India:
Yesterday, Today, Tomorrow

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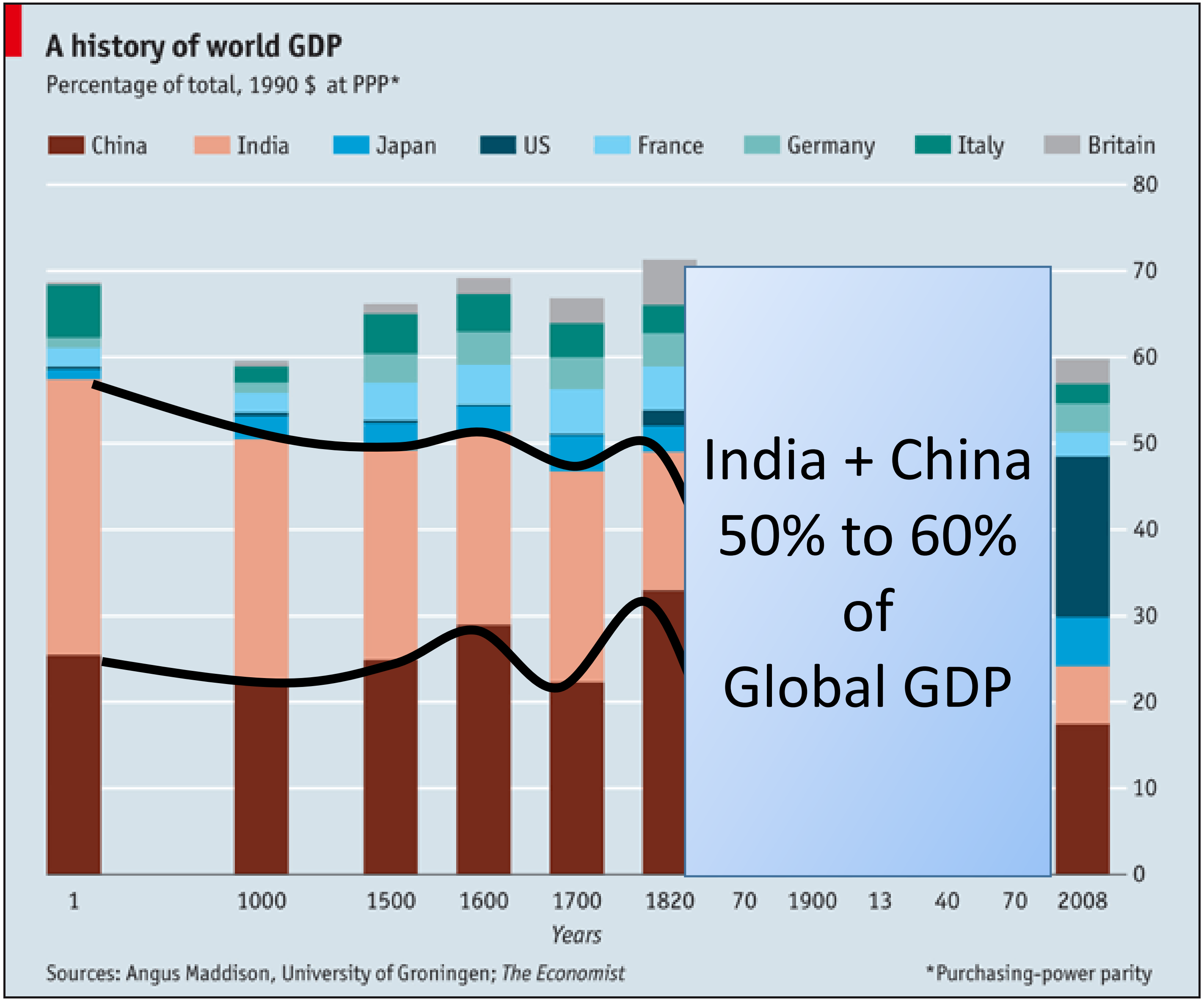
Introduction

- India is considered a bright star in emerging markets
- It has growth momentum
- To understand this momentum we have to understand India's yesterday, today and tomorrow

