



India in 2025: The Decade of Destiny

Dr. Jagdish N. Sheth, Emory University

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India's Second Independence

While India's political freedom is more than 65 years old, its economic freedom is less than 25 years old. In 1991, the government abandoned the planned social economy model manifested in what was labeled as the "license Raj" in favor of capitalist market economy.

What has been achieved in such a short span of 25 years is impressive. First, India has become one of the fastest growing economies in the world (7-8% annually with moderate inflation) compared to the Hindu rate of growth (2% or less) prior to its second independence. Second, India has accumulated more than \$350 billion dollars in reserves both through export growth especially in services sectors such as IT and ITES as well as by attracting all types of investment (stock market, private equity and foreign direct investment) in India. This is destined to cross a trillion dollars by 2025.

Third, India's stock market has performed extremely well, especially since the 2014 election and the new leadership, creating significant wealth for all types of investors which include ordinary citizens (through mutual funds), foreign institutional investors (FII) and especially for entrepreneurs and promoters. Fourth, India has produced several large new enterprises such as Reliance, Infosys and Bharati as well as re-energized traditional business groups including Tata, Godrej and Birla, and many public sector units (PSU) including Coal India, Maruti (owned by Suzuki of Japan), State Bank of India (SBI) and Life Insurance Corporation of India (LIC). The combined market caps of these enterprises since 1991 is nothing short of spectacular. Finally, India's economy has increasingly and steadily become globally integrated both economically and politically.

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So what has been the impact of this transformation of India's economy?

New World Image

First and foremost, India's image worldwide has dramatically changed from a country of roaming cows and snake charmers to one of an emerging superpower with talented people from all walks of life from contemporary literature and art, to science and engineering, to business and finance. This admirable image of India has been further boosted by Prime Minister Narendra Modi's travels all over the world. Modi has a charismatic and pragmatic leadership style and above all, tireless energy.

Renewed Self Confidence

Second, India has also generated new self-confidence and a "can do" attitude among its educated class as well as the illiterate masses. In fact, nothing seems to be impossible if you are an Indian or in India.

Altogether New Enterprises

Third, India has produced new large global enterprises such as the ICICI Bank, Arcelor Mittal, Reliance, Bharti Airtel, Dr. Reddy's, Ranbaxy, Infosys and many more. This is in addition to the globalization of heritage enterprises including Tata, Mahindra, Godrej and Birla. Several State Owned Enterprises (SOE) like SBI, ONGC, GAIL and Coal India are also globalizing.

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The New Middle Class

Finally, India has created a large and contemporary new middle class, which I call the Call Center Couple: both husband and wife are college educated, both have to work, and neither wants to live with their parents because they like and enjoy their privacy and freedom.

The Call Center Couple does not want to shop from the traditional merchant or the neighborhood provision store owner who home delivers daily groceries and toiletries with a monthly account settlement. Instead, the Call Center Couple wants to shop at a modern organized retailer such as Big Bazaar and Metro, which offer branded, quality products (both domestic and imported) with fixed prices and checkout counters that accept credit and debit cards for payment. The smart phone is a necessity for the Couple; and they have become avid online shoppers from e-commerce retailers such as Flipkart and Snapdeal. They are wired with the world through the Internet as well as social media, such as WhatsApp, Facebook, LinkedIn, Twitter and YouTube.

India in 2025

Where will India be in 2025? Here are some predictions based on the accelerated projections of past impressive record as documented above, despite its bureaucracy, lack of infrastructure and poor public services. First, some of the largest global enterprises will be of Indian origin especially in basic industries such as copper, steel, aluminum and cement. India Inc. will transform into truly global enterprises, not through exports, but through large global acquisitions of world class companies with strong technical, manufacturing or branding assets. Recent acquisitions by Arcelor Mittal, Hindalco, Tata (across many of its companies), Wipro, Marico, Crompton & Greaves, Essar and Avantha Group will be replicated by Reliance Industries, ONGC, and SBI.

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Second, India will become the second (and in some instances the first), largest consumer market in many products and services surpassing the United States, Japan and Germany. This will include consumption of mobile phones, consumer electronics, appliances, garments, motorcycles, scooters, beverages, prepared foods, and agriculture products such as fruits, vegetables and grains as well as meat and dairy products including milk, cheese and butter. As the second largest market in the world, India will attract global enterprises from around the world to make products in India and market them locally, as well as globally. This will also be true of global IT services companies like IBM, Accenture, Microsoft, Google, Cisco Systems, Intel and all professional services such as accounting, legal and engineering services.

