Old problems still linger in the “new” India

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

Gail Schoettler

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.

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.

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 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 Nathjiha, 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.
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Other statistics Schoettler provides: “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 are 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.”
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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 it’s 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 financial sector is sophisticated, but is state owned, so politics play a big role. I was particularly struck by how difficult it was to find an ATM to get cash,” says Schoettler. “We had an easier time getting cash from an ATM in Cambodia than in gigantic India. That is because the state owned banks serve only Indians and the banking sector has only recently and partially opened to international banks. To access an ATM, you must find an international bank. Indian banks won’t work.
- “India continues to have a problem with state-directed loans and interest 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, which 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.

India has 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 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.

“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.”

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.

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

“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.