Doing Business in India

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Introduction

- Background
  - Where India was
  - Winners and Losers from Liberalisation
  - Learning from the Winners
- What growth is right and what can we expect?
- India's Human resource abundance - quantity and quality
- So where are the opportunities - some speculations

Where we were pre-1991

- Restrictions on what you could produce, who could produce, where you could produce, and (uniquely!) how much you could produce
- FDI as evil, the price of technology (The BJP: “Computer chips - Yes, Potato chips - No”)
- The Economist, June 1991: No where in the world is the gap between how much has been achieved and how much could have been achieved as great as in India

So fundamental change

- Remaining areas of reform: financial sector, agriculture, some hangovers (airlines), and some special interests (retail), implementation of power sector reform
- But overall, no restrictions on industrial licensing or FDI
- But for reform, India compares well with itself, but still gaps with others - indeed, one could see the entire reform process as making India normal!

Liberalisation and Indian Industry

- Liberalisation has meant a huge increase in Competition - and that has changed everything
  - Foreign Products
  - New Firms
- Means going from Selling What we could Make to Making what we can Sell
- Increasing Price competition has placed great emphasis on shop-floor/process innovation - for the first time?
- The largely ignored opportunity of “Innovation Rents” from New Products - but a few firms are now showing the way

How have our firms responded to reform?

Winners and Losers from Liberalisation

- Winners
  - Half the Super 100 2002 list is new (vs 1991)
  - Pharma and Software as new sectors
  - Reliance and HLL
  - MNCs like HLL, ITC and Nestle
- Losers
  - Traditional commodity businesses
  - Birla (except Aditya), Singhania, Modi, Mafatlal
  - MNCs like Siemens, Philips, Hoechst, and ICI

Learning from the Winners

- Scale matters in some industries - Reliance, BILT
- The importance of brands - HLL, Tata Tea, Marico, Pharmaceuticals (Ranbaxy, DRL, Lupin, NPIL, Wockhardt)
- The importance of the world - IT, Pharmaceuticals, selected engineering firms
- New products matter
  - Hero Honda, Bajaj, Godrej Appliances, Forbes Marshall
- The importance of proprietary technology
  - Telco, M&M, Bajaj, Reliance, Ranbaxy, DRL
- The unimportance of licences, bribes, government influence
- So a lot of change, and overwhelmingly positive

What growth is good enough?

- Assume 1 - 1.5% population growth for 30 years
- 6% pa means 4x in 30 years
- 8% pa means 8x in 30 years (Malaysia 2002)
- 10% pa means 16x in 30 years (Korea 2002)
- China has grown 10% pa for 20 years
- Korea had industrial growth > 20% for 20 years (our best record is 10% for 3 years)
- So we have to see 8% as a *minimum*, not some grand figure for our Prime Minister to talk of

What growth can we expect?

- Short term - 5% for the five (4 + 1) years of this government, vs 6.5% from 1991 - 1998
  - Now 7% expected this year, and 6.5% average for the next five years
- Medium term
  - 6% without reform
  - 7% with half-hearted hesitant reform
  - 8% with Congress 91-93 type-reform
  - 10% with full reform, no “special cases”

India's Human Resource Abundance

- India as a huge producer of Technical and Management professionals
  - An early investor in Technical and Management Education with world-class institutes in the IITs and IIMs and a few others
  - Massive recent growth in private technical and management education in some states
    - 5 states (TN, AP, Maharashtra, Karnataka, Kerala) account for 31% of population but 69% of engineers
    - 5 states (UP, Bihar, Gujarat, Rajasthan, Orissa) account for 43% of population but 14% of engineers
- The huge opportunity, recognised by many foreign firms and selected Indian firms

Technical and Management Education

- At the top end - the IITs and IIMs - a highly selective system - 3000 IIT undergrads admitted from 150,000 who take the exam, 2000 MBAs from 120,000 applicants
  - About a 25% emigration rate (higher for undergrads, lower for grads)
  - Now a heavy emphasis on graduate education (PhD enrollment to double at IITs) and attempts to build a research culture
- Also an early investor in Graduate technical education - in 1990, India equalled PhD production in Science and Engineering for China+Japan+S Korea+ Taiwan
  - Growth of graduate technical education since 1990 has been low - 5300 in 2000 vs 5000 in 1990
- Massive growth in numbers of undergrad engineers and MBAs (350,000 BEs per year, vs 60,000 in US and 100,000 in Europe. And 60,000 MBAs per yr). With BEs growing at 20%/yr and MBAs at 50%

So where are the opportunities?

- Use availability of skilled people to build a competitive position based on engineering and R&D
  - Pharmaceutical industry and Tata Motors as exceptions
  - MNCs as examples - GE in Bangalore, Cummins in Pune, Software development and BPO common-place
  - An emerging boom in auto-components, with competitiveness built around tooling and time to market
- So the distinctive Indian strength lies in medium-qualified people

Some qualititative comments

- Great diversity - “whatever can be said about India, so can the opposite”
- A relatively open society, widespread English, increasingly cosmopolitan in more cities
- An Indian partner is no longer a need to get round the regulatory system outside of selected “political” sectors (power, oil, telecoms, airlines)
- The Indian partner is increasingly a technological partner - a base for long-run growth

Only one direction to go in

- TCS, Infosys, Wipro - are the world's largest recruiters - 5000+ people annually
- Retail - 2% of total sales was corporate in 2002, projected to rise to 15-20% by 2010
- Cars - # 3 after China and the US over the next 10 years; Motorcycles - # 2 after China
- In the medium to long term, no question of the growth potential

India and China - what's different?

- We started at the same level of wealth and exports in 1980
- China today exports $ 184 Bn vs $ 34 Bn for us in India
- China's export industry employs today over 50 million people (vs 2 m s/w in 2008, and 20 m in the entire organised sector in India today!)
- China's export industry consists of toys (30% of the world market), bicycles (10+ m to the US alone each year), and textiles (a vision of having a share of > 50% of the world market by 2008)
- So is low tech the best tech for us? ALL tech matters

R&D in India - an overview

- About 35% of national R&D (estimated for 2000) is corporate (vs 25% in 1991)
- 64% is in public sector autonomous labs
- < 3% in universities
- 1300 recognised R&D units
- Some firms have multiplied their investment in R&D

Investing more in R&D

- Pharmaceuticals
  - Ranbaxy, DRL, Lupin, Wockhardt, NPIL, Cipla are all spending 10x on R&D vs 1990
- Engineering
  - Telco, M&M, Bajaj - each have 2-4 x engineers and product development is >> important
  - Forbes Marshall

Our IT Success

- Growth of 50% annually from 1990 to 2000
- Software exports of $ 10 B last year
- > 500,000 highly-paid professionals
- A new culture of ESOPs, casualness, self-made 20-something $ millionaires

And so our PM said: “India may have missed the industrial revolution, but we will get rich by being at the forefront of the knowledge revolution”

But is IT enough?

- Nasscom predicts optimistically that 50% growth will continue till 2008, by which time the s/w industry will account for 35% of Indian exports and employ 2 million people (some qualification in the 2002 edition!)
- Even if we do end up *producing* knowledge, no country has got rich that way - only by *using* knowledge

What can we learn from IT?

- The importance of exports - cultures and attitudes on par with the best in the world
- HR policies that see smart people as recruitment targets, not bees for jam
- With a big slowdown in 2001, what response from the industry?
  - Much more travel to spend time with customers
  - Much focus on moving up the value-chain by focussing the business and avoiding generic body-supply
  - No whining to the government about “level playing fields”