Third, India will partner with strange bed fellows in search of industrial, agricultural, energy and talent resources around the world. Consider its investment and business partnering with Bolivia, Peru, Venezuela, Iran, Malaysia, Kazakhstan, Myanmar, Egypt and several resource rich African countries. In other words, India's global alignment will be less on ideology (non-alignment movement) and more on markets and resources including human resources.

Finally, India will gain significant geopolitical clout by 2025. It is already a member of G20 nations. India will be given a permanent seat at the UN Security Council, and will be asked to provide leadership talent to world bodies such as the ILO, WHO, World Bank and IMF, as well as New Development Bank and Asia Infrastructure Investment Bank (AIIB).

Of course, Indian talent in large non-Indian business enterprises such as Microsoft, MasterCard and many others is a reality. This is also true at many universities and colleges, especially in the United States, Canada and the United Kingdom.

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Some economic experts and advisors believe that by 2025 India will catch up with China and will start to outdistance both the US and China like a good marathon runner. And it will be a marathon race, not a hundred meter dash. It will require stamina, will power and determination to win in the long run.

India's Resource Advantages

The key reason why this possibility will become a reality is India's resource advantage. India has five key comparative resource advantages.

Large Young Educated Workforce

First and Foremost, is India's demographics. India's population will have the largest pool of young, educated workforce in the world by 2025. In contrast, it is expected that China's historical one child policy over two generations as well as its rapid affluence will make it the largest aging nation in the world much sooner than expected. In other words, by 2025, China will look like Japan, South Korea, Singapore and other advanced economies of the world as its population ages rapidly. China's growth is likely to slow down to less than five percent beyond 2025 while growth of Indian economy will continue at a higher rate.

Natural Resources

Second, India is also blessed with natural resources. It has large, fertile land that is capable of yielding cotton, wheat and rice as well as fruits and vegetables suitable for different climates. India has a vast coastal area of marine life. The country is blessed with industrial raw materials including coal and iron ore. Additionally, India is home to the world's largest livestock. It produces and consumes more milk than any other nation in the world, for example.

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Soft-Power

A third major resource advantage is India's Diaspora of more than 20 million nonresident Indians (NRI). It is not only the size of the Indian Diaspora, but its presence across the globe. The Indian Diaspora is highly educated and, increasingly, hold leadership roles in the respective countries where they have settled. Although many are second or third generation yet they still identify with their Indian roots. Finally, and most importantly, Indian Diaspora has accumulated enormous wealth through hard work, savings and entrepreneurship in all types of industries including cut diamonds, gas stations, hospitality (hotels and motels), and of course, the Silicon Valley. This Indian Diaspora is increasingly becoming interested and committed to India for at least two reasons: India offers as good and often better career and business opportunities; and contributing back to motherland is made easier by the recent changes in government attitude and behavior toward its NRIs. More and more, NRIs are recognized as a great asset for the ascendancy of India as a globally integrated economic superpower. This has been especially true under Prime Minister Modi's leadership.

Functioning Diversity

A fourth key resource advantage is India's functioning diversity. India is more diverse than the European Union. However, unlike the European Union, it has achieved a national identity; a unity in diversity similar to the United States, which reigns above and beyond its subcultures. It is hard to imagine that the Germans, French or Italians will think of themselves as Europeans first and German, French or Italian second. In India, there is a unity in diversity across languages, cultures, geography and, to a large extent, across religions. Unity in diversity was amply demonstrated recently in celebrating the International Yoga Day. People of all ages, ethnicities, and subcultures forgot their differences and joined together as a nation. It was a

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great reminder of how Indians from all walks of life united in India's freedom movement under Mahatma Gandhi's leadership.

Unity in diversity in India is complemented by a functioning democracy. For more than 65 years, India has demonstrated that changes in political leadership can take place peacefully and efficiently. This functioning democracy and rule of law makes India even more attractive to the rest of the world. It is not just the English language advantage. India's legal, accounting and financial systems are comparable to other Commonwealth nations. They are being reorganized to be compatible with the European and the American systems.

Entrepreneurship

A fifth resource advantage is entrepreneurship and innovation. Entrepreneurship is universal and transcends literacy, gender, age and religion. The most literate as well as the most illiterate people are equally entrepreneurial in India. Both men and women can be equal entrepreneurs. India has learned to innovate despite, and often, because of its poor infrastructure, frustrating red tape and acute shortage of resources. The multiplier effect of innovation and entrepreneurship is much greater in India because of the rise of the new generation: Millennials. As a consequence, India is destined to become the largest entrepreneurial nation in the world.

What is holding back India?

Despite these great resource advantages, India also possesses significant legacy weaknesses, some of them are critical enough to become major liabilities for the nation.