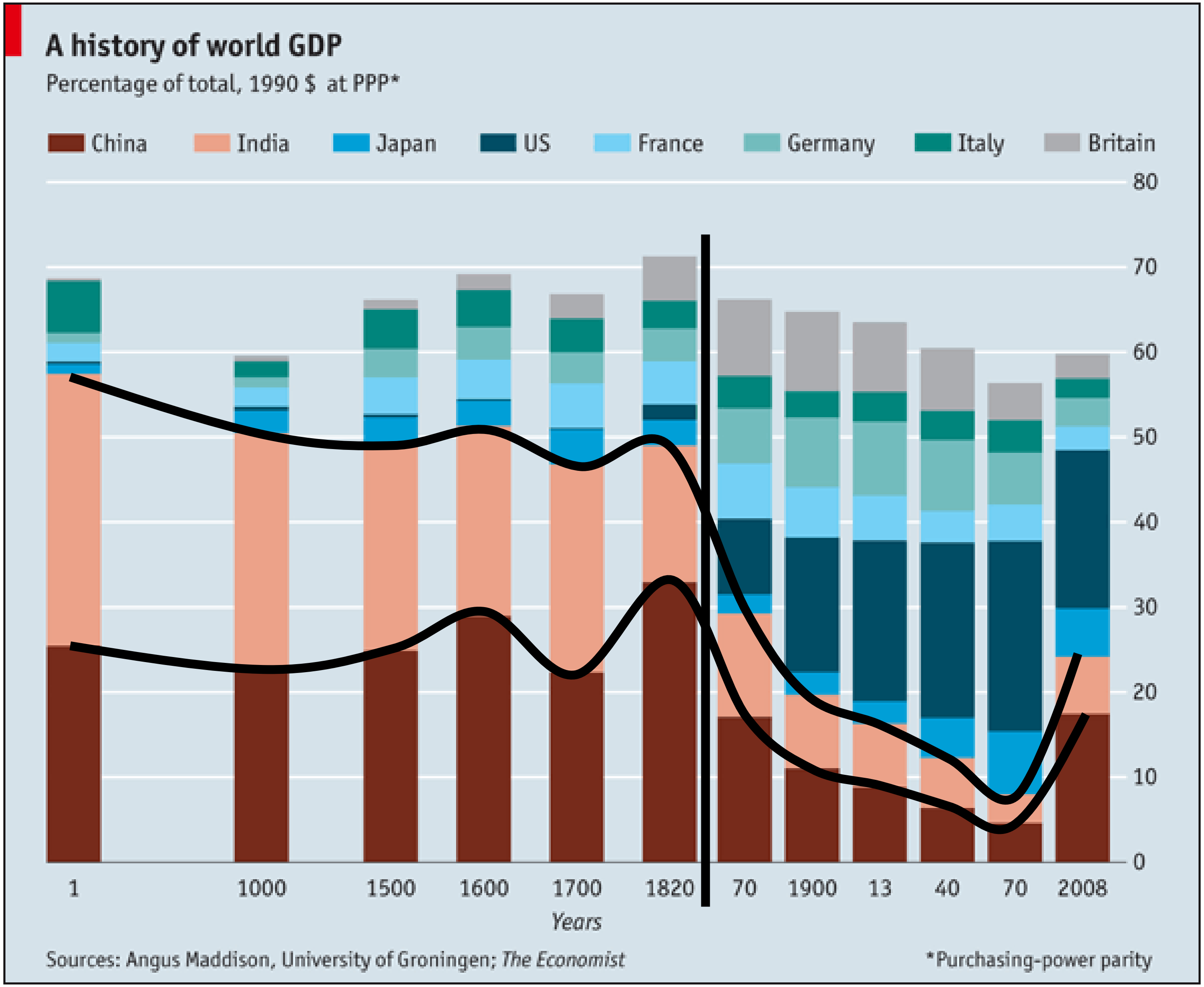
India

- Yesterday was tragic
- Journey to today, despite slow start and detours, confirms promise of the future
- Tomorrow can be spectacular but with potholes, roadblocks and detours

