Earlier this year, the Institute was at the center of back-to-back trips to China and India, bringing into sharp focus the challenges facing each country.

In January the Institute led a delegation of 24 professors from US universities to Shanghai, Chengdu, Guangzhou and the neighboring Pearl River Delta, and Hong Kong. In each place, we visited companies, had briefings from management, government officials, entrepreneurs, bankers and many others. Our two-week itinerary touched all aspects of China’s competitiveness and gave professors direct contact with how their areas of expertise (marketing, management, finance, operations) are functioning in China.

In February the Institute hosted a Global Executive Forum in Bangalore, India, with a delegation of 23 mostly Colorado executives and members of the Global Advisory Board of the Institute for International Business at the University of Colorado.

Our itinerary included a range of companies, many of which compete globally and have world class products and services. These companies operate on a different type platform than China’s manufacturing platform. India’s is the platform of the global Internet-based communications infrastructure, first developed in the US in the 1990s and then expanded worldwide to reach developing nations such as India. India’s highly educated engineering talent leveraged this platform to enter global markets in software, information technology, business process operations and call centers.

China and India have very different histories, both ancient and recent, and have taken different paths to reform and development with very different governmental and institutional structures. But they have many key similarities that are placing each of them in the class of rising economic and political powers which will have a role in shaping the world of the 21st century.

China initiated its reforms in 1978 and began opening up to trade and investment in the 1980s. It began with several special economic zones that permitted entrepreneurial business development and these zones became the case study for broadening China’s business development in the last decade. China’s reform process was informed by their experiences within these zones and now much of China’s East Coast is a dynamic manufacturing region.

Since the early 1990s India has made steady progress toward opening trade and commerce, encouraging foreign direct investment and opening its economy to foreign companies as both owners and joint venture partners. And it has moved up rapidly in the technology arena. However, the big contrast with China is that technology is a relatively small industry with current employment in the 1-2 million range. Estimates are that this industry, broadly defined, can only grow to 10-20 million jobs.

So Indian companies can be very successful globally but they cannot transform India by themselves. India’s population of over one billion and a work force of 700-800 million will need other economic stimuli to move out of poverty. In addition, India’s infrastructure development is 10 to 20 years behind China’s. Roads, ports, air and ground transportation, power and the like are just beginning to receive investment.

China’s future is clouded with the needed political transition from authoritarian state and one-party rule to a more open and democratic society. India’s future is clouded by the socialist legacy and resistance in many states to reform and economic development dominated by the private sector.

The challenges faced by each of these emerging countries were expressed in two questions: Can China survive communism? Can India survive capitalism? Participants in both delegations saw these challenges firsthand. This Global Forum report addresses many of these experiences.

Donald L. Stevens, Director
Institute for International Business
China’s building boom continues unabated

If India wants to catch up, it will have to run faster and harder

The Institute for International Business, home of the CU CIBER (Center for International Business Education and Research) is a leader in globalization. Our faculty through various programs, some are faculty development in international business (FDIB) programs which expose faculty members to specific world regions. In January 2006, Donald L. Stevens, director of the Institute, and Ji Chen, a CU finance professor, led an FDIB study tour to China where educators got an up close view of China's significant strides – and problems – as it races to become a 21st century country. Gail Schoettler accompanied the group and provides highlights of the trip. Schoettler serves on four corporate boards, is a former US ambassador, Colorado lieutenant governor and treasurer, Democratic nominee for governor and Douglas County school board member.

O

f the many differences between India and China, perhaps the most pronounced is how each country approaches infrastructure development: India is a study in slow motion whereas China is a fast action thriller.

“What impressed me (about China) was how litter free the cities were and the incredible landscaping along every highway and in the medians,” says Gail Schoettler, reporting on a trip that took FDIB participants to the economic hotspots of China.

“All the new highways were beautifully landscaped. In the year since we had last visited, eight new eight-lane highways had opened. And new construction is not limited to roads,” says Schoettler.

“One of China's four largest container ports, Yantian Port is expanding to accommodate the new giant container ships. Yantian Port is situated on the East Coast of Shenzhen in the Pearl River Delta (Guangzhou-Shenzhen area), China’s major manufacturing center. There are three other new ports being built within 40 miles of Yantian, a clue about the size of exports from this part of China.”

Shanghai: A bubble looming?

A burgeoning economic and financial center located in the Yangtze River Delta, “Shanghai now has 2000 skyscrapers over 40 stories and 4000 over 20 stories high,” says Schoettler. “Most have been built in the last 10 years and are quite spectacular. However, many are empty, particularly the apartment/condo towers.” Consequently, Schoettler speculates that China may be facing a big bubble, particularly in real estate. “If so, the bursting of that bubble would ripple around the world, hurting economies throughout Asia and the US.”

On the other hand, she points out that buildings that were largely vacant in 2000 were full by 2003, so it’s hard to gauge China’s appetite for office space.

The FDIB group was welcomed by the US Consulate where they received a briefing from “a Chinese-American who had been in Shanghai eight years and was finishing his MBA under the tutelage of Western professors.” According to this man, “Chinese faculty are not on a par with Western faculty; thus, college students in China are not getting the same quality education as we get in the US.”

Among the companies visited in Shanghai were Baoshan Steel and the GM factory.

“At Baoshan Steel, the largest steel company in China, we watched workers roll sheet metal and steel pipes,” says Schoettler, adding, “China's huge steel production has resulted in driving up the demand and price for coking coal, which is used in the production process.”

Business is good at the GM factory which is now producing “five different car models for the local market.” Although GM announced in December that it is closing five plants in North America and eliminating 30,000 jobs, “the company is expanding in China and making money there,” says Schoettler.

A GM vice president talked to the FDIB group about what it takes to do business in China where a Chinese 50/50 partner is required. “The advantage is that the partner can get the government to do what is necessary for the company because the government owns the partner. The downside is having to deal with the Chinese government on every detail and work out innumerable small and large disputes with your partner.”

Electricity to run the plant is a big problem. “Plant managers never know until late afternoon of any given day if the government will provide electricity for the next day's operations. So it's not until quitting time that they can tell workers whether or not they should show up for work in the morning,” says Schoettler. “Workers have no union and have never known Western worker rights and expectations. No doubt this contributes to China's competitiveness.”

Chengdu: Pricey shopping

Chengdu, the capital of Sichuan Province in Southwestern China, is home to several thousand Westerners along with high-end Western shops such as Gucci and Armani, reports Schoettler. With a population of 10.8 million, Chengdu appears to have enough purchasing power to support these expensive brands.

"Based on what we saw in China and Hong Kong, the emerging middle class is very brand conscious. If this proves to be true, it will mean unprecedented demand for Western brands. On the other hand, if Chinese consumers ignore Western brands in favor of Chinese brands or no brand, the scale of consumption moves from $800 for a jacket to $200 for a jacket to $20 for a jacket. In any case, Chinese consumerism has the potential to rival anything experienced in the West.

"Intel, another American brand, has just opened a huge chip factory in Chengdu; others will soon follow. And at the Midea factory, a wide range of home appliances roll off the assembly line with the names of Kenmore and almost every other major American brand."

Chengdu is courting entrepreneurs.

"That's part of the strategy of a three-year-old high-tech industrial park which has 20 or more buildings and will have about 60 buildings by the time it is eight years old," says Schoettler. "Chinese expats with Western degrees are being recruited to return to their homeland and start companies.”
India’s economy: What the numbers reveal

Demand-driven growth shows no signs of slowing

An overview of the Indian economy was presented to the Global Executive Forum by Parimal Dasgupta Ph.D., Professor and Director Centre for Economics & Finance, Administrative Staff College of India, Hyderabad. Forum members Earl L. Wright and Steve Halstedt provided the information for this report. Wright is president/chief executive officer of AMG National Trust Bank, a nationally chartered, non-depository trust bank headquartered in Denver with regional banks in Chicago, New York and Philadelphia. Halstedt is a cofounder and managing director of Centennial Ventures, a private venture firm formed in 1991. He is a board member of the National Venture Capital Association.

Since 1991, when the Indian government embarked on economic reforms, the country’s development has been on a steady upward course. While the road ahead continues to look promising, the government is challenged to address a number of problems if it is to sustain the current momentum.

“The goal of the Indian government is to maintain a growth rate of 7-8 percent per year,” says Earl Wright. “To do this, it needs to generate a higher rate of investments as a percentage of the GDP. Currently, it is 24-26 percent; it needs to be 30-35 percent. China does better, with an investment-to-GDP ratio of 50 percent.”

