If there’s one word that defines India, it’s change. Back in the 80s the country was on the verge of economic collapse; today, after a series of policy changes reset the country’s direction, India is the fourth largest economy in the world (after US, China, Japan) as measured by purchasing power parity.

“In the 80s, there was no growth and unemployment was very high,” said Dipak Patel in his address to the Global Economic Forum. On top of that, “certain states wanted to declare themselves independent from India.” The country’s 28 states present unusual challenges. “Each state is different with its own language and its own way of dealing with people.” The clothes people wear and the ethnic composition also are different from state to state. “It’s like 28 different countries within a country.” However, “English is the language of business.”

As a result of reforms initiated in the 90s, the country began to grow. “So India has an economy that’s very new, only 10 years old,” said Patel. “Before that, it was just a country with a bunch of bureaucrats, a bunch of licensed businesses, lots of people, lots of entrepreneurs but no opportunities.” Patel, who travels there frequently, said, “Over the last 10 years so much has changed. Every time I go I feel like I’m in a different place.”

There are two annual events that impact the economy. One is the budget which is drawn up in March. “The government decides where they’re going to put the money, how they’re going to tax people, whom they’re going to tax.” The second event is unpredictable: it’s the monsoon. When it arrives on schedule it brings three months of rain which farmers depend on in a land lacking irrigation systems.

“Whether there’s too much rain or not enough rain, people’s spending habits change even if nothing has changed in the economy. Consequently, every industry suffers.” The importance of agriculture is being overtaken by the services sector, but agriculture still accounts for 24 percent of the GDP.

Opportunities

According to Patel, investment opportunities exist in every area, but the most attractive include banking/financial services, pharmaceuticals, retail, media and entertainment, hospitality and leisure, infrastructure.

- Banking/financial services - The banking system is undergoing change as the government denationalizes the banks they nationalized in the 50s and 60s to keep them from going under. In the public sector, 60 percent are still owned by the government. The rest are private sector banks. “In the past, banks made only commercial loans but now they are willing to give personal loans. And they have ATM networks, credit cards, debit cards. So they offer a lot more services than they used to provide. Banks are just taking off, growing at 20 percent a year. And unlike the 80s when many of these banks had 20-25 percent nonperforming loans, that number is now less than 1 percent, said Patel.
- Pharmaceuticals - Under the Indian Patent Act of 1970, patent protection on drugs lasts only seven years. This, and the fact that Indian drugmakers have been able to reverse-engineer drugs invented elsewhere, has made India a major producer of generic drugs. However, starting this
India: Opportunities and risks in a changing society

Dipak Patel

year, as part of its admission to the World Trade Organization, patent protection will be extended to 20 years. Said Patel, “The protection will be on the process not on the drug formulation, which makes medicine affordable for Indians.”

- Retail - “Department stores and malls are still very new to India,” said Patel. Except for three department store chains, most retail is characterized by mom-and-pop ownership. Pantaloon is the largest of the department stores with 13 Pantaloon stores, 9 hypermarkets and 13 Food Bazaars.

- Media and entertainment - India’s entertainment industry is set to grow rapidly over the next few years, reaching $14 billion in revenues by 2010, according to a study by KPMG and the Confederation of Indian Industry. Growth is attributed to the affluence of a burgeoning middle class and its demands for more TV programs, music, books and Internet access. Also, the industry is a major exporter of both finished products and services.

- Hospitality and leisure - The advertising sector of this industry “is going very strong,” said Patel. Domestic travel is booming, again due to the middle class. The Hotel Benchmark Survey by Deloitte reported double-digit growth in the 12 months from March 2004 to February 2005. But growing the numbers of international tourists is a challenge due to the poor quality of India’s roads, ports, rails and airports.

- Infrastructure - Up until recently infrastructure improvements were stymied by a lack of political will and a lack of incentive in the private sector to invest in projects because of high interest rates and government regulations. That is now changing, said Patel. People are demanding roads and the government is responding with five-year grants to encourage private sector participation. Tolls on new paved roads that run nonstop from city to city are gaining acceptance as drivers find they save considerable time. A typical trip that used to take seven hours takes only three hours on a new toll road.

Patel named a couple of developing industries worth keeping an eye on:

- Autos - In the past, there were only two models of cars and three models of motorcycles available in the domestic market. “Now we have 30 models of motorcycles and 18 models of cars,” said Patel. “Fast-engine cars have become a status symbol. If you don’t have a car parked in front of your house, nobody is going to marry your girls. That’s something that has changed.”

- Power and energy - “India still has a long way to go before this industry becomes profitable because some of these power generation companies are still owned by the government and they’re very inefficient,” said Patel. Due to the way power is transmitted, it has been easy for people to acquire electricity without paying for it. “About 50 percent of the transmissions have been lost. That has come down to 30 percent and should go down to 10 percent by the end of the next decade. Companies are putting this additional income back into the business.”

Risk factors

On the one hand population growth will continue to produce more workers, outpacing Brazil, Russia and China by the year 2030. On the other hand, more people will put more pressure on systems that so far have proved inadequate for the masses. A guest said, “The large growth of population suggests there will be a large growth in the economy, but the country doesn’t have an education base to support it.”

Patel agreed. “Education is one of the bigger risk factors.”

Unlike the people from India Americans are likely to run into in the US, not everybody in India is well educated. The literacy rate has been rising, from 40 percent to nearly 65 percent, but that number doesn’t
India: Opportunities and risks in a changing society

Dipak Patel

tell the story. "In most countries literacy is defined by the ability to read, write and do simple math. In India the person who is considered ‘literate’ can barely read."

This is surprising considering that education is free until the 12th grade. College bound? The cost is no more than $50 for a whole year and is free for females. “You’d have to go to a private trust-funded college, not a school in the public sector. Unfortunately, it’s only the people in the middle class who have access to higher education. “If you’re in the lower class, you were born into poverty and it’s very hard to get out of it,” said Patel.

“If your father is a farmer you'll become a farmer; if your father is a barber you'll become a barber. It's something India inherited from its old caste system.”

A guest pointed out that only “43 percent of India's women are literate compared to 85 percent in China. Chinese women working in a textile mill in China will produce 20 percent more than an Indian woman in an Indian plant, which is probably attributable to the quality of education,” said the guest. “This is a giant issue and something India is failing on right now.”

Without a doubt, education is linked to productivity, Patel said. "Everybody thinks China has the cheapest labor in the world but actually India has the cheapest labor. The product delivery is not as high as in China so that’s why it comes out more expensive."

Among the other risks are the pace of reforms which could slow or stop altogether, and the spectre of AIDS. “One half of 1 percent of the population is infected with AIDS, which is lower than other parts of Asia. But the disease, which used to be an urban disease until just five years ago, is spreading to the rural areas. This could be the largest risk to India's story because there is no education about it,” said Patel.

“There may be a lot of problems in India but when we're looking at market opportunities there are a lot of people there that have purchasing power,” said a guest

“The society is changing,” said Patel. “People are wanting more for their lives. We are changing out blue collar workers to white collar workers. It’s an enormous task because their education system has failed to train them so now businesses have to do the job. And that’s a cost added to your P&L.”