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Lack of Scale

The first and foremost weakness of the Indian economy is that it is highly fragmented. Despite the large size of its market, India's economy lacks domestic scale advantage. This is due to several reasons. First, the government's historical policy to limit the production capacity by licenses resulted in fragmentation of the industry. There are, for example, too many banks, too many cell phone operators, too many cement producers and so on. Industry becomes efficient through evolutionary shakeouts and mergers and ultimately results in three large scale suppliers surrounded by a large number of niche companies. I articulated this issue in a book I coauthored titled, The Rule of Three. The only place in India one sees scale is in the state owned enterprises which are, unfortunately, not as efficient due to lack of automation, weak governance and lack of accountability.

This fragmentation is compounded by two additional factors. First, most businesses are family owned and managed even though they are publicly listed companies. The principals of family owned businesses tend to be reluctant to sell to each other because of the expectation and desire to provide a career for their children and grandchildren. In other words, competitive forces which encourage scale efficiency are counterbalanced for family reasons. Second, and most importantly, it is alarming to know that a very large percentage of Indian economy is served by the unorganized sector. For example, the unorganized sector still produces more than half of total capacity in molded luggage, in garment manufacturing as well as in most services. The inherent advantage of the unorganized sector companies (lack of compliance, cash transactions, tax avoidance, and low wage workforce with no employee rights) provides no incentives to sell to others.

The evolutionary market process is simply too slow to achieve scale efficiency. It will require active government policy to increase the domestic scale of Indian enterprises by encouraging

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industry consolidation and by reforming the unorganized sector into modern, organized Small and Medium Enterprises (SMEs).

Lack of Modern Infrastructure

A second major obstacle to the rise of India is, of course, lack of modern infrastructure throughout the value chain from production to consumption. This includes modern seaports, cargo airports, logistics and high speed roads. It also includes financing, warehousing and retailing. The transition from the agriculture to services economy resulted in investing in the ICT (Information Communication Technology) infrastructure and especially mobile phones. Today, it is possible to reach practically anywhere in India by digital, mobile phones and wireless internet.

What India also needs is modern infrastructure for manufacturing. Just as the government, through policy reforms, permitted the private sector to participate in the ICT industry, the government needs to encourage private investment in the manufacturing infrastructure. Without a strong manufacturing base, a nation does not become a global sourcing destination despite its large domestic market. In my estimation, investment in modern infrastructure will generate additional 1.5% GDP growth without inflation.

Lack of Value Added Manufacturing

India is a great resource rich nation and must refocus on value added manufacturing rather than export its raw materials. To attract manufacturing, it needs modern infrastructure. This is very strategic as the world is looking for dual sourcing strategy from China and India. In fact, due to their large domestic markets, both nations are becoming de facto sourcing destinations for world markets especially the United States.

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The “Make in India” initiative recently announced by the government is more than just a slogan. Foreign multinationals will come to India to manufacture their branded products and services for their world markets. This is already happening in textiles, for example. It will also happen in automotive and aerospace components and in pharmaceuticals. Surprisingly, “Make in India” initiative will also result in India becoming the services capital of the world.

Lack of Accountability

The third major weakness is lack of accountability. This is in sharp contrast to most advanced economies, as well as several ex-communist nations. Despite all of the faults of communism, it did lay the foundation for three advantages. They enforced discipline on citizens attending school or going to work. They also invested heavily in vocational and technical education. Lastly, the communist nations also created gender equality, which provided them twice the human capital compared to most non-Communist nations.

India needs governance and it needs it urgently. Without governance and civic mindset, it has the potential to disintegrate into a society of powerful “mafia” groups who extort wealth from the economy. Without governance and civic mindset, it is easy to regress to lawlessness as witnessed in many transition economies.

Lack of Investment in Skill Development and Preventive Healthcare

A fourth major weakness is lack of investment in skill oriented education and preventive health. There is no better resource than a healthy, skilled population. It was this emphasis on vocational and technical training that transformed South Korea into the most advanced society in less than 35 years. The sharp contrast between South and North Korea vividly demonstrates the importance of skill development. Unfortunately, India ranks among the lowest of nations in the world for its investment in skill based education and preventive health.

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The only way to attract resources to health and education is to reform existing rules and regulations related to them. This should be comparable to economic reforms India undertook (out of necessity) in 1991. In my view, urgency about accessible education and affordable healthcare cannot wait for political gridlocks and debates.

Government is still a Gatekeeper

At all levels, the government still retains the culture of license Raj and a fundamental mistrust of capitalism and competitive market economy despite what has been achieved in the last 25 years. Capitalism is like a river. It nurtures cities and civilization. However, it is also destructive when it floods. Therefore, it needs to be banked and its flow controlled so that it continues to nurture the cities and the civilization.

