

INDIA HAS THE BEST EVER 15 YEARS AHEAD

R. Gopalakrishnan



FORUM
OF FREE ENTERPRISE

Introduction

An unusual and refreshing piece very well articulated and documented with very apt examples and quotes.

Mr. Gopalakrishnan reinforces the general optimism visible all around us that India is marching ahead and in all probability will attain the status of a middle income country by 2025. India's transition into a higher growth orbit will unleash demand for a wide array of goods and services which cannot be fully comprehended today. In fact, in the last 15 years we have experienced a quantum jump in output of several items like cell phones, PC's, two wheelers co-terminus with the rise in per capita incomes. Some South Asian countries have done far better. Take the case of South Korea, whose **PCI** was on par with India's in 1960 is now recognised as a developed economy with a **PCI** of US \$18,000, against ours of \$1,100. Even in PPP (Purchasing Power Parity) terms it is at least six times higher.

As pointed out by the author the global economy needs new locomotives (in place of Europe and America) like India, China and Brazil. India has all the potential to make it and has several accelerators to propel it – economic, political, social and demographic. But it is not all cut and dry. The Government will have to get its act together and ensure a far superior system of governance – in terms of overhauling education and skills development, providing access to safe drinking water and affordable health care, vastly improving the delivery of public services and ensuring speedy justice to all.

Mr. Gopalakrishnan rightly pins great hope in the innate entrepreneurship culture of Indians. Liberalisation of the

"Free Enterprise was born with man and shall survive as long as man survives".

- A. D. Shroff
Founder-President
Forum of Free Enterprise

economy has spawned several highly innovative entrepreneurs in the last two decades. Besides new locations have sprung up with multiple industrial clusters. He cites the example of Gurgaon where starting from scratch hundreds of units have been promoted covering automobile and industrial sectors with a combined turnover of \$10 billion generating additional employment for 2,00,000 persons. Sriperumbudur, near Chennai, has become a hub for automobile majors like Ford, Hyundai, BMW and Nissan as well as multinational companies like Nokia. Such clusters have provided enormous scope for establishment of ancillary industries, with ample opportunities for creation of skills and employment.

One of the most important factors which could trigger a higher rate of growth, according to the author, is for the Government to provide an enabling policy framework which ensures speedy decision-making and removal of needless bureaucratic bottlenecks and red tape which have tended to slowdown development, in some cases even stalled it.

Mr. Gopalakrishnan ends on an optimistic note. He celebrates the burst in the spirit of entrepreneurship displayed by Indians in many spheres. This combined with the robust sense of self-confidence displayed by our entrepreneurs is indeed a fine augury for ensuring better days ahead in the next 15 years.

A most readable treatise.

Minoo R. Shroff

President

Forum of Free Enterprise

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INDIA HAS THE BEST EVER 15 YEARS AHEAD

R. Gopalakrishnan*

No country in the world has willfully adopted democracy ahead of capitalism and constitutional liberalism. This contrarian act is akin to traveling up on the 'down' escalator! India's journey does appear confusing, but the direction is surely upwards.

I am writing this around the time of the annual budget of 2010. All of India uniquely gets caught up in budget frenzy around B-day. The hysteria is comparable to a pop star's show. I neither understand nor enjoy the hysteria any more. Earlier at least there was an eloquent Palkhivala to listen to.

Some years ago, I used extracts from the budget statements of four Finance Ministers to challenge the reader to guess the year in which the statement was made. Naturally most could not guess; some readers thought that the matters being contemporary, the statements must be recent. They were wrong. FMs have some evergreen statements.

** The author is Executive Director, Tata Sons Limited. The views expressed are his personal. The text is an enlarged version of an article on the subject appearing in 'The Economic Times' (issue dated 2nd March 2010) and is published with the kind permission of the author.*

Please guess the author and year of two budget statements: "The annual budget is now something more than a simple account of government's housekeeping" and "Investment expenditure in infrastructure is being raised steeply so that bottlenecks coming in the way of further growth are removed."

(Answers: Morarji Desai, 1960 and HM Patel, 1979.)

The 2010 budget speech will undoubtedly contain its own evergreen statements.

Longer term perspective

It is better to take a longer term perspective. I am no astrologer to use as colorful a title as I have, though I can be accused of being an incurable optimist.

