

Can India fly?

It has taken off at last. Only with further reform can it spread its wings and soar



WORKERS of India, you have the world's attention. Long neglected in Western boardrooms in favour of China, its yet more gigantic neighbour, India now appears on every corporate to-do list. Even in the furnace of pre-monsoonal heat,

linen-suited Westerners (and Easterners) are appearing in Mumbai, Bangalore and Chennai, anxious not to miss out.

But will India fly? After all, it has been in fashion before, only to disappoint foreign and local companies alike. Despite its huge potential market of 1.1 billion people, despite its wealth of English-speakers and democratic institutions, despite its vaunted 15-year-old reforms, India has been a daunting place to do business, its entrepreneurs chained down by the world's most bureaucratic bureaucracy, lousy infrastructure and lousier Fabian economic ideas. The recent stockmarket gyrations—the Bombay index is down 9% in the past month, having tripled in the previous two years—hint that Indian business will once more land on the ground with a thump.

It won't. As our survey this week argues, Indian business has secured a niche in the world economy that can only grow in importance. The question is no longer whether India can fly, but how high—and whether the success of its business class can be spread throughout the country.

Some of the reasons why Indian business is in fashion again are indeed ephemeral: a well-orchestrated publicity campaign by India's government and nervousness on the part of some foreign companies about their exposure to China. But two things are much more permanent. First, India now boasts robust economic growth. Figures published this week showed annual GDP growth over the past three years has averaged 8.1%. Even the gloomiest pundits believe India's "trend" growth rate is at least 6%—the rate it has achieved since 1991, when Manmohan Singh, then finance minister and now prime minister, removed some of the most crippling constraints of the licence raj. And growth should be faster still if India is able to cash in its "demographic dividend". Its young population will add 71m people to its workforce in the next five years, or nearly a quarter of the world's extra workers.

More than just Bangalore

Second, India is producing far more world-class companies than China. The best known are the wizards of software and "business process outsourcing"—Indian firms have two-thirds of the global market in offshore IT services and nearly half that in BPO. But now they are being joined by manufacturers. Again, unlike China, this manufacturing boom cannot be explained by cheap labour, but by the efficient use of technology. India's merchandise exports grew by a quarter last year.

Flush with cash and rich stockmarket valuations, Indian firms are now expanding abroad, snapping up Belgian gearbox-makers and German generic-drug firms. Indeed, parts of Europe are in a funk about an "Indian invasion". France's Arceor, the world's second-biggest steelmaker, would rather jump

into a hasty marriage with Severstal, a Russian producer, than submit to the harsh rigours of a union with the world's biggest steel firm, Mittal Steel (see page 58). Lakshmi Mittal, that firm's boss, is an Indian entrepreneur so global his firm makes no steel at all in his homeland. A bid for Taittinger, a posh champagne brand, by United Breweries, a Bangalore-based booze giant, has also caused outrage (see page 63).

So expect to see a lot more of Indian business. But can its success make India as a whole richer? In economic terms, India is still poor and small. It holds a sixth of the world's population but accounts for just 1.3% of world exports of goods and services, and 0.8% of foreign direct investment flows (compared with 6.6% and 8.2% respectively for China). At \$728, its GDP-per-head is less than half China's. Put as starkly as possible, Indian business will make a packet if the economy grows at 6% a year; but if the country is to catch up with China in the lifetimes of its young population (and provide them with jobs), India needs to grow much faster. Otherwise, poverty will persist for decades and social tensions will mount.

Sadly, political India suffers from complacency—a belief that, desirable though further economic reform may be, faster growth will happen anyway. Demography, it is argued, will help raise the level of private savings from about 29% of GDP now to 34% over the next five to seven years. Investment will follow, so GDP will continue to grow at 8%, even if reforms stall. Nothing can sap the momentum unleashed 15 years ago.

The 32-hour factor

In fact, government action is desperately needed to unplug bottlenecks that will tighten as the economy grows (it takes eight days, including 32 hours waiting at checkpoints and toll booths, for a lorry to crawl from Kolkata to Mumbai). Nor is it just a question of roads, airports and electricity. Most village children lack the basic literacy needed to find work off the land. India's admired technical institutes will soon be unable to keep pace with the demand for well-qualified English-speaking engineers, chemists and so on.

Education has actually been the subject of fierce political debate recently. The issue, however, has not been raising standards, but wrangling about quotas that would give nearly half the places in India's colleges to members of backward castes. Caste-based inequality is an evil that should be uprooted, but this is a cynical piece of vote-grabbing: the latest twist involves promising that all eligible upper-caste candidates will get places too. Meanwhile, other reforms go undebated.

Trade liberalisation is halting and partial; the banking system allocates credit to the wrong places (see page 73); labour laws deter employment; privatisation is stuck; a fiscal deficit, bloated by ill-directed price subsidies, still sucks resources from productive investment in infrastructure, education and health; and foreign investment in many industries is hampered. Mr Singh has impeccable reformist credentials, but his government, which relies on the votes of Communist parties, has been timid in pursuing reform, and prone to populism.

India has taken off. Just think how high its people could fly without all those chains. ■