Steve Halstedt notes that “Professor Dasgupta, like many of the later speakers, contrasted India with China, which has an annual GDP growth rate of 9-11 percent. There is a pervasive defensiveness about how well China is doing and the need for India to ‘catch up.’”

Prior to 1991, India was mired in government rules and regulations that stifled economic development. The turning point came when “the need for an emergency $2.2 billion IMF (International Monetary Fund) loan, secured by India’s gold reserves, dictated economic reform, which has progressed more or less steadily through six government administrations over 14 years,” says Halstedt.

“Professor Dasgupta commented that the whole IT industry grew into a powerhouse ‘under the noses of government bureaucrats without them even noticing.’ That was a lesson on the benefits of government ‘just getting out of the way.’”

Diversified economy

India’s diversified economy is comprised of services, 52 percent; manufacturing, 26 percent; agriculture, 22 percent. Although the services sector accounts for more than half of India’s output, it employs less than one quarter of its labor force. At the other end of the spectrum, agriculture employs about two-thirds of the labor force.

“Agriculture creates the stability for the economy, but the services sector is the major economic driver,” says Wright. “It has been growing at an average annual rate of 20.2 percent and represents 31 percent of exports. Most of these exports are software and software-related services.”

Here, too, there is a marked difference between India and China. “India’s growth is demand driven with an emphasis on services,” says Halstedt. “China’s growth is investment driven with an emphasis on manufacturing.”

“Demand supports growth,” says Wright, pointing to India’s growing middle class and the resultant consumer boom in telephones, cars and motorcycles as well as in various consumer support items in the durable/nondurable area.

Challenges

Public debt. Running at 82 percent of the GDP, public debt cannot be held by foreigners. “Therefore, annual deficits of 5-6 percent of GDP eat up savings and curtail growth,” says Halstedt.

This also leads to “a squeezing out of private debt that would otherwise be available for investment in the country and for reducing the government deficit,” says Wright.

Infrastructure. Highways, rail, ports, airports, power generation are all in need of major improvements and repair. Although external capital would fund the work, the government places limits on foreign direct investment. “Outside (noncitizen) investors are limited to 49 percent ownership of government projects, with the state maintaining 51 percent ownership,” says Wright. Restrictions also exist in the private sector.

Still growing

- GDP (official exchange rate) US$735.6 bn, currently growing at more than 7%
- GDP projection for 2006 more than 8%
- India was the 10th largest economy in the world in 2004
- In 2005, U.S. merchandise exports to India reached nearly 58 bn
- In 2005, approximately 170-200 million people in India had increased purchasing power, thus creating a growing middle-class consumer population

That may be changing. “The government has created a series of public/private partnerships to develop India’s infrastructure,” says Halstedt. Among the projects under way is “a private 10-mile toll road connecting Bangalore to Electronic City, the site of many IT companies.” Also, he reports, the national government has awarded contracts to private companies to take over and modernize two of the country’s largest airports.”

Unemployment. While unemployment is 9.9 percent, underemployment, estimated to be 70 percent, is a bigger problem. Not all of the population is educated. “The literacy rate for males is 68 percent, for women 45 percent. “Roughly 500 million people live in 600,000 rural villages; most do not have adequate educational facilities or teachers,” says Halstedt. “Over time technology will transform agriculture and these villages.” In the meantime, the country’s poverty rate is 25 percent.

Savings. Depending on which country India is compared to, its savings rate of 26-28 percent is either great or could be better. It’s great when viewed against the US, which has a savings rate in the negative numbers. But “China’s savings rate is 40 percent and other Asian countries are in the 30-35 percent range,” says Wright.

“The government knows that the current savings rate is not adequate to support the kind of investment that is needed to sustain growth,” says Wright. In addition, “the legal structure of the country and the political system need to catch up with the growth of what is occurring in the world economic environment into which they are moving.”

Source: US Dept. of Commerce; CIA World Factbook
Old problems still linger in the “new” India

Earning US$200 a month in India means you’re middle class

With oceans on three sides and mountains to the north, “India has been isolated by culture and geography,” says Gail Schoettler, reporting on the Global Executive Forum’s meeting with staff members at the US Embassy India, New Delhi.

Schoettler serves on four corporate boards, is a former US ambassador, Colorado lieutenant governor and treasurer, Democratic nominee for governor and Douglas County school board member. She paints a picture of present-day India, with a look back at its past. “Many conquerors invaded India but most were swallowed by the Indian culture, except for the British. Consequently, India lacks a strategic culture and world view.” As a result, “India is not aggressive in its foreign policy. It has made its biggest impact with soft power – religion, culture and ideas.”

India does not pursue a policy of conquest “but it has a lot to offer in a very turbulent part of the world. Because it is the world’s largest democracy and has remained so for 60 years, it provides the opportunity to foster democracy in a chaotic region,” says Schoettler. “Indians believe democracy is the answer to all the troubles of the countries on their periphery.”

From 1858, when the British unpacked their bags in India and decided to stay, uninvited, English has been spoken by educated people. “They realized that speaking English gave their kids a brighter future. Initially, schools didn’t teach English, but pressure from parents persuaded them to do so. All schools today teach classes in English and Hindi, the dominant languages in a country with more than 700 dialects.

Education, income inequalities

“India has the youngest population in the world, with 70 percent under 35 years of age.” What this means, says Schoettler, is that “over the next five years, 140 million people will be added to the labor force, a huge number for the economy to absorb. People who earn US $200 a month are firmly in the Indian middle class.”

Also, Schoettler reports, there are . . .

- about 430 million people in that
middle income category right now, expected to reach 490 million by 2009;
- 265 million people in the upper middle class (earning about US$1000 a month), expected to grow to 525 million by 2009;
- 15 million rich Indians, expected to reach 40 million by 2009.
- 332 million people living in poverty, expected to drop to 177 million by 2009.

“India graduates about 350,000 engineers a year and 300,000 non-engineering post grads. There are 2.1 million BA graduates in other fields. Each year, 9000 PhD students and 150,000 software engineers graduate. In 2005, there were 1 million knowledge workers, compared to only 56,000 in 1991.”

India’s excellent engineering and science institutions were established in the post-independence years, says Schoettler, referring to a briefing by Aditya Nathji, Infosys global brand manager. “He said that India has always focused on math and science” so the country’s growing eminence in these areas should come as no surprise.

Other statistics Schoettler provides:

**Government policy relating to compulsory education exists only in theory . . . 96 percent of children enter school, but 40 percent drop out by age 10.**

“India boasts 1500 higher education research institutions, 380 universities and 11,200 colleges within the 380 universities.” None of this assures an education for the general population. In fact, government policy governing compulsory education exists only in theory. “So many kids, if they go to school at all, go only for a couple of years. Ninety-six percent of children enter school, but 40 percent drop out by age 10,” she says.

“This adds to the huge disparities between rich and poor and severely limits opportunities for rural children in particular who are less likely to go to school. Unless India focuses on education and building skills, unemployment will grow dramatically over the next 10 years.”

Infrastructure

“While telecom has greatly improved since the industry was privatized in the early 1990s, there are still 265 million people without phones. This despite the fact that 100,000 new phone connections are made every day. However service has picked up dramatically since the days when the government owned the telecom system and the wait for a new phone was eight years. There are 81 million Internet connections, compared to China’s 110 million (second only to the US).”

But a bigger problem is the country’s inability to move goods quickly and economically on land and water. “For a manufacturer in India, getting the goods to the ports on the country’s heavily congested and poorly maintained highways is almost impossible. I believe they will be limited to businesses that can use the internet until they improve their roads.”

“The ports, too, are dismal and they are competing against the most advanced, mechanized, and computerized ports in the world: Singapore, Shanghai, Hong Kong. In Shanghai, it takes an average of 15 hours to unload and reload a container ship. In Hong Kong, it’s eight hours; in Mumbai, India, it’s three days.

India’s internal shipping costs are many times the world average. In Hong Kong, it costs $4500 to service a ship; in Mumbai, the cost is $47,000. On top of this, India does not have a system to tell a buyer when a ship will be loaded or when it will leave the port. “Infrastructure problems are causing Indian manufacturers to move their production to other countries, a great loss for India,” says Schoettler.

“India estimates it needs about $20 billion per year in infrastructure investment over the next seven years if it is to meet its growth projections,” says Schoettler, adding “I would guess they will need much more than $20 billion. This figure has been rising; last year it was only $6 billion.”

