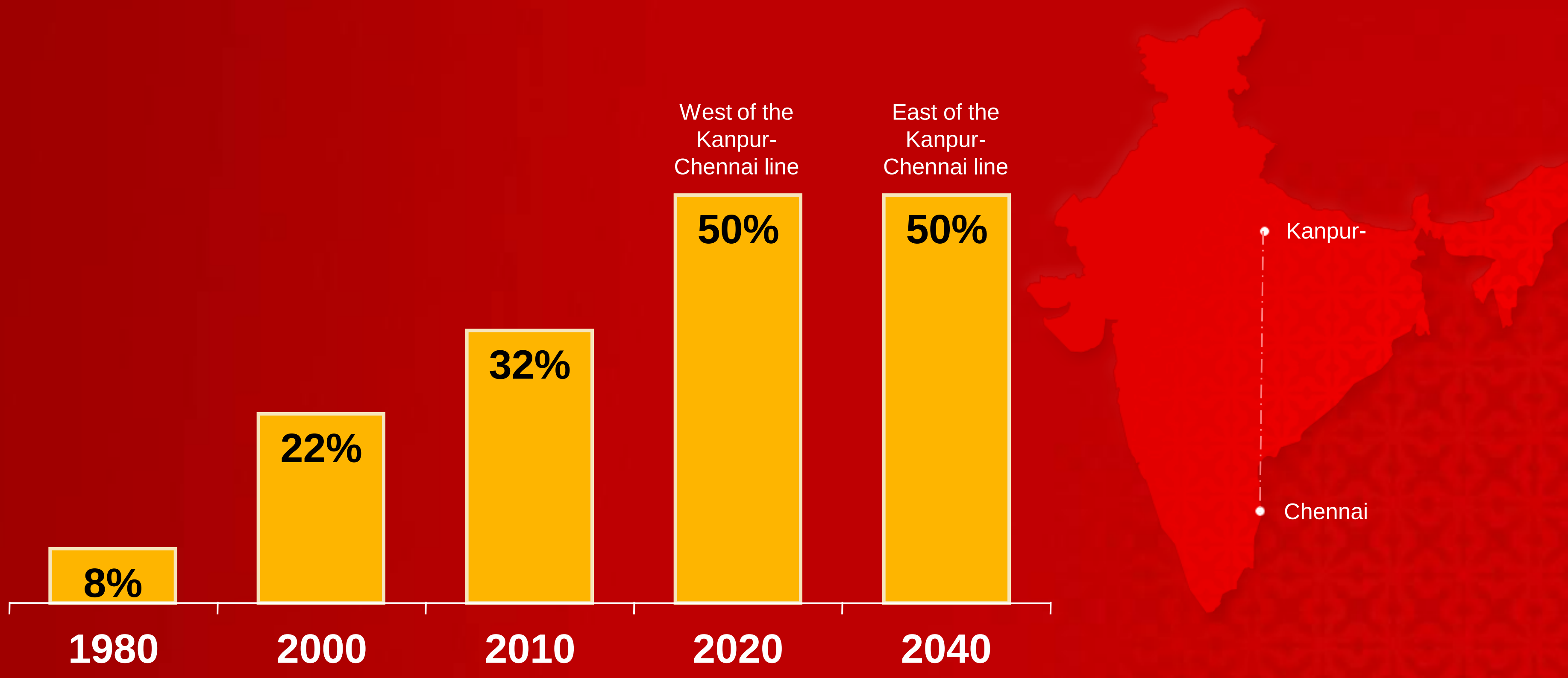
Per capita income



Convergence in the 21st century

- Why convergence is intuitive?
- Convergence didn’t happen in the 20th century because the world was closed
- Returning to a world of equality prior to 1750
- When China and India accounted for 45% of world GDP

India will gradually turn middle-class



What could stop the show?

- **Infrastructure**
  - Improving via public-private parterships
- **Fiscal Deficit**
- **Governance**

None of these stopped the show in the past 25 years

- **Nuclear War?**

Education System

Is reasonably good for the top 20%

But it is abysmal for the rest

- 1 in 4 teachers is absent in government primary schools
- Hence, 54% of children in urban India are in private schools

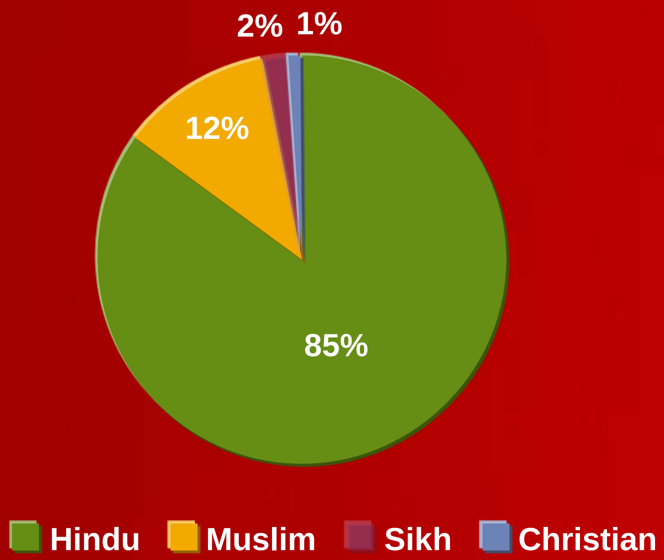
Solution: Education Vouchers

Caste system

- Origin of India's caste system
- Classical four castes vs 3000 jatis
- Hostage to competitive politics
- Source of competitive advantage
- Affirmative action

Role of Religion

India’s pluralism, diversity and tolerance



Hinduism

- Spiritual entrepreneurialism: Gurus
- No hierarchy:
  Every Brahmin thinks he is the Pope
- 300 million gods:
  Lack of theological narcissism
- Nasadiya Temper

Elephant and not Tiger

- India got democracy before capitalism and this has made all the difference
- It is slower than China but its path is surer
- However, an elephant at 8% growth is a formidable beast
- We have waited 3000 years for this moment
- India is more likely to preserve its way of life

The Wise Elephant