Rather than act as enabler for its citizens, consumers and entrepreneurs, India acts as a gatekeeper, especially in attracting foreign direct investment (FDI).

Call to Action

So what should be done to maximize its resource strengths and minimize its legacy weaknesses? First, India needs a sense of urgency and purpose. Its “chaltahai” culture, especially in the government bureaucracy, needs to change to a mission driven transformation of its abundant resources. Second, to paraphrase a statement made by President John F. Kennedy, we all have to ask ourselves what we can do for the nation rather than what the nation can do for us. In other words, unless it is guided by purpose, collective self-interest does not necessarily result in public interest as advocated by capitalism. Third, as mentioned earlier,

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massive investment in infrastructure is a must. If you analyze the rise of all super economic powers like England, America, Germany, Japan and, most recently China, investment in public infrastructure has been the foundation of economic growth and prosperity. This may require more imaginative public-private partnerships and leveraging the newer financial institutions, such as the New Development Bank and the Asia Infrastructure Investment Bank (AIIB).

Fourth, India must refocus on manufacturing anchored to its resource advantages. Its transition from agriculture to service economy has resulted in enormous and ever widening disparity between the rich and the poor. Fortunately, I believe India's manufacturing will be revitalized due to its inherent resource advantages. Unlike China, which began with low end consumer electronics, toys, shoes and appliances, India's manufacturing can be at the high end of technology such as semiconductors, software, aerospace, military and industrial technologies. This is already happening in pharmaceuticals, petrochemicals, automotive parts and high-end defense electronics. India needs to actively participate in the newer frontiers such as the biological sciences, nanotechnology, sustainability and the space-centric innovations and space research. This will require encouraging new curricula, diplomas and degrees just as India invested in medicine and engineering in the 50s and the IT services in the 80s.

Fifth, India must implement inclusive wealth creation policies and reduce the expanding wealth gap between the rich and the poor. Inclusive wealth is more than inclusive growth and minimum wages. It means more than decent livelihood. It means asset appreciation of the poor and not just the rich. Most political revolutions against incumbents have invariably occurred by the revolt of the oppressed masses whether it is against the Czars of Russia, dynasties in China or modern democratic elections.

Reducing poverty among the Base of the Pyramid (BoP) population earning two dollars or less per day will require a totally fresh outlook because the traditional approaches of development

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anchored to subsidies, paternalism and platitudes, have all failed in the past. Unless the nation democratizes wealth (and not just income) among its masses, poverty will invariably persist. While the rise of the manufacturing sector will provide some relief to that end, it needs a national movement of enabling entrepreneurship among the illiterate and the less educated by such methods as micro businesses, successful cooperatives (for example, AMUL in dairy products) and a focus on women entrepreneurs.

Most importantly, India needs massive government reforms to achieve the full potential of its economic reforms. Government reforms led to economic boom. Now, the economic boom needs to trigger government reforms. The most pressing reform is computerization of the government and governance. It is the fastest way to reduce corruption. It will speed up enforcement of rules and regulations, and mandate compliance for better and equitable governance.

I strongly believe that we need to shift focus on those who corrupt the system and not just the corrupted. A strong enforcement of existing laws on people who corrupt the system is equally necessary. Surprisingly, I have found that Return of Investment (ROI) on bribes is considerably less than that on a buffalo and with significant downside risks to business. Therefore, it is not in the self-interest of business to engage in corruption.

The second most pressing are reforms with respect to political contributions from vested parties and interested individuals. Making these contributions transparent and legal is far superior to the present system. In this instance, it may be best to emulate and adapt the Western systems of fund raising by political candidates and parties.

A third area of reforms is to reduce the fragmentation of political parties. The two-party systems in the U.K. and America have merits as compared to multiparty coalitions in many European countries such as Italy, Belgium and the Netherlands. This may become increasingly

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necessary as mutations and fragmentation of parties multiply. The current fragmentation necessitates unholy alliances among political strange bedfellows. This results in constant shuffle of union ministers and cabinet members resulting in arbitrary policy changes. Nothing slows down investment more than political uncertainty.

Conclusion

Despite these challenges, I am optimistic about the future of India for a very simple reason. India has finally elected a non-elitist leader who is pragmatic, decisive and knows the art of global diplomacy.

This is critical because India's destiny will be determined as much by the world as by India. The world (including China and the United States) needs India's human resources and its domestic markets, more than ever, to sustain global growth and for their Asia centric geopolitical realignment.

This is precisely how the United States transformed itself from an agricultural to a manufacturing nation after the Civil War under the pragmatic leadership of President Abraham Lincoln. China accomplished the same feat under the pragmatic leadership of Deng Xiaoping. History can and does repeat itself. If China can do it, so can India.