“Water, air quality and energy also are big problems. India imports 60 percent of its oil and gas, for example. To provide for its electricity needs, India needs to increase
its nuclear generating capacity from 3 percent to 10 percent in 10 years. The US is now helping India get the nuclear reactor technology it needs to develop nuclear power. India has agreed to use its nuclear technology only for power generation, even though it has nuclear weapons it could use against Pakistan."

Political landscape

At the U.S. Embassy in Delhi, Forum members and guests learned that 650 million Indians voted in the 2004 election. “That’s pretty staggering,” says Schoettler. “With the new government, the US now has 15 different initiatives to forge better relations with India, a welcome change after decades of cool relations when India was more aligned with the Soviet Union.”

The political landscape in India is dotted with “about 40 political parties, of which 11 are part of the ruling coalition. Ethnically and socially diversified, the coalition is very tricky for the government to manage because there must be a magic number of votes in Parliament every day to stave off a ‘no-confidence’ vote. Consequently, the pace of reform is relatively slow.”

A briefing by John Peters, the embassy’s minister-counselor for commercial affairs, produced the following information, says Schoettler.

- “Corruption is endemic, like oxygen, they say. Indians want foreign investment and reduced corruption and, indeed, foreign investment is helping change the culture. But slowly.
- “India is in its second generation of economic reforms and cannot afford to make a political mistake with its economy as it goes forward, especially as it concerns agriculture. Seven hundred million people live in rural areas and depend on agriculture for their livelihood.
- “India has 67 percent of its population working in agriculture, which produces only 22 percent of its GDP so its very difficult to move to mechanization. If they move to agribusiness, which the government would like to do, it will throw hundreds of millions of people out of work. The government plan is to train the unemployed but that is another huge issue. School is only mandatory for five years, hardly enough for farmers to be trained for other work.

“A big problem in this sector is the fragmentation of land holdings to the point where a family’s farm is too small to support them. There are lots of policy forums going on to try to figure out land reform but the last effort failed miserably. The original large landowners figured out how to keep their land and the tenant farmers just became poorer.
- “The political situation is very tricky for the government. The seven states surrounding Colorado have seen their foreign student enrollments grow while Colorado’s has been declining. Foreign students in Colorado pay four times more than instate students, so the tuition alone should be an incentive for recruiting.”

India has lots of brains, talent, energy, and technology. But harnessing these assets to make everything work smoothly is a difficult proposition.

More competitive

The aviation sector in India was recently opened to competition, a sign that the government is no longer investing lots of effort in protecting local industries, says Schoettler. “They know they can compete and they are becoming internationally competitive. I think India will see enormous changes in its government policies and industrial productivity over the next few years.”

Technology has not yet found its way into Indian airports. “Security is primarily manual,” says Schoettler. On the return trip home from New Delhi, the group encountered a very long wait in the security line even though it was 3 a.m., when travel was light. “This is something of a microcosm for how India operates. Lots of brains, talent, energy, and technology, but harnessing these assets to make everything work smoothly is a difficult proposition.”

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“The government knows what it needs to do to compete and I believe it will do whatever is necessary,” says Schoettler.

“From a policy perspective, the government is trying hard to make India competitive, but it has been slow and uncertain.”

The energy and enthusiasm are overwhelming. So is the population and so are the problems. I think the fact that many Indians who have been very successful in the US are returning to India says a lot about its future. I also think that a successful India will be very helpful to US policy on all fronts, particularly in their difficult part of the world,” says Schoettler.

rates. It is still basically closed to foreign banks, allowing only about 20 branches per year. It’s amazing to be in such a huge country, with such a big impact on technology, that has a very abysmal banking system.

- “Credit is finally becoming available in India. Until a few years ago, there was no such thing as a mortgage or personal or consumer loan. The state-owned banks didn’t need to solicit customers, so didn’t serve them. Interest rates are determined politically, not by the market.

“The pension system makes US Social Security look well funded. The Indian pension system is not funded but is an IOU and paid out of current revenues. Over 12 percent of the national budget goes to pay pensions. This is a very politically sensitive issue since so many people rely on government pensions.”

Missing the boat?

“There are 22 million companies in the US. Only 223,000 do business overseas, less than 1 percent, and 80 percent of that business is with Canada and Mexico. It’s a small-business universe: 70 percent of these businesses have fewer than 10 employees.”

Colorado is missing the boat by not taking advantage of the opportunities in India. Says Schoettler, “Of the 2000 export successes by states in the last three years, Colorado has only 27 listings. That means that opportunities in India are going elsewhere. Last year, Colorado’s exports to India were up 2 percent while the rest of the US increased its exports 11 percent.”

Nor is Colorado getting a reasonable share of students from India and other countries. “There are 80,000 students from India in the US (63,000 from China), with the average student spending $22,000 per year for a total of $17 billion just from India. In 2005, only 5000 foreign students (all countries) were in Colorado, down 7.5 percent from 2004,” says Schoettler.

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Politics and economics India style
Largest democracy a proponent of democratic reform

At a meeting with staff members of the U.S. Embassy in New Delhi, the Global Executive Forum was briefed by:
- Atul Keshap, Deputy Administrative Counsel for Political Affairs, on the current political environment and India's relationship with the United States;
- Pushpinder Dhillon, First Secretary of Economic Research, on the current economic situation;
- John Peters, Counselor for Commercial Affairs, on conditions in general.

Forum member Earl L. Wright provided the information for this report. Wright is president/chief executive officer of AMG National Trust Bank, a nationally chartered, non-depository trust bank headquartered in Denver with regional banks in Chicago, New York and Philadelphia.

Shared values – a commitment to democracy and economic development – are helping the United States and India form a closer partnership as they move forward on a series of agreements designed to advance the goals of each country.

"The United States and India have signed 18 joint-venture agreements in the six month period ending March 2006," says Earl Wright, reporting on a presentation by Atul Keshap, Deputy Administrative Counsel for Political Affairs, U.S. Embassy India.

"The agreements stem from a pact signed on July 18, 2005, by Prime Minister Manmohan Singh and President Bush and are part of the NSSP initiative (Next Steps in Strategic Partnership), launched in January 2004. "The pact calls for the integration of relationships in 15 different areas. Agriculture, high tech, science, space, civil use of nuclear power, education and global democracy are among the areas impacted," says Wright.

"Atul Keshap expressed the opinion that the pact of 7-18-05 would achieve great global power for India and set a very positive foundation for the US-India relationship going forward.

"India is a strong proponent of worldwide democratic reform. It is their belief that they are much safer when they are surrounded by democracies. While they would not like to see Iran have nuclear bombs, they don’t want to be forced by the United States to take a position on a time line not their own. Their position will be on their terms and in their best interest."

As with other speakers, "the issue of India versus China came up. And without fail, China was once again described as a global economic power with a huge appetite for consumption of materials in their manufacturing base. Whereas India is considered a global economic power with significant indigenous services and resources. They feel they have an ability to generate more effective growth with less foreign direct investment.

"Because of its relatively isolationist geographic perspective, India has not developed a culture that makes them particularly aggressive with regards to their views and reaching out to the economic environment," says Wright.

"Petroleum diplomacy and support of world democracies are important in India's ability to sustain future growth. It does not appear, however, that the government has specific principles or policies as to how they can handle their long-term energy needs.

"Atul Keshap pointed out that opportunities for US companies trying to do business in India are a mile deep, but pursuing them effectively requires sound advice and planning up front with an Indian partner and adequate investments. That done, good profits should result."

Government regulations
Speaking on the economic outlook of India, Pushpinder Dhillon, First Secretary of Economic Research, US Embassy India, noted that reforms since 1991 have had a positive effect on the ability of the country to grow, reports Earl Wright.

By any measure, growth is impressive: 7-8 percent a year over the last five years, with low inflation; exports growing at the rate of 20-30 percent a year and a foreign exchange balance of $140 billion.

But some industries have yet to be included in reforms and released from government regulations. According to Wright, the agricultural sector is inefficient. Educating the rural agricultural population is critical to sustain India's growth and accommodate the needs of the nation.

The financial sector is burdened by government controls. Political interference, not the market, affects interest rates. "Some foreign banks have opened branches but banking is still mostly con-

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US to help India increase its civilian nuclear power

India’s looming energy crisis may be averted if the US Congress approves a deal signed on March 2 by President Bush and Indian Prime Minister Manmohan Singh in New Delhi. The deal, which has received more attention than all previous agreements between the two countries, calls for the US to help India develop its civilian nuclear power program.

The foundation of this landmark agreement was laid back in January 2004, when the Next Steps in Strategic Partnership (NSSP) was signed. At that time India and the US agreed to expand cooperation in three specific areas: civilian nuclear activities, civilian space programs and high-technology trade and also to expand their dialogue on missile defense.