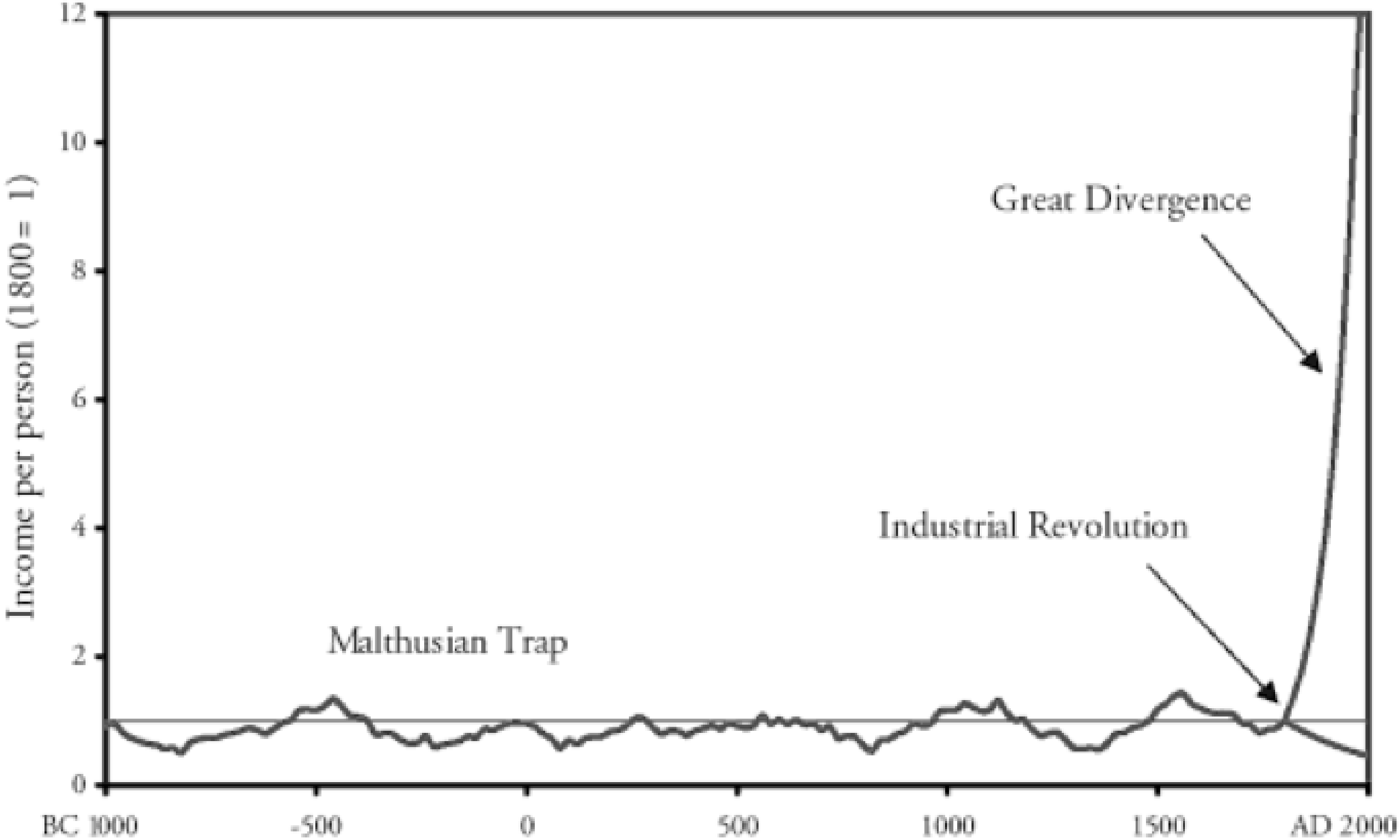
Global GDP: A historical view



From 25% to 2% of Global GDP



Why did this happen?