Through a survey among thinking people, I sought a response to the statement, "What is the probability that India will experience the best economic progress in the next 15 years?"

The most common number was, hold your breath, 80 percent! Not one person gave less than 70 percent. The somewhat depressing signals reported every morning would not have warranted such a level of optimism.

Reflect on the revolution in communication and personal transportation in the last 15 years: zero to half a billion cell phones in use, almost nil to 40 million PCs, and 22 to 90 million registered two wheelers.

Rural employment too has transformed: the RNAE annual growth rate (Rural Non Agricultural Employment) doubled from 2.7% in the 1990s to 5.3% in the 2000s.

With the passing of the distinguished Raj Krishna, the "Hindu rate of growth" has also passed. It is really exciting that India is set to break into a game-changing trajectory. I hope to be around in 2025 to see if I am right.

Here are the underlying factors, expressed in lay language.

For two centuries, the engines pulling the global economy have been Europe and America. These engines are sputtering and are unable to pull the current increased load of bogies. The global financial system is frighteningly fragile. The developed nations have far too much debt. As The Economist recently warned, "Last year it was the banks. The economic crisis is once again in full swing as the threat of sovereign debt looms."

Further, the developed nations can neither afford to continue nor to discontinue the stimulus. The developed nations are caught between the Scylla of joblessness and the Charybdis of indebtedness.

That is why the global economy needs new locomotives. David Rhodes and Daniel Stelter of BCG (Boston Consulting Group) report that the world will be a two-speed world with America, Europe, Japan and Russia experiencing a "structurally subdued growth" while India, China and Brazil will "soon approach their original trend-growth paths."

The accelerators

India has some accelerators going for it.

1. India is a trillion dollar economy which is set to

double every 7-8 years. This is no pipe dream, and recent performance supports the probability. The current savings rate and capital output ratio suggest that an annual 8 percent growth is a 'slam dunk'.

2. Consumption expenditure constitutes an impressive percentage within India's GDP. When the per capita GDP in PPP terms moves above \$3500, the demand for all sorts of goods and services takes off: food, eating out, personal transportation, housing and so on. And we are experiencing such consumption already. In the next 15 years, India's per capita GDP in PPP terms will move up from the current level of about \$3000. This was the starting level before the great American growth of the 1950s and 1960s. So the tipping point is within sight.
3. India's connectedness with the global economy is good, but not risky. India's import-export trade or dependence on foreign capital is less aggressive than China's.
4. India will reap the advantage of the demographic dividend. Europe reduced the replacement fertility rate from 5 to 2 over 130 years, Korea did so in 20 years, India will do so only by 2030.
5. Albeit in a meandering way, Indian economic policies have promoted productivity, renewal and globalization among Indian firms. If you compare the rankings of top companies in 1990 and today, the survival rate is only 20-25%. Yesterday's giants like Escorts, Spic, and Modi Rubber have dropped

off the charts. Today's giants like Bharti, Suzlon and Essar Oil did not exist in 1990.

6. Aside from the economic factors, there are political factors at play. No country in the world has willfully adopted democracy ahead of capitalism and constitutional liberalism. This contrarian act is akin to climbing up on the 'down' escalator! India's journey does look confusing, but the direction is surely upwards.
7. Indian democracy has huge fault lines: caste politics, the demand for more states, agitation for regional employment, tribal uprisings and so on. But do recall that at the equivalent stage of democratic evolution, the USA had a civil war!
8. The country has matured with respect to coalition politics. The previous NDA government lasted a full term with clear goals and accomplishments. The present UPA government too has entered its second term.
9. Despite the aberrations, there are positive social factors at play. Recall that after the shameful Gujarat riots, there has been no major communal trouble in the country. Religious diversity is an accepted character of Indian society. Slightly under half of the daily 10,000 pilgrims to the Khwaja Moinudeen Chishti's dargah at Ajmer are non-Muslims. The Ayappa temple at Sabarimala is thronged not only by Hindus, but also by Muslims and Christians like Yesudas, who was inspired by Sabarimala. The Wednesday Novina at St Michael

Church, Mahim (Mumbai), is routinely thronged by non-Christians. "Tolerance is the homage which the finite mind pays to the inexhaustibility of the Infinite" as Dr S Radhakrishnan stated. Although not in our consciousness, India's economic progress receives a boost by the nation's openness and its ability to communicate and work with other cultures.