According to a statement from the US Department of State regarding the most recent deal, India will be able to purchase nuclear fuel and technology from the US and other countries. India needs this increased civilian nuclear capacity to help satisfy its growing energy needs and continue its economic expansion. The economic benefit is expected to be in the billions.

The agreement requires India to separate its nuclear facilities into two programs, civilian and military, and place all existing and future civilian nuclear facilities under international safeguards. It is designed to bring India into compliance with major international agreements that govern the disposition of nuclear materials and nuclear energy, according to the State Department.

India already has a nuclear bomb and that will be unaffected by the agreement. US Congressional approval is not assured. Some members of Congress fear the deal will not prevent India from expanding its nuclear weapons arsenal.

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“Petroleum diplomacy and support of world democracies are important in India’s ability to sustain future growth. It does not appear, however, that the government has specific principles or policies as to how they can handle their long-term energy needs.

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Government regulations
Speaking on the economic outlook of India, Pushpinder Dhillon, First Secretary of Economic Research, US Embassy India, noted that reforms since 1991 have had a positive effect on the ability of the country to grow, reports Earl Wright.

By any measure, growth is impressive: 7-8 percent a year over the last five years, with low inflation; exports growing at the rate of 20-30 percent a year and a foreign exchange balance of $140 billion.

But some industries have yet to be included in reforms and released from government regulations. According to Wright, the agricultural sector is inefficient. Educating the rural agricultural population is critical to sustain India’s growth and accommodate the needs of the nation.

The financial sector is burdened by government controls. Political interference, not the market, affects interest rates. “Some foreign banks have opened branches but banking is still mostly con-
trolled by the government. The government also regulates insurance companies as to where and in what industries they can make investments outside the country.

Pension commitments are ‘funded’ with IOUs to be paid at some future time, says Wright. “Right now the IOUs represent 12 percent of the Indian budget. Considering how young the population is — 70 percent under 35, 50 percent under 25 — this is a problem that will only get worse with time.

“Another issue with the potential to negatively impact the economy is the government’s continued subsidy of food and fuel. Eventually, this issue will have to be resolved.

“Privatization of telecoms has proven that the country is better off without government regulation,” says Wright. “This has been a strong motivator for privatization of the airports. Currently, airport usage is going up 30 percent per year.”

Despite these smoldering problems, “business confidence is high. The IT sector is very competitive internationally. Pharmaceuticals are doing well and the automotive sector is strong.”

However, considering all the political changes in the government, Wright wonders “how long economic reforms will last. And how the government gets the capital to grow could be difficult.

“Obviously, the growth and profit will help sustain reinvestment, but the country is growing relatively fast. It is important to note that corporate growth is really only four-five years old. Credit is starting to be made available and that’s an important part of funding the economy. However, capital from collateralizing the ownership of assets has not materialized and is unlikely to materialize with regards to the farmers and the lower income parts of the economy.

“When asked who is the most successful in negotiating and dealing with India, Pushpinder Dhillon said that the European Union seems to be more adept at dealing with Indian enterprises.”

**A mixed bag**

John Peters, minister-counselor for commercial affairs, touched on various aspects of the Indian environment. “He said the opportunities in exporting and investments are the best he’s ever seen,” reports Earl Wright. But that comes with a caveat.

“Peters wasn’t very bullish about the idea of investing significant dollars because of government regulations and political uncertainty within the government.” A coalition government made up of diverse interests plus a large communist block makes parliamentary agreement on any given issue difficult.

The export picture is bright whether coming or going: US-India bilateral trade in 2005 was $26.8 billion.

“US merchandise exports to India increased to $8 billion in 2005 from $4 billion in 2001. Approximately half of the $8 billion represented sales of coal for Indian power plants,” says Wright. India’s merchandise exports to the US grew to $18.8 billion in 2005 from $9.7 billion in 2001.

“Boeing in December 2005 was awarded a contract from Air India for 68 airplanes, valued at more than $11 billion at list prices.” Deliveries are scheduled to begin in November 2006.

He also mentioned that there are 80,000 Indian students attending schools in the US. They spend approximately $22,000 per student. There are 63,000 from China. There is an assumption that since 9/11 visas have been hard for foreign students to get to come to school in the US. However, Peters pointed out that the number of foreign students has not decreased; rather, the number has flattened out.

“Tech manufacturing represents an opportunity in India. But caution is advised. The cost of shipping out of the country could potentially wipe out any savings that might be realized in the manufacturing process. The lack of good highways and ports makes the cost of exporting from India two to four times the cost of shipping from other Asian countries,” reports Wright.

“However, tech manufacturers have 12 Deming awards and 80 out of 115 Level 5 certifications have been achieved by Indian companies.” Named for Dr. W. Edwards Deming, the award recognizes corporations and individuals who demonstrate an outstanding commitment to quality control, and whose products or inventions make exceptional advances in the pursuit of quality.

“The difficulty is that even with all the growth in the Indian economy, the infrastructure cannot support it going forward,” says Wright.

“Water and energy are going to be huge problems in the high tech industry. Thus, India is limited as to how rapidly it can build this manufacturing capability.”

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**Help for businesses wanting to explore India**

There are a lot of opportunities for small businesses overseas but they are often unaware of it. “This was one of the main themes in the presentation by John Peters, Counselor for Commercial Affairs at the U.S. Embassy in New Delhi,” says Earl Wright.

Despite the opportunities, smaller companies are challenged to find the right partner and to achieve the economic and political clout necessary for solving unexpected problems that can derail a business plan.

“Large companies don’t have this problem,” says Wright. “Because of their financial power and their ability to work with the government, they have a better potential for success in India.

“The biggest failures embassy people see result from companies failing to get professional guidance relating to financial, legal, bureaucratic and people issues. When things go bad for a foreign business, close to half the time it is because of a poor choice of an Indian partner.”

An invaluable resource for companies new to India, Wright says, is the US Commercial Service India (CS). The CS is an export promotion agency of the U.S. Department of Commerce, helps US firms export goods and services to India. The CS also helps Indian firms in their search for US products and trade partners.

“The primary purpose of the CS is to stimulate the export of goods from the US into India as well as encourage Indian companies to move into the US for the production of some of their goods. For a reasonable fee, the CS helps companies find deals and partners and advises them on the Indian and US markets.

“The success of the CS contributes to the improvement of our balance of payments,” says Wright.

In addition to the U.S. Embassy in New Delhi, US citizens can seek help from consulates in Calcutta, Chennai and Mumbai.
India's welcome mat out for foreign investors

But investing not for the faint of heart

At the Ministry of Commerce & Industry, the Global Executive Forum was given a presentation by Umesh Kumar, Joint Secretary to the Government of India, and two of his associates. Forum member Earl L. Wright provided the information for this report. Wright is president/chief executive officer of AMG National Trust Bank, a nationally chartered, non-depository trust bank headquartered in Denver with regional banks in Chicago, New York and Philadelphia.

An airport strike was in progress at the time the Global Executive Forum met with Umesh Kumar, joint secretary to the Government of India at the Ministry of Commerce and Industry.

The initial focus of the meeting was on infrastructure issues, particularly the airports, highways, courts, railway system, reports Earl Wright. In discussing the airport strike, “Kumar pointed out that 60 percent of the unionized airport workers would have new jobs under the privatized airports (see sidebar below).” That leaves 40 percent who would be cut loose and “there is a concern, obviously, for those who may not find new jobs. This is a transition going on in the Indian economy” as government seeks solutions to its infrastructure problems.

Organized labor does not enjoy a dominant position in India. “In the ‘New India’ only 10 percent of the labor force is unionized.”

Wright was a bit surprised by a comment Kumar made. “He said that it didn’t really matter whether the government in power was left or right. What mattered was that free enterprise was the trend in India.”

In support of free enterprise, “the government wants to entice foreign direct investment, recognizing that the FDI they currently seek is mostly for infrastructure development and building industry within the country.”

Changes to the laws make investing in India more appealing, says Wright. “Foreigners can repatriate 100 percent of profits; there are no taxes on capital gains and no taxes on dividends; there is much more flexibility regarding ownership, up to 100 percent in the country’s priority investment areas.

“But it should be noted that much of this has to be agreed upon or approved by the government. So significant negotiation needs to occur. It should also be noted that opening a business or making a business presence known in India requires licensing and approval by a government agency.

“The size of capital investments that are needed in India and the fact that the retail sector is still difficult for foreign investors to enter or is still protected by the Indian government, lead me to believe that only major world players would have an opportunity to make substantial investments in India.