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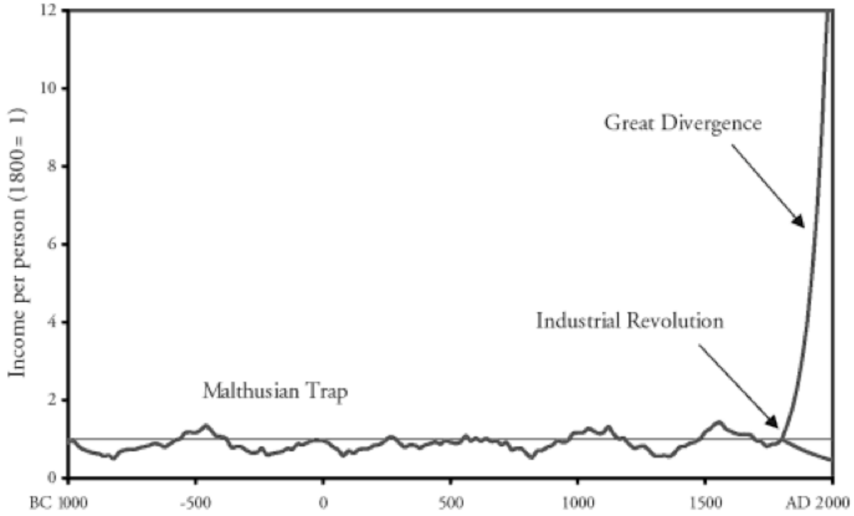
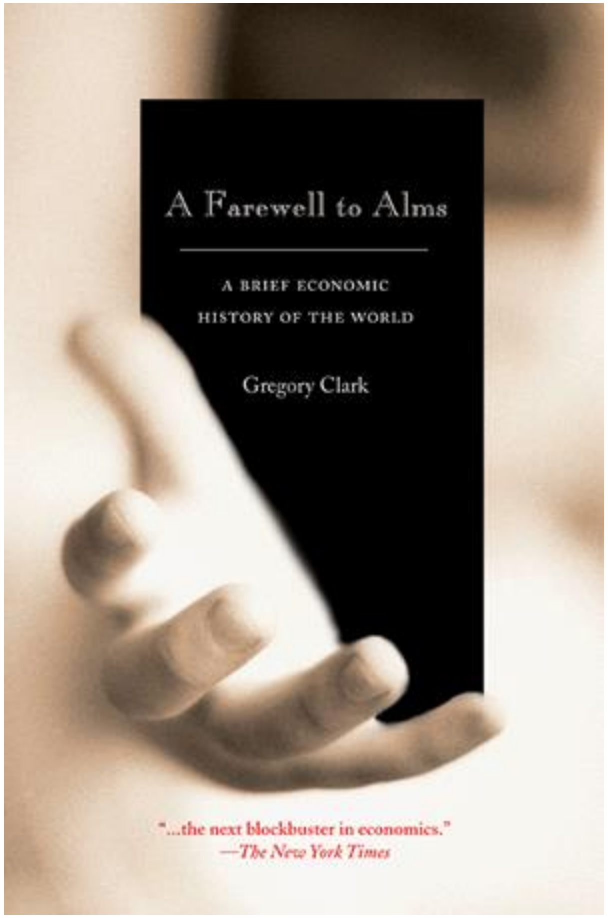


- India could not participate in the industrial revolution

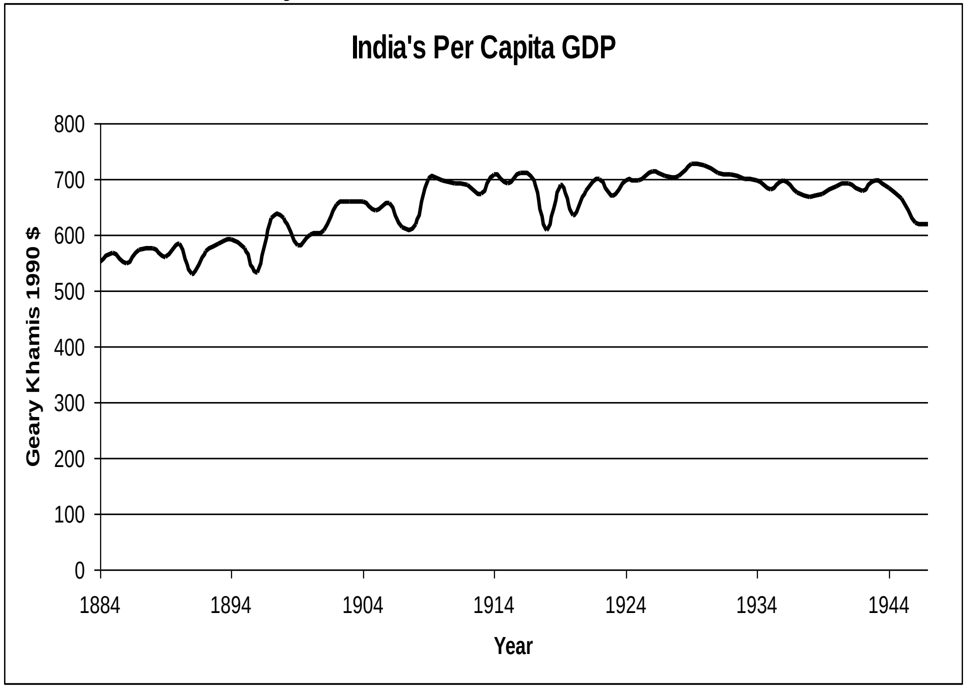
- Domestic handcrafted industries were destroyed



