



## THE GREAT INDIAN LEAPFROG

THE DIGITAL ECONOMY PROVIDES INDIA A WAY TO START OFF THE JOURNEY TOWARD BECOMING A DEVELOPED NATION WITHOUT WAITING FOR COSTLY AND TIME-CONSUMING INDUSTRIAL INFRASTRUCTURE INVESTMENTS TO BEAR FRUIT

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As India's growth rate slowed to a 3-year low of 5.7%, analysts, business leaders and casual observers alike have started raising some alarm over the long-run state of the economy. Reasons ranging from demonetization, the GST rollout to a perceived lackadaisical attitude of the government toward economic growth have been proposed. More worrisome for others is that these falling growth numbers have come in an era of low oil prices, a fair monsoon season and a strong world economy.

The role of infrastructure, or lack thereof, has long been highlighted in why Indian economic performance often underwhelms expectations. Indeed, in the latest [IMD World Competitiveness Rankings](#), India, which ranked 45<sup>th</sup> out of 63 in overall economic competitiveness, was ranked 60<sup>th</sup> on overall infrastructure and dead last on critical sub-factors of health & environment and education infrastructure. These factors negated the relatively high ranks the country scored on economic performance (18<sup>th</sup>) and business efficiency (29<sup>th</sup>).

The classic macro-economic theory of combining land, labor and capital dictated that countries that created an environment where these three could be most efficiently combined managed to prosper. For example, China's initial success may be attributed to using its massive labor force in combination with government subsidized land and capital which allowed the country to catapult itself from a GDP of \$400 billion in 1992 to \$11.2 trillion today. In contrast, India never fully entered the Industrial Age (as aptly argued by Sanjeev Sanyal in "The Indian Renaissance – India's Rise After a Thousand Years of Decline"), but moved partially from an agricultural economy to a service economy. Even today, India is substantially rural, and the competitiveness rankings above capture this quirk, suggesting that India still does not have an Industrial economy, but straddles the pre-industrial and post-industrial age.

But are these infrastructure and government efficiency factors still relevant in the age of disruption and a digital economy? A closer look at what factors such as infrastructure development and government efficiency capture reveals an industrial economy mindset. When the fortunes of a country were dependent on large factories manufacturing massive quantities of produce at the highest possible qualities for the lowest possible prices, and then delivering the goods to the consumers' doorsteps as quickly and cheaply as possible, it made sense to analyze the length of a nation's highways, the quality of its airports and efficiency of its ports. Similarly, it made sense to keep an eye on government factors such as labor policies, business legislation or cost of capital.

In the digital economy, however, these may be relatively irrelevant. The lack of well-paved roads did not prevent InMobi from becoming one of the world's primary mobile analytics startups. Flipkart did not depend on favorable government policies or cheap capital to take on Amazon at its own game. And Ola did not wait for India's archaic labor laws to be fixed before beating Uber. The lack of Industrial infrastructure has not held back these and thousands of other startups from prospering.

We can already see the power of the digital economy even in the old and new giants of the industrial age. The top 5 companies in the world by market capitalization are all technology companies. Even in China, the posterchild for using traditional infrastructure development for growth, three of its largest companies (Tencent, Alibaba and Baidu) do not depend (directly) on industrial infrastructure at all, but on digital disruption.

For India, the scores of startups that are getting into digital analytics, AI or simply disrupting traditional industries represent the forefront of the digital leapfrog that India may see in the coming decades. Indeed, large parts of the country may move straight from an agricultural economy to the digital economy. The digital economy, with its ultra-low start-up costs, immediate access to a massive consumer market, and ability to test and fail cheaply has allowed firms to bypass the hurdles that traditional businesses have faced in India. If moving from farming to factories provided massive productivity gains for countries like China, the leap from agriculture to apps promises even greater dividends.

This new economy also provides the added advantage that new entrants do not have to compete simply on the basis of cost. The road to growth for most of today's economic giants has been paved through an initial low cost strategy. Japan's rise in the 60s, South Korea in the 80s, China in more recent times, and even India's BPO success can largely be attributed to competing on costs.

However, digital transformations of entire industries has meant that the lowest cost providers do not necessarily come out ahead, nor is low cost a necessary condition for success. Convenience, innovativeness and emotional connections are often stronger drivers of success in this era. Creating valuable and relevant brands is no longer the purview of wealthy multinationals alone, but also possible for maverick upstarts who may better understand the digital realities and millennial consumer preferences.

The mobile revolution in India, which has seen the sector add a billion subscribers in a dozen years (2005-2017) has created the baseline digital infrastructure needed for this leapfrog. Already, two thirds of the country's internet traffic passes through mobile devices. Moreover, this new world plays to India's strengths in terms of its young demographic with a positive outlook toward globalization, with strong training in the STEM disciplines (India ranks 9<sup>th</sup> worldwide in graduating science students, 3<sup>rd</sup> in R&D productivity and 11<sup>th</sup> in high tech patent grants). Add in a massive, highly diverse local market, growing access to the internet and a burgeoning mobile subscriber base that is increasingly comfortable with electronic payments, and what India has is a recipe for explosive growth. Already, 83% of India's rural population accesses the web through mobiles, and the country is growing at the rate of about 1% per month, up to about 1.2 billion subscribers by early 2017.

India's social structure could further aide in this digital leapfrog. The industrial economy demanded a mass migration into urban areas, abandoning or weakening of centuries-long language, social, cultural and religious norms in order to adjust to the clock-in lifestyle that it demanded. In contrast, the digital economy affords significantly more flexibility, and therefore, opportunity to large swaths of the populace (such as women and the under-privileged classes).

Digital disruption will not absolve India of its infrastructure woes. Indeed, the country is certain to face a ceiling for growth and progress unless those basic issues are addressed. However, the digital economy provides India a way to start off the journey toward becoming a developed nation without waiting for costly and time-consuming industrial infrastructure investments to bear fruit. Instead, the nation can focus on improving digital infrastructure, for instance in areas of online education, government transparency and rural connectivity. For the price of an internet connection and a laptop (or a smart phone), entrepreneurs across the land can instantaneously plug in to the digital economy and commence the Great Indian Leapfrog. This is India's best chance of cashing in on its demographic and cultural dividend.

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