“The large sums of money that are required and the developing nature of the country will not allow the faint of heart or those who would be risking a great deal of their company capital to come into India and try to profit in India’s growth and infrastructure creation.”

Currently, says Wright, “25 percent of foreign investment in India comes from the United States, the largest single investor. With offshore investments added, it is probably as high as 38 percent from US sources. Most of the investors have been major US companies, some of which have been in India a decade or two before the 1991 reforms that opened the economy. Seventy-five percent of current FDI has been in the private sector and not associated with government projects.”

Human capital is also essential to the country’s growth. “The government recognizes the importance of continuing to produce a highly skilled population. Some citizens will probably seek an advanced education in western Europe or the US. The hope is that they will return to India to help enhance the knowledge base of the country.”

Energy

Growth has outpaced India’s ability to provide fuel for industrial and civilian needs. Of the 2.32 million bbl/day of oil that India consumes, “60 percent is imported,” says Wright. But a considerable amount of oil might be lying untapped under rich Indian soil. “They haven’t had the technological skill set to do exploration, but they are now allocating large blocks of Indian land to be drilled by various oil companies.”

International pipelines also are being utilized. “There is a pipeline coming into the country from Iran and other Middle East locations and also from central Asian locations.”

The reality is that oil from Iran could stop flowing at a moment’s notice due to political uncertainty in that country. “The government of India is very nervous about counting on Iran as an uninterrupted source of energy,” says Wright.

The fourth largest coal reserves in the world are in India and coal is used in some of India’s power plants. However, the coal is not of high quality as it contains 30 percent ash, nor have mining operations been sufficient to meet the demand. Last year they imported more than 13 million tons despite efforts to step up mining.

“Nuclear energy is an integral part of the solution and an important factor in the country’s economic future,” says Wright.
Entrepreneurship is alive and well in India but the scarcity of seed capital nips many new ideas in the bud, according to what the Global Executive Forum learned at a meeting with Dr. Sridhar Mitta, president of the TiE Bangalore chapter. TiE is shorthand for The Indus Entrepreneurs and has come to mean talent-ideas-enterprise.

"The TiE organization was founded in Silicon Valley by Indian entrepreneurs living and working in America," reports Steve Halstedt.

"TiE is a global not-for-profit organization focused on promoting entrepreneurship. There are 42 chapters in nine countries. India has 13 chapters; the Bangalore chapter has 450 members plus 50 charter members. Charter members are leading business executives who provide mentoring for the general membership on the challenges and struggles of getting a company up and running.

"In the past, because of educational opportunities in America and a shortage of business prospects in India, many Indians chose to emigrate to the US. Mitta noted that a big portion of that Diaspora is now returning to India, specifically to Bangalore, to participate in the economic miracle occurring there."

"Most big US technology companies have operations in Bangalore; IBM is the biggest. Bangalore has become the world's IT R&D center," says Halstedt, with 30,000 expatriates and 200,000 techies working in Bangalore's IT industries, more than in Silicon Valley.

Despite being the center of the IT universe, it is difficult to raise seed capital for early stage investing. Samir Kumar, a venture capitalist at iD SoftCapital, a global investment management and business consultant company, addressed the Forum about this issue. Kumar suggested that the bullish stock market might be the reason for a shortage of seed capital.

"He noted that the Indian stock market increased 80 percent in 2005 and 50 percent in 2004," says Halstedt, giving investors a quicker return on investment than the extended time frame typical with venture capital investments. "Seed capital is very difficult to come by given such liquid returns."

Also, "Many Indian entrepreneurs do not understand venture capital ROI (return on investment) needs and must be educated." Still, "in 2005, 147 companies raised $2.3 billion in private equity in India. Most were buyouts. Only 41 were venture capital deals and 27 ($365 million) were in Bangalore," says Halstedt, explaining: "Buyouts are private purchases of large existing companies. Venture investments are typically in startup or expansion of young technology oriented companies. Together they are referred to as private equity."

On the basis of 2005 numbers, "Bangalore accounts for more than two-thirds of all venture capital investments in the country – a veritable Silicon Valley of India." This may sound good, but "India represents a small fraction of what is invested each year in the US," says Halstedt.

Remedies are under way. "TiE plans to set up an angel fund for seed capital. Kumar and two Indian venture capitalists based in Silicon Valley are raising a $150 million venture fund to invest two-thirds in US technology companies connected to India and one-third in Indian IT companies. "The government provides attractive tax incentives for venture capital investments and provides grants to companies to help develop technology," says Halstedt. "The trend is toward liberalization but Kumar expressed concern about government policies. However, while these policies are restrictive in some industries, they are not restrictive in the IT sector."

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**Corruption in government at heart of infrastructure problems**

Following the TiE presentation, Forum member Earl L. Wright had a conversation with Jeevan Adya, an investment banker with Pioneer Investcorp Ltd., who is starting up the company’s Bangalore office. Adya offered another perspective on Indian affairs.

Says Wright: "I asked Jeevan when he thought India would have a national expressway around the country. His comment was “Never,” in effect saying it was unlikely to happen within the next decade.

"The reason? Jeevan pointed out that when it comes to infrastructure projects the government is the big problem. They are corrupt and there are not enough payouts or people to get the projects done. Jeevan relayed a story about a wealthy man in India who is trying to start a new political party. The man asked wealthy families to contribute money – up to $2 billion – to get the party started. They all turned him down because they feared retribution by the current political office holders if they were to do anything to help another political party get started.

"At risk were government contracts and the well-being of their own companies. Jeevan wasn’t impressed with the quality of engineers entering the job market. Of the 350,000 engineers graduating per year from various Indian institutes, he feels only 5 percent are from the top schools and of the high quality that India needs for its future. The balance are graduates of certificate granting institutions.

"The average salary increase last year for professionals in the IT industry was 30 percent. The top professionals in the IT arena are being paid US-equivalent salaries and more of that is occurring now at companies like Intel and the John F. Welch Technology Center.

"The turnover that we’ve heard so much about is primarily in entry level positions where people get one or two years experience and then move on. Typically, they want the experience from companies like Infosys or others of similar high caliber, knowing that if they are successful for a year or two at a major company they can move on and get a significant salary increase at another BPO (business processing outsourcing) company.

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INSTITUTE FOR INTERNATIONAL BUSINESS • GLOBAL EXECUTIVE FORUM • SPRING–SUMMER 2006
TVS Motor Company

The story of TVS Motor Company is the story of India: Fast growth, worldwide exports, ever increasing revenues, respected brand. “It is a company with a long history of manufacturing two-wheeler vehicles: motorcycles, scooters, mopeds and scooterettes,” says Forum member Earl L. Wright, reporting on the Global Executive’s visit to the TVS Bangalore motorcycle plant and the presentation by S. Murali, senior vice president of finance.

“TVS is the third largest Indian motorcycle manufacturer in India, after Hero Honda Motors and Bajaj Auto,” says Wright.

Sales of all TVS units 2005-06 totaled more than $13.42 million. Motorcycles saw growth of 16 percent in February 2006 and 25 percent the month before. These numbers make TVS “the third largest two-wheeler manufacturer in India and among the top 10 in the world,” says Wright.

With a staff of 3000, TVS is geared for production. “Of the 3000, 2000 are on the manufacturing floor, 1000 are engineers,” says Wright. “Two-thirds of the 2000 manufacturing employees are temporary and seasonal workers.”

The reason for so many temporary workers is because “once someone stays for more than nine months, the government requires the employer to treat that person as a full-time employee.” With that change in status, other costs and regulations kick in, particularly when terminating an employee, and that can be difficult, says Wright.

“Four hundred of the 1000 engineers are in research and development. Of the professional engineering staff, 8-10 per year are sent to the United Kingdom to earn a master’s degree; 20 per year are hired from IIIT-B, an academic institution specializing in master degree programs.” Education makes the wheels go round: “All the floor personnel have a high school education at the minimum,” says Wright.

“The employment goal is to have 15-20 percent females in engineering positions. There is significantly less than that now.”

Two-wheeler market

“At the Bangalore plant they produce 1.1 million motorcycles of which 100,000 are exported – primarily to Asian markets. The global two-wheeler market is dominated by China with 41 percent, India 17 percent, Indonesia 12 percent,” says Wright. “The growth potential in Asia for two-wheeler vehicles is astounding, taking into account the population base and GDP. “The head of export spends about 100 days a year on the road in various countries trying to set up dealerships. He works with four professionals, four support staff and 45 contract employees who create knockdown versions of motorcycles that can be reassembled in the destination country.