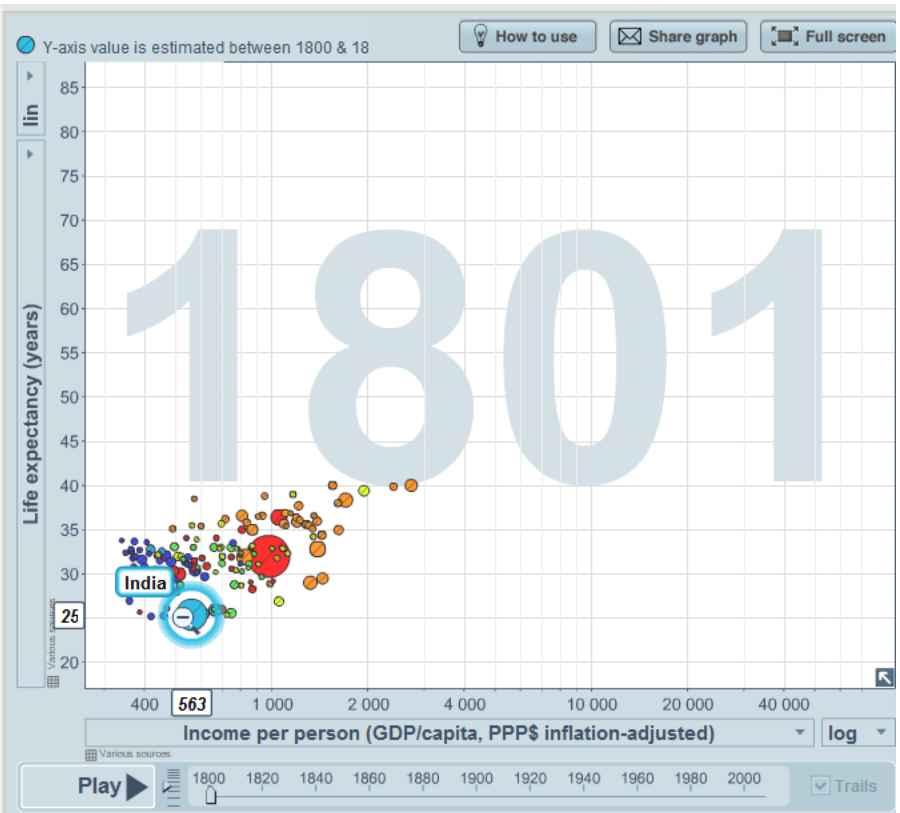
Tragic Yesterday

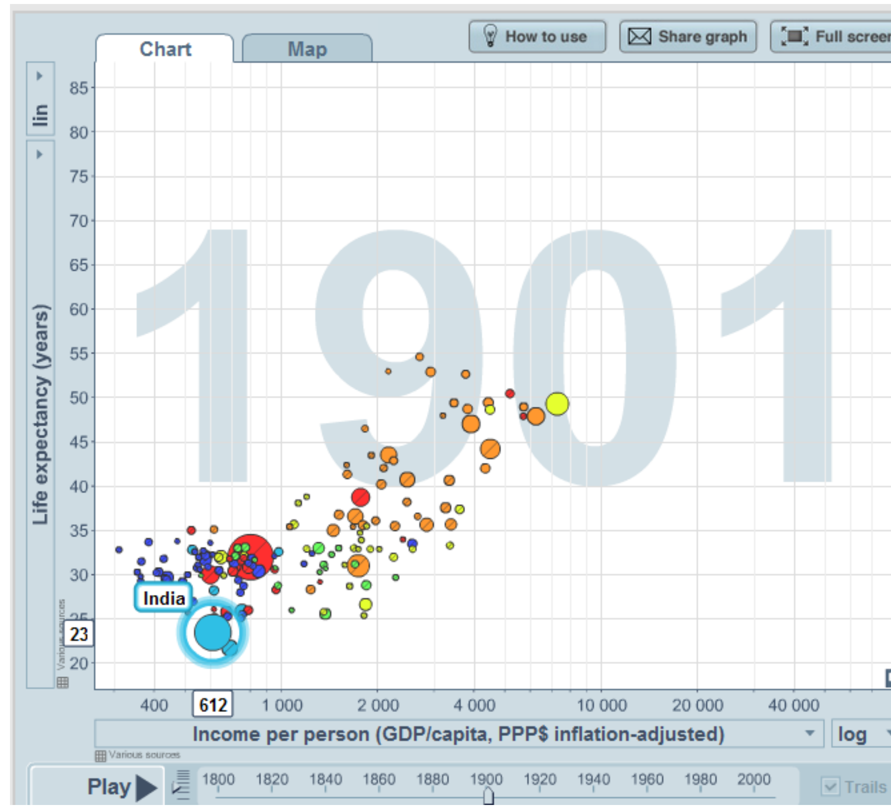
- British taxation and famines decimated the population and impoverished the country
- 1800-1825: 1 million Indians died of famine
- 1850-1875: 5 million died
- 1875-1902: 26 million died
- 1905/06: 235,000 people died in the city of Bombay alone
- 1943: 2.0 Million people died of famine in Bengal alone