So does this mean that India is home and dry? That it does not matter what the government or entrepreneurs do? Not at all.

Government

If the government gets its act together, even more can be achieved. The action agenda on "direct" economic determinants like industry, energy and infrastructure automatically get the attention of government and the chambers of commerce.

Is there a wish list of "indirect" determinants, drivers which the government can uniquely act upon and which an entrepreneurial private sector cannot do on its own?

Yes, better governance in one word.

The HELP list is:

- Health: provide safe drinking water and health care.
- Education: overhaul primary education and skill development.
- Law: address the injustice of delayed justice.
- Pakistan: find a way to coexist with the neighbour.

These indirect citizen issues need greater and more urgent focus in government.

Entrepreneurs

Let's compare concept of entrepreneurship to the zillions of frenetic atoms in apparently stable and solid matter.

What is perceived as solid matter, as physicists will tell you, actually is vast amount of empty space interspersed with tiny constituents called atoms. Although the earth that we stand on, feels solid, in reality it is zillions of atoms separated by small spaces. So is the case with everything around us including the human body. Thus a microscopic view of human body would render it a collection of numerous atoms, buzzing with energy, and in constant interaction with each other. We are not as solid as we think!

The thought is sobering, and although it borders on the metaphysical and spiritual, it gives us a great insight into the potential of human beings. We are nothing but an assortment of zillions of packets of energy, zillions of buzzing and constantly moving atoms.

Imagine how wonderful it would be, if this enormous energy could be channelized. Atomic science has shown that when certain atoms like those of Uranium are hit by neutrons, it causes them to split and release further neutrons which split other Uranium atoms causing a self-sustaining reaction. This results in incredible amount of energy being unleashed.

If we extend this analogy, we realize that we are 1.2 billion people which are in turn composed of zillions of highly

energetic atoms. Imagine the energy that can be unleashed if there is a chain reaction to this conglomeration.

And history is replete with testimonies to human enterprise in creating self-sustaining spirals of growth.

Look at the phenomenal transformation of Gurgaon. What started off as a sluggish little city now has an annual industrial sector turnover of over Rs 46,000 Cr. There are many prominent and prestigious units involved in the manufacturing of Automobile, Telecommunication equipments, electrical goods, software development, hardware, sports goods, etc. The employment generated in the industrial sector exceeds 200,000 persons.

We have another example right here. Look at how the entrepreneurial drive transformed the sleepy Sriperumbudur corridor. From early 2000s till date the town has undergone a sea change with host of multinationals like Hyundai, Saint-Gobain, Nokia, Ford, Hindustan Motors, Mitsubishi, BMW and Nissan recently setting-up operations, turning this Chennai suburban town into a large scale industrial hub. The town today is often spoken of as being India's answer to Shenzhen, the Chinese city that makes one out of eight handsets sold anywhere in the world! It's very likely that soon Sriperumbudur will start churning out as many mobile phones as Shenzhen does today, thanks to significant *presence of players like Nokia and Motorola here.

The existing car production capacity in Sriperumbudur-Chennai belt itself translates into employment of approx 500,000 people. This creates a huge multiplier effect of

tertiary employment for millions who supply these salaried employees with food, clothing, shelter, education, medical facilities, entertainment....

A significant lot from amongst these people are first time vendors/ entrepreneurs who are participating in and co-creating this eco-system of opportunities!!

Entrepreneurship is inherent in human nature and has the potential to create a spiral of growth much like the unleashing of tremendous energy when atoms are subjected to stimulating conditions.

What is really fascinating is to discover that Indians have always been at the forefront of exploiting this inherent entrepreneurial flair. An enterprising community is characterized by an outward-looking attitude, a willingness to explore new ideas as well as to accept exogenous influences. These characteristics have been vibrant in our history through the centuries.

Enterprise is a creative and innovative response to the environment. David McClelland established the now widely accepted view that enterprise is promoted by a high achievement orientation, which can be promoted by enriching people's thinking and fantasy world with achievement language. Four factors influence entrepreneurship. First, the experiences that an individual undergoes impact his attitude to enterprise; second, the traditions of the family and society in which he lives. Third are the support systems of finance and vocational training extension services to equip him to become entrepreneurial. Fourth and last is the governmental policy framework, which needs to be supportive and mentoring.