“For a bike to be approved in the United States, it needs to have a modified signal system. But TVS emission standards meet all the requirements of the United States except for the state of California.”

Affordable, practical

Most motorcycles are priced around US$1000 (+/-10%), cheap by American standards but not for a high percentage of the Indian population. Taxes run approximately 35 percent, with a value added tax of 22 percent. Financing is available, typically for 24-36 months, and the banking community enables many Indians to get the loans they need to buy a two-wheeler.

The bikes are built with a specific mechanical life expectancy, says Wright.

For scooters with 100 cc engines, the life is expected to be between 60-80 kilometers before major mechanical work on the engine is needed.

Motorcycles with 100-150 cc engines are expected to have an 80-100 kilometer mechanical life before major mechanical work is needed.

“The motorcycles are designed so that individuals can do most of their own repairs except for major engine block work, which would be required at the life-ending cycles described above.

“TVS will soon be producing a three-wheeler transportation carrier appropriate for people and/or freight. Although mopeds have dominated production at TVS in the past, there has been consumer interest in motorcycles with higher power engines of 125-150 cc.”

The company’s various divisions operate under the principles of Total Quality Management. Says Wright, “TVS is the only two-wheeler company in the world to have been awarded the prestigious Deming prize for quality.”

Market dynamics

• The ability to finance motorcycles has helped sales significantly.
• Financing is typically for a 24-36 month period.
• The banks are very accommodating when it comes to arranging financing.
• 50% of the buyers of two-wheeler vehicles are first-time owners.
• The Indian population is potent regarding its ability to sustain growth of motorcycle sales.
• 70% of the population is less than 35 years of age, a prime demographic for motorcycle purchases.
• The economic well-being of the country continues to improve, which bodes well for the industry.
• The dollars spent on motorcycle purchases have been increasing steadily since 1989 in the rich, upper middle income and middle income groups.

Asian market for two-wheelers

<table>
<thead>
<tr>
<th>Country</th>
<th>Population</th>
<th>Avg. Income per capita</th>
<th>Ratio of Motorcycles per 1000 Pop.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taiwan</td>
<td>22,894</td>
<td>$25,100</td>
<td>590</td>
</tr>
<tr>
<td>Thailand</td>
<td>65,444</td>
<td>8,000</td>
<td>286</td>
</tr>
<tr>
<td>Malaysia</td>
<td>23,953</td>
<td>9,600</td>
<td>258</td>
</tr>
<tr>
<td>Vietnam</td>
<td>83,953</td>
<td>2,700</td>
<td>140</td>
</tr>
<tr>
<td>Indonesia</td>
<td>241,974</td>
<td>3,450</td>
<td>90</td>
</tr>
<tr>
<td>India</td>
<td>1.1 bn</td>
<td>3,100</td>
<td>37</td>
</tr>
<tr>
<td>China</td>
<td>1.3 bn</td>
<td>2,400</td>
<td>52</td>
</tr>
</tbody>
</table>
Infosys Technologies

Infosys has racked up impressive growth since its founding in 1981 by seven software professionals. Providing operations and IT consulting, software implementation and business process outsourcing, the company has grown at 60 percent CAGR (compounded annual growth rate) over the past decade. In 2005, Infosys had revenue of $2.01 billion and a market cap of over $22 billion.

Employee growth is occurring at 1000 per month and at last count more than 49,000 people were on the payroll spread out over 45 offices in 17 countries.

“The Infosys headquarters in Bangalore is the second largest corporate campus in the world after Microsoft,” says Gail Schoettler, who with Earl L. Wright contributed to this report.

“Infosys has been the preferred outsourcing resource for business process outsourcing,” says Wright. “They have built a niche in the tax and financial analysis call centers.”

Infosys effects efficiencies for clients by implementing an enterprise system package in India or at one of their other global sites rather than training the client’s personnel to do the work. Savings can be as much as 30-40 percent of the cost of putting in a new system, says Wright.

Software design and system support is a $200-$250 billion a year industry in India.

“They are now branching out to include consulting services, advising clients on how to effect efficiencies within the organization through the best use of the various systems.

“They point out that the BPO opportunities in India create about $16 billion a year; whereas the work on software design as well as system support is $200-250 billion a year. I think that is the far greater opportunity for Indian companies than BPO,” says Wright.

Company values and integrity and protection of customers’ intellectual property was part of the presentation. “I thought this was a particularly important point when in conversation with someone later on, the presenter pointed out that Indians in the past were characterized – apparently rightfully so – as not having a high level of integrity.”

Infosys has fashioned itself according to the tenets of Jamsetji Tata, who founded the Tata Group of Companies in the second half of the 19th century. “They credit Tata for establishing principles for Indian commerce and how Indians should conduct themselves in building the industrial base of India rather than just being a resource for western Europeans,” says Wright. “It is clear that Infosys has adapted the same code of integrity and value creation in growing their company.”

Says Schoettler, “Infosys is focused on ethics and they have a number of sayings that drive home this point:

• “In God we trust; everyone else disclose.”
• “When in doubt disclose.”
• “Transparency and frugality are our financial management pillars.”
• “When in doubt disclose.”
• “In God we trust; everyone else must come with data.” In other words, you can’t work there and just guess about what to do. You must come armed with data to support your proposals and projects. If there’s no data, they said, there’s no conversation,” says Schoettler.

In 2005, Infosys hired 12,800 people out of 1.3 million applicants. “Obviously, people want to work there,” says Schoettler. The company claims it is ‘obsessive’ about perfect engineering.

“Ninety percent of their new revenues is from existing clients,” says Schoettler. “They point out that the BPO opportunity the responsibility of running what would otherwise be an internal system or service, e.g., payroll, claims processing, call centers.

Business process outsourcing (BPO) is the act of giving a third-party the responsibility of running what would otherwise be an internal system or service, e.g., payroll, claims processing, call centers.

Ninety percent of Infosys’ new revenues is from existing clients.

The 24/7 staff is trained to understand the various languages their call service centers support.

The 24/7 staff is trained to understand the various languages their call service centers support.

24/7 Customer

The Global Executive Forum visited the Bangalore offices of 24/7, a BPO service provider that functions as the client’s outsourced call center. Headquartered in Los Gatos, California, 24/7 Customer serves global clients from its seven offshore service delivery centers at Bangalore, Chennai and Hyderabad in India and Manila in the Philippines.

“24/7 is a young company, founded in April 2000 with venture capital funds out of Silicon Valley,” says Earl L. Wright reporting on the meeting. “The company has attracted rather significant venture capital support from the Sequoia Fund (known for its Google investment) and prestigious partners such as Michael Montz and George Shaheen, former chief executive of Anderson Consulting (now Accenture).

“The company has had an average growth rate of approximately 11 percent per year. In addition to call center services, 24/7 is expanding into the area of back office services,” says Wright, “which includes record keeping and customer transactions. However, they do not handle transactions related to confidential customer financial information.

“They feel the marketplace for what they are doing is huge. BPO is growing approximately 15 percent per year and the general outsourcing area is growing approximately 9 percent per year.”

Language is extremely important when taking calls from people around the world. “The company will be offering services in 21 different languages by mid 2006.”

Gail Schoettler adds, “Even though Americans and Europeans now know that our customer service calls are often answered in India, the employees are trained in American and British accents and they are very good. All the employees are college graduates, many with higher degrees, earning about $200 a month.”

With 6500 employees, “the turnover rate is approximately 35 percent, which is extremely high,” says Wright. “Average age of the staff is in the low 20s.”
“Today’s sophisticated electronics and communications capabilities allow this company to be successful halfway around the globe from their primary information source. When normally that client is closed for business, through the services of 24/7, they are open for business in India.”

Wipro
A global IT company, Wipro was incorporated in 1945 as Western India Products Limited. In its early years it was primarily a cooking oil factory and manufacturer of laundry soap. At that time it had only a modest presence in India.

“It diversified into computer manufacturing in 1980 and IT services in 1991,” says Forum member Steve Halstedt, who with Earl L. Wright contributed to this report.

Wipro sees its IT business doubling to quadrupling in size in the next five-eight years.

“Since then, its revenues have grown at 21 percent annually, net income at 30 percent per year and market capitalization 26 percent compounded,” says Halstedt, adding, “Wipro counts itself among the top three IT outsourcing companies in Bangalore.”

A global company, Wipro has more than 35 offices across North America, Europe and Asia and publishes financial reports for eight countries.

Says Wright: “The IT business now dominates their entire revenue and profit base: over 90 percent of revenue comes from 485 IT clients; 96 percent of EBIT (Earnings Before Interest & Taxes) comes from that same base. They see their IT business opportunities doubling to quadrupling in size in the next five-eight years.”

