



IS THE SLEEPING GIANT AWAKE?

India – a vibrant democracy

By Professor Bala Chakravarthy (September, 2006)

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India – the world's 4th largest economy (in terms of purchasing power parity) is re-emerging as a world economic superpower. From its glory days in the early 19th century, when India's share of world GDP was 16%, the country lost its way for the next two hundred years. India contributed a mere 3% of the world GDP in 1975, three decades after finally winning its independence from colonial rule. While that share has doubled in the past three decades there is still a lot of catching up to do.

The Current Context

Despite continuous efforts to reduce poverty, nearly 380 million Indians still live on less than a dollar a day. Access to primary health care, sanitation, clean water and primary education is far from being universal. HIV/AIDS is a recent scourge, remnants of the caste system are a lingering one. Add to that the decrepit infrastructure, governmental bureaucracy and corruption, it is hard to get optimistic about India's re-emergence.

But there is hope as well. Since the early 1990s the Indian economy has been progressively liberalized. This has stayed the course despite changes in the government – yes, India is a vibrant democracy. As the world's largest democracy, India is home to most of the world's religions. Its strong legal system and flourishing free press are unique among emerging economies. With a large talent pool of English speakers, a strong culture of private enterprise, and a good record of corporate governance there are good reasons for optimism.

The Business Opportunity

India is an attractive market. The infrastructure and energy sectors alone will need close to half a trillion dollars worth of investment in the next ten years. The growing middle class craves for a variety of goods and services ranging from consumer durables, banking, insurance, telecom, computing, automobiles, and real estate. India is also an attractive supplier. India today spearheads the IT services revolution. It is also a world class supplier to the world auto and pharmaceutical industries. US companies like GE, IBM, Microsoft; European giants like Unilever, Nestlé, Nokia; Asian corporations like Samsung, Posco, Toyota, are all major players in India. Leading players have enjoyed an average return on capital employed of around 48 percent a year. It is not surprising then that most investment bankers are bullish on India.

Indian companies have not stood still either. There are over twenty Indian companies that have the credentials for being global leaders. They include established names like the Tatas, Reliance, Bharat Forge and the TVS Group, as well as emerging champions like TCS, Infosys, Ranbaxy and ICICI.

A hopeful prognosis

The healthy rivalry between foreign and Indian companies will only help improve the country's competitiveness, and accelerate its growth. At growth rates above 8.5% a year (complemented by prudent social policy of the Indian government), there is hope for the poor as well.

Professor Bala Chakravarthy directs IMD's public program Mastering Top Management Dilemmas.

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