This most valuable gene of Indian enterprise has prospered, through invasions, battles and colonialism. It is firmly embedded in the Indian genius. It has required periodic refreshment, but has never had to be resurrected. This long-standing propensity for enterprise amongst Indians is a remarkable asset. Indian entrepreneurs must move ahead with their historical vigor.

Greater use of intuition

As Anton Chekov said, "An artist's flair is sometimes worth a scientist's brains." At the heart of entrepreneurship, whether in a startup, mature organization, social space or the administrative arena, a person has to trust his intuition. You come to a point where you might as well make your own mistake instead of making someone else's mistake. However our upbringing and social structures discourage the use of intuition. We are all products of the historical Age of Enlightenment.

The Age of Enlightenment in history began in the 1600s and lasted about 200 years. It was a time when philosophers emphasized the use of reason as the best method of learning the truth. The leaders relied heavily on the scientific method, with its emphasis on experimentation and observation. Those philosophers believed that human beings have this unique advantage over animals because they can reason.

Humans can make themselves do the right thing, not necessarily the easiest thing. Animals cannot do these things. When an animal is afraid, it tries to escape. When angry, it fights. Animals act on impulse.

Therefore, according to those philosophers, it is not appropriate for humans to act on impulse. It shows poor education and a poor quality of thinking. Descartes argued that to become rational, a person just requires acquiring a good education that teaches the person to reason. Francis Bacon popularized the slogan, 'knowledge is power.'

The premium attached to analytical thinking, a product of the Age of Reason, was dented a bit by the affectations of the romantic era in the first part of the 19th century. The rapid spread of the industrial revolution and its benefits thereafter ensured that the strong foundations of logic and analysis stayed with human society.

Here is an incident that happened during military maneuvers in Switzerland. A young lieutenant sent his reconnaissance unit into the icy wilderness of the Alps. Unexpectedly it started to snow for two whole days and the reconnaissance unit did not return. The lieutenant was very upset that he had been foolish in his leadership. On the third day, the unit returned safely. What a miracle! What happened?

Well, they were truly lost and they were sure their end was near. They pitched camp, and then suddenly one person found a map in his pocket. Using the map, they found their way out. Phew!

The lieutenant asked to see the map. To his astonishment, it was not a map of the Alps, but of the Pyrenees.

It would appear that when you are lost, any old map will do. And this is at the heart of entrepreneurship.

In closing I would like to celebrate the spirit behind every entrepreneurial act.

- Meaning is produced when a leader treats a vague map as if it had some meaning. With that shred of meaning, he initiates action.
- The action makes it possible to learn what is going on and to initiate the next action. You learn by doing things, not by planning for the perfect actions.

Optimism is not a denial of reality. Indeed it is that very optimism that makes the reality possible. This is the secret of any form of entrepreneurship.

- Self confidence is in itself a strategy!
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The views expressed in this booklet are not necessarily those of the Forum of Free Enterprise.

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(24-12-1949 — 19-10-1988)

Late Mr. Shailesh Kapadia, FCA, was a Chartered Accountant by profession and was a partner of M/s. G. M. Kapadia & Co. and M/s. Kapadia Associates, Chartered Accountants, Mumbai.

Shailesh qualified as a Chartered Accountant in 1974 after completing his Articles with M/s. Dalal & Shah and M/s. G. M. Kapadia & Co., Chartered Accountants, Mumbai. Shailesh had done his schooling at Scindia School, Gwalior and he graduated in Commerce from the Sydenham College of Commerce and Economics, Mumbai, in 1970.

Shailesh enjoyed the confidence of clients, colleagues and friends. He had a charming personality and was able to achieve almost every task allotted to him. In his short but dynamic professional career, spanning over fourteen years, Shailesh held important positions in various professional and public institutions. His leadership qualities came to the fore when he was the President of Bombay Chartered Accountants' Society in the year 1982-83. During his tenure he successfully organized the Third Regional Conference at Mumbai. He was member, the Institute of Fiscal Studies, U.K.; member of the Law Committee and Vice Chairman of the Direct Taxation Committee, Indian Merchants' Chamber. He was also a Director of several public companies in India and Trustee of various public Charitable Trusts.

He regularly contributed papers on diverse subjects of professional interest at refresher courses, seminars and conferences organized by professional bodies.

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*"People must come to accept private
enterprise not as a necessary evil, but
as an affirmative good".*

- Eugene Black
*Former President,
World Bank*

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