Strand Life Sciences
Strand was part of a panel (along with Wipro and e4e) that addressed the Global Executive Forum after the TiE presentation (see Page 9). Earl L. Wright reports.

Formerly Strand Genomics and now Strand Life Sciences, the company was started in 2000 by a professor of computer science and three colleagues from the Indian Institute of Science. “Funding for the startup came from the Indian government which provided a loan of about $1 million at 3 percent interest, and the World Bank which made a $1.3 million equity investment in the company. Focused on developing technologies for drug discovery and development, Strand generates about $1.5 million in revenues per year,” says Wright.

Strand offers stock option plans to entice individuals to join the company.

“The company uses computer programs to ‘mine’ an abundant amount of research data to get a sense of trends and indications in product development. These trends would perhaps be missed without a computer looking for correlations and relationships among the data presented.

“Of their workforce, 25 percent hold doctorate degrees and 30 percent hold master’s degrees. Seventy percent are computer science professionals, 30 percent life sciences. Strand, like all the venture capital startups we talked to, offers stock option plans to entice individuals to join the company.

“It was pointed out there is no tax on capital gains that may come out of an equity investment in a company. A flow of capital in and out of India does not have any restrictions at the present time,” says Wright. “On short term gains with regards to a venture capital investment, there is a 10 percent tax. Thus, Strand is a favorable environment for venture capital investments in India at the present time.”

Tata Consultancy
One of India’s most successful companies and one that India is proud to show to the world, Tata Consultancy Services (TCS), Mumbai, is a division of the $10 billion Tata Group, according to Earl L. Wright reporting on the Global Executive Forum’s visit to the company.

TCS provides information technology and management consulting services to major corporations in 53 countries. Founded in 1968, the company has grown to more than 50,000 employees and 150 offices spread out on the world map.

“TCS has annual sales of nearly $3 billion, which makes it a very significant player in the IT arena,” says Wright.

In today’s work environment, getting and keeping employees can be challenging, even for a company with the stature of Tata; turnover among new hires in their first two years averages 8 percent. The problem? “People tend to be loyal to the profession, not the company. They are demanding opportunities, be they financial and/or career, and they are willing to leave the company if they don’t get them.” Add to this the prevalent culture in India’s IT industry which generates “very high peer competition.”

Although TCS operates globally, “its corporate language is English,” says Wright. “So no matter what nationality they hire, they want the individuals to be fluent in the English language as well as their own native tongue.

“Starting salaries in the consultancy group are indicative of increasing competition for professionals. It appears as if $7000 per year or 280,000 rupees is a starting salary for individuals coming out of one of the technical schools,” says Wright. “But those with a master’s degree end up being paid $9000 per year or about 380,000 rupees. And someone from a prestigious MBA school could end up earning $18,000 per year or 708,000 rupees.

“Salary increases have been between 9-11 percent per year. Tata is aware that if they continue salary increases at the double-digit level, eventually the pricing advantages they have will begin to disappear.”

In the meantime, competition for strong techies is intense and not just in India. The US beckons with starting salaries of “between $120 thousand to $160 thousand” for candidates with the right stuff.

Though low, Wright believes the figures regarding compensation in India are being quoted correctly. Consequently, he does not anticipate that “a significant number of Indian scholars and IT workers are likely to migrate back to India. However, those who are uncomfortable with our culture and want to reconnect with their families might find it less of a financial sacrifice to return to India versus staying in the
US and reaping greater economic benefits.

If India is to continue to grow, it must have a large pool of educated employees from which to pick and a large middle class to support the system. “As is the case in many democracies, education often dictates a person’s ability to enhance his position in life,” says Wright. But education is not mandatory in India and even government schools cost money to attend, although they’re cheaper than those in the private sector.

“Discussion with regards to the culture and code within India suggests that the government tries to create equal educational opportunities for all youth. It was the (TCS) presenter’s contention that government schools and private schools do not differ in academic quality,” says Wright. “This contradicted previous discussions at Infosys which suggested that some of the better education, particularly the ability to teach and focus on English, was done at the private schools.”

Government schools cost money to attend but are cheaper than private schools.

“The TCS speaker did acknowledge that the quality of education varied from state to state, but the intention was to give everyone an equal opportunity.”

When it comes to postgraduate programs, “everyone agreed that iiit-b is the preeminent institution in India. Graduates holding degrees from iiit-b can count on having increased value to organizations but those organizations are for the most part outside of India,” says Wright. “It would be most unusual for these graduates to have an economic opportunity inside of India similar to what they have outside of India.”

- **e4e**

Headquartered in Santa Ana, Calif., and with operations in India, “e4e specializes in customer resource management on a business process outsourcing basis,” says Steve Halstedt who with Earl L. Wright contributed to this report.

“The company was founded in 2000 with backing from Walden, Canaan Ventures and Global Internet Ventures. Their run rate (extrapolating future financial performance from current performance) is $70 million. e4e boasts more than 100 customers and nearly 4000 employees.

“Theyir verticals currently include financial services and health care, with expansion into other sectors planned,” says Halstedt.

The BPO industry is now being affected by consolidation and commoditization.

“Sridhar Mitta, in addition to serving as president of the TiE Bangalore chapter (see Page 9), is manager of R&D and Information Technology for e4e. Mitta presented a case study of a client for whom they launched an IP protocol to replace voice services, thereby reducing the cost of customer management by 50 percent. e4e’s focus is now on increasing revenues for their customers, rather than just producing cost savings,” says Halstedt.

“They pointed out that in the BPO industry, consolidation is starting to occur along with commoditization. In this kind of environment, competition erodes prices. For companies wanting to compete for the business, this is good news as people and resources should be readily available.

“e43 has identified new business opportunities where they believe they can dominate; financial services is one of them. They are going forward with the attitude that they want to be a business partner and a solution source for clients in the BPO area,” says Wright. “This represents a fresh way of thinking, one of the things that can happen when commoditization hits an industry.”

- **iiit-b**

A new generation graduate school is how iiit-b describes itself. Focused on all aspects of information technology, it is a public-private partnership promoted by the IT industry and the government of Karnataka State, home to the burgeoning Electronic City outside of Bangalore.

“iiit-b is an academic institution that specializes in master’s and doctorate degrees in software engineering and information technology,” says Wright, reporting on the Global Executive Forum’s visit to the campus in Electronics City.

“Established in September 1999, iiit-b became a full university in 2004, so it is relatively new and it is an experimental school even though they have a couple of pictures of Peter Drucker along with some very complimentary comments he’s made about the school. Only Indians may apply.

“The financial model for the school is relatively straightforward: 33 percent of the funding comes from the government, 33 percent from tuition and 33 percent from grants awarded by companies that support the institution’s mission of producing high-quality graduates.”

iiit-b is to Bangalore what Stanford University is to the Silicon Valley. “The companies that support iiit-b tend to have courses that support their industries; thus, corporate support tends to influence the academic focus of one industry over another,” says Wright.

“Honeywell, HP, Intel, Daimler Chrysler, Siemens, IBM and Microsoft are some of the companies that have special projects that the school and/or its graduates work on as a part of their academic experience.

“iiit-b graduates more than 100 students a year who are snapped up by the IT sector. They represent the intellectually top of what India graduates on an annual basis,” says Wright. “The 500-plus alumni occupy key positions in more than 60 corporations spread across a dozen countries.

“It was interesting to note that iiit-b graduates tend to be very narrowly focused with regard to their training and tend to stay in that narrow focus as they pursue their careers.

iiit-b graduates more than 100 students a year who are snapped up by the IT sector.

“I had a question for the presenter of our program: ‘Why are Indian PhDs returning to India from abroad despite the lack of financial reward?’ ”

He answered that many of those returning had a chance to make money in the dot-com period. Thus, they come back with savings that enable them to teach and still live rather well. Though lacking in economic benefits, career opportunities in India were better than in the US, the presenter said, and the returnees could spend one day a week working with corporations and teaching the other days.”
India is spending a lot of money on improving the roads but it has so far to go. The new roads will have four lanes for a mile or so, then will divert back to two lanes for many miles, and back and forth. When a new road needs to take a right of way from a shop or home owner, the fronts of the buildings are simply bulldozed; actually they are chopped off where needed by hand, leaving miles of empty rooms with walls putting out into the new roadway. Guess the owners just move their belongings back a room or so.

