

# THE PAINFUL RISE OF INDIA

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There is considerable interest in India today among foreign investors and business leaders. A number of observers of the Indian economy are describing the Indian economic transformation as unprecedented and historic. A recent Morgan Stanley report has declared that this is India's decade, and one of McKinsey's partners has declared that this is India's century. There's a buzz in India about the new unicorns and billionaires that are popping up regularly.

Yet the challenges faced by people living and doing business in India are as great as ever -- perhaps greater. Large parts of the country lack adequate clean air and basic sanitation. Business people continue to complain bitterly about official corruption. And a number of Indian billionaires have failed spectacularly -- often because they got caught committing fraud at the expense of their own shareholders.

So is it the best of times or the worst of times? Like Dickens, I would argue that it's both. The Indian state is becoming stronger, but the stress on individuals and businesses is greater than ever.

First, let's look at the positive side. There are forces that are propelling the Indian state to a leading role in the world economy. The size of India's population, now the largest in the world, combined with India's world-beating IT systems (e.g. payment systems and ecommerce), is driving rapid economic growth. India has the largest population in the world, and the GDP of that population is growing faster than any other large economy. By the end of this decade India is projected to have the third largest economy in the world after the USA and the PRC.

The deterioration of the relationship between the USA and the PRC is another factor driving the rise of India. While the trade between the USA and the PRC is still massive, it's clear that it will decline over time because of rising costs in the PRC and both countries' efforts to reduce their economic co-dependency. Therefore, the major flow of maritime trade will soon be via the Indian Ocean, not the Pacific, and India's geographic position and navy make it the natural security provider for the Indian Ocean.

Not only is the economy growing, but we appear to have reached a tipping point, or a flipping point if one looks at India's income pyramid. Perhaps for the first time in India's history, poor people are about to become a minority in India. As a result, products that were out of reach for many households will now be in high demand.

On the negative side, there is no doubt that the stresses on individual citizens and companies are growing:

- India's new value added tax, the GST, has forced millions of businesses to start paying tax. While that's generally a good thing, it also raises the administrative cost of doing business for millions of small businesses. And the incremental tax (on just the value addition) has to be paid whether the business is profitable or not.
- India's rapid growth means that resources, especially human resources, are being stretched. While there is an abundant supply of young inexperienced workers, the stock of highly experienced managers is limited. The good news is that salaries for experienced managers have gone up significantly, but those same senior managers are now working longer hours than ever.

- Almost every citizen now has a biometric identity card, which is enabling ecommerce, but reducing the privacy of individuals. The government can now more closely track the behaviour of individual citizens.
- Freedom of speech has been compromised because of violence against journalists and economic pressure on news organizations that criticize the government. Even the BBC is now being investigated by the Indian tax authorities.
- Indian minorities, especially muslims, have started to feel insecure under a staunchly pro-Hindu government. Many wealthier minorities have begun to seek residency in other countries, such as the UAE and Portugal.
- Cities are unable to keep up with the needs of citizens for sanitation. Solid waste routinely accumulates on the roads, which becomes a hazard for both pedestrians and vehicles, and provides a breeding ground for pests.
- Development is driving pollution, which has a negative impact on the health of India's citizens. Large parts of India have poor air quality because of a combination of industrial pollution, vehicular emissions, construction dust, road dust, incineration of trash and burning of agricultural waste. Also, many of India's rivers are severely polluted due to industrial and human waste.

As is evident in the list above, India is now facing two types of challenges: managing growth (pollution, need for experienced talent, etc.) and dealing with age-old problems (social, medical, etc.).

There is a lot of hype about India, but some of it borders on triumphalism and ignores the price that the people of India are paying and will continue to pay. As we have seen, the challenges for individuals, investors and businesses are greater than ever. I would also add that India's rise is not welcome by everyone, and as the world enters a new cold war phase, we can expect regular attacks on India on its borders, on its infrastructure (power grids, data networks, telecommunications) and on private businesses. The rise of India, like India's independence, will be a painful process.