Much of the road construction is hand labor. Men use picks and shovels. Women use baskets to cart away rocks and dirt. Scores of people pick away at the ground, moving tiny amounts at a time, then haul rocks and more dirt by hand back to the new road for a road base. The asphalt is dumped by truck, but moved into place by hand. Barrels are used to heat tar, which is then poured on top of the rocky asphalt and smoothed by hand. Women carry baskets of sand to throw on top of the hot asphalt and someone else takes it into place. I did see some small rollers to tamp it all down but this is, indeed, a full employment effort.

Trash is everywhere. We visited the botanical gardens in Bangalore, which are quite beautiful if you can ignore the trash. Students throw trash out their windows onto the balconies of class-rooms below. Trash fills the medians of the divided roadways, every ditch, every backyard. Cows and dogs roam through it looking for tasty garbage and goats munch just about everything in the trash pile.

Our bus spotter took a box of our bananas and empty water bottles and simply dumped them out the door of the bus. I think it is so much part of life that no one thinks about it. People throw their trash on the sidewalk, if such exists (which is rare) or the roadway as they walk along. There are some government signs urging people to deposit their garbage in bins, but that has had no effect. We did see one garbage truck, but only one. It will take an unbelievable effort to change Indian habits and the government has much more to think about now than that.

Cows, too, are everywhere. Apparently, centuries ago a Hindu leader told the people they should hold cows sacred because they give milk, which is so important in Indian life. But once a cow has stopped producing milk, its owners perform a ceremony and turn it loose to fend for herself. Consequently, there are millions of scrawny cows everywhere — in the centers of the crowded cities as well as in the rural areas. They survive by rummaging in the abundant trash heaps for food.

Occasionally I would see a fortunate cow that had found some discarded vegetables in the trash. I saw one cow nosing through an unproductive garbage pile until she found a piece of newspaper which she proceeded to munch down. All the abandoned dogs, and pigs also pick through the trash for something to eat so I guess the garbage does serve a purpose. Productive cows and goats are fed, but I didn’t see any dog that was a pet.

Many cows have been painted yellow, presumably so their owners would know which ones are theirs. Lots of them have painted or decorated horns. I think the forage must be very low in nutrition because although there is a fair amount to eat, the cows are very skinny. Some of that may be attributable to the breed.

In contrast to these grimy conditions, everywhere in India bougainvilleas splashes brilliant reds, pinks, oranges and purple. You can see them on every wall, fence and hedge, in the medians of divided roads, on the walls of houses. The saris women wear are something to behold; they are so beautiful. Every truck is decorated with flowers, tassels, paintings, gods and lots of color. There are brightly colored temples wherever you look. The color is particularly vibrant during the dry season when the fields and forests haven’t yet turned green.

I finally understand Delhi and New Delhi. The British moved their Indian capital to Delhi around 1900, creating a “new” Delhi just outside of old Delhi. It is quite lovely, with wide streets, lots of trees and parks and flowers.

Agriculture, like road construction, is completely unmechanized. In six hours of driving from Bangalore to Kabini, I did not see a single tractor. The main crops are sugar cane, rice, truck crops and other grains. Plowing is done by o.x and man, usually tramping knee deep through muck behind the plow. I guess it’s easier to plow...
the clay soil when it's wet. Women are the ones carrying heavy loads by hand — or, really, by head. You see them by the dozens with huge bundles of sugar cane or rice sacks or water on their heads. The men carry loads in ox carts or brutally overloaded trucks and bicycles.

Villages now have several wells where women can get water that is perhaps not too polluted. Women still do the laundry in the river or in very dirty lakes.

Most of our guides told us that the government had outlawed dowries and that they were a thing of the past. They also said that the caste system was gone.

I talked to Rakesh, our tour manager, a wonderful man who traveled with us throughout India, about marriages. He said that caste is very important, something I heard confirmed over and over in casual conversation when many people identified themselves to me by saying they were from such and such a caste. Few people marry outside their caste, they said.

Rakesh’s marriage was arranged. He told me he didn’t meet or see his wife until their wedding day. Except for the highest castes and richest people, all marriages are arranged, he said. Dowries, though outlawed, are negotiated as part of every marriage. “The government may have said ‘no’ to dowries, but it’s our custom.”

I asked Rakesh how he felt about having his parents arrange his marriage. “My parents and grandparents had the experience of life,” he told me, “and I did not. They knew best how to choose for me. Marriage can happen two ways: love then marriage or marriage then love.”

Brides go to live with their husband’s family. Most families include the husband’s parents, the husband and wife and their children, often the husband’s grandparents. They all occupy one small house, usually with no more than two bedrooms. Rakesh told me that when there are children, the husband’s parents move from their bedroom to the couch because “they don’t really need a separate space since they spend most of their time praying and preparing for the next life.”

Rakesh said dowries still cause some terrible things to happen. He was referring to the “kitchen fires” in which a woman’s husband or in-laws douse her with gasoline and set her on fire, claiming she was killed by a “kitchen fire.” This is to enable the family to get another bride and a bigger dowry next time.

Caste is pretty obvious when you’re in the rural areas. Much of India has no wood for fuel so women take fresh cow manure, mix it with straw and shape it into large rounds about a foot in diameter and an inch or two thick. You can see these rounds drying alongside the road and in the fields around houses. Once dried, they’re stacked, often in artistic ways, around houses to use for cooking. Some of these patties are sold as well. It is an efficient fuel if unappealing to make (and probably to smell). The women responsible for making the cow dung fuel are the lowest caste.

We visited Udaipur, in the state of Rajastan, and walked around the city for hours. It is cleaner than most of the cities we visited but only in the tourist areas. Once you leave those, you see the same huge garbage dumps everywhere — along the streets and every vacant space, even the yards of houses.

As we walked along the river that feeds Udaipur’s lake, we saw people washing and washing their clothes. The water is filthy but the people want to be clean and this is their only choice. Some were in their underwear, obviously having washed their only set of clothes, which was drying in the sun. They buy soap and shampoo in single packets (an invention of Unilever, which found this was a size people could afford), and scrub themselves and their clothes on the rocks or concrete before rinsing in the river. People wash themselves and their laundry in every patch of water, from ponds to rivers to village wells.

The streets in Udaipur are lined with tiny shops. The proprietors live inside, sleeping on the floor or a counter on thin mattresses. A lot of cooking occurs outside the shop in the street. I’m sure many people simply eat from the street stalls that are everywhere. The shops are mostly dark since electricity is very expensive.

I didn’t see any water supply inside the shops. In the rural areas, the World Bank has funded well drilling to provide people with clean water in their villages. As you drive along, you’ll see lots of people congregated around the village well, pumping water into buckets and urns.

Because of its massive deforestation and a long drought over the past few years, India has enormous water problems. When the monsoon hits in the summer, the water pours off the denuded hillsides taking the topsoil with it. There is no natural plant cover to hold the water in place. The large lake in Udaipur which supplies the city’s water was dry last year. This year, it’s full but people are very worried about the future. Erosion has cost India millions of acres of good farmland. Now plots are often so small that people can’t support themselves. We did not see hunger, however.

In the midst of extreme poverty and misery, there are magnificent palaces of the maharajas (a maharaja is elevated to maharana if he or his forbears were extremely brave in battle). The palace walls used to be studded with jewels but most of these have been removed over the years. There is a wealth of gold and silver, beautiful paintings, lovely inlaid walls and ceilings. They are really spectacular and, obviously, an important tourist attraction all over India and particularly in the north.

The City Palace in Udaipur is still occupied by the current maharana, whom we saw driving a shiny red MG out of his palace one evening. He owns a lot of land and the main lake and, reportedly, is trying to develop local businesses and attract foreign investment for economic development. He is in his late 60s with a magnificent white beard and a sweeping, perfectly groomed, handlebar moustache.

There are many beautiful villas as well. On the street right outside many of these large homes, using the outside wall as a back wall, are lean-tos. The contrast of the villas lined outside by shanties is remarkable. Poor people use every space possible to build their own homes. We saw homes made of scraps of plastic, straw and thatch, discarded bricks, whatever the builders could find.

The poverty in India is no worse than in Mexico or Rio de Janeiro, but the numbers are so huge.

Everyone we met was very warm but there is an undercurrent of rage I saw on a number of occasions. In one village, as we walked along, a group of young girls ran up to us asking for money. They were smiling and laughing as they called out to us. As we passed and said “no,” I looked back at one of the girls who yelled an Indian obscenity at us, bareng her teeth.

A man herding goats snarled at us when we said hello and a man outside our bus selling balloons smiled at first but when we didn’t buy from him, started beating on the bus, yelling angrily at us. One vendor said, “You are from America and I am a very poor man.”
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