- Life expectancy in 1951: 32 years
- Infant mortality rate: 190/1000 births
- Literacy in 1947: 11%

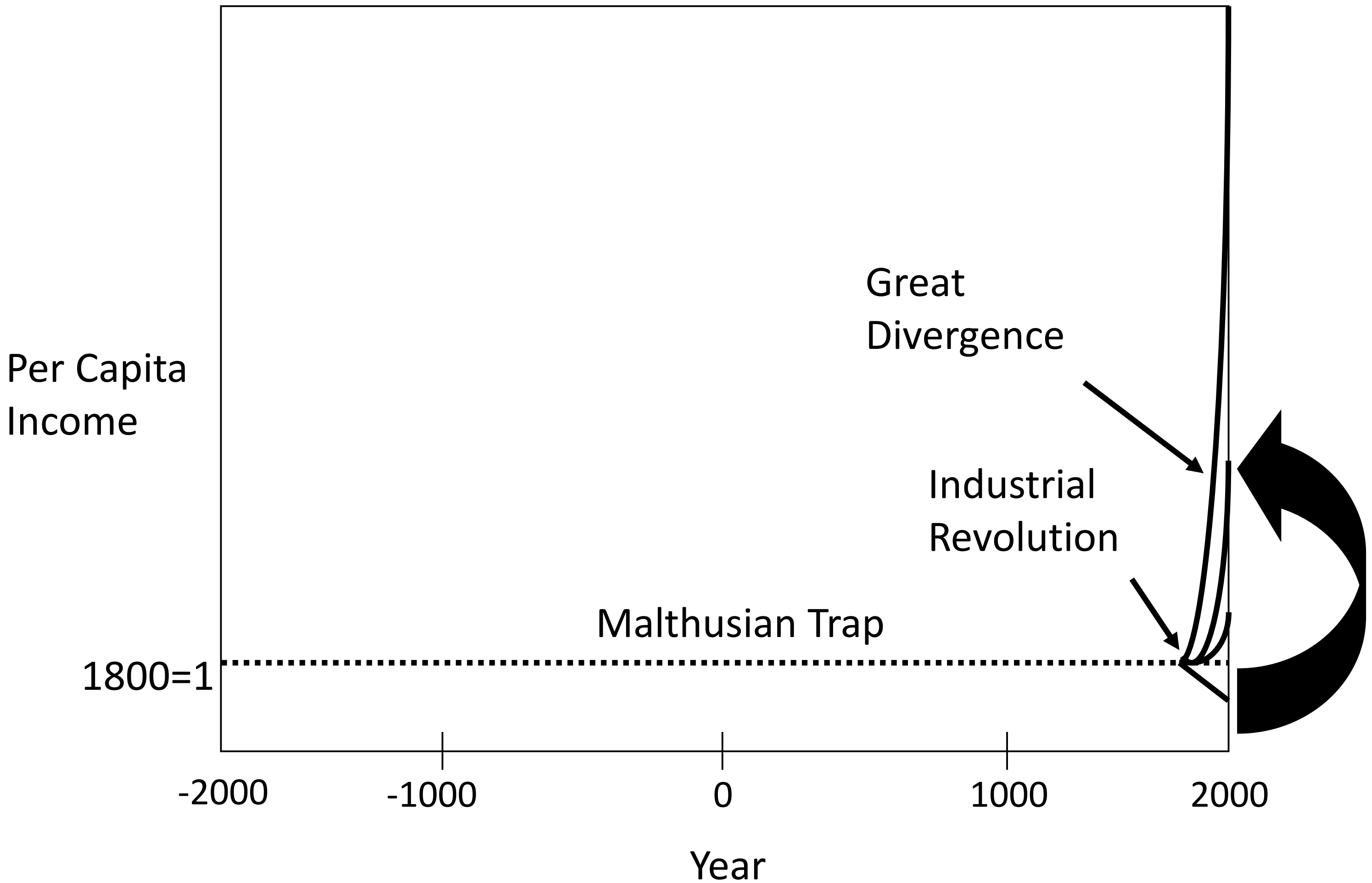


Wealth/Health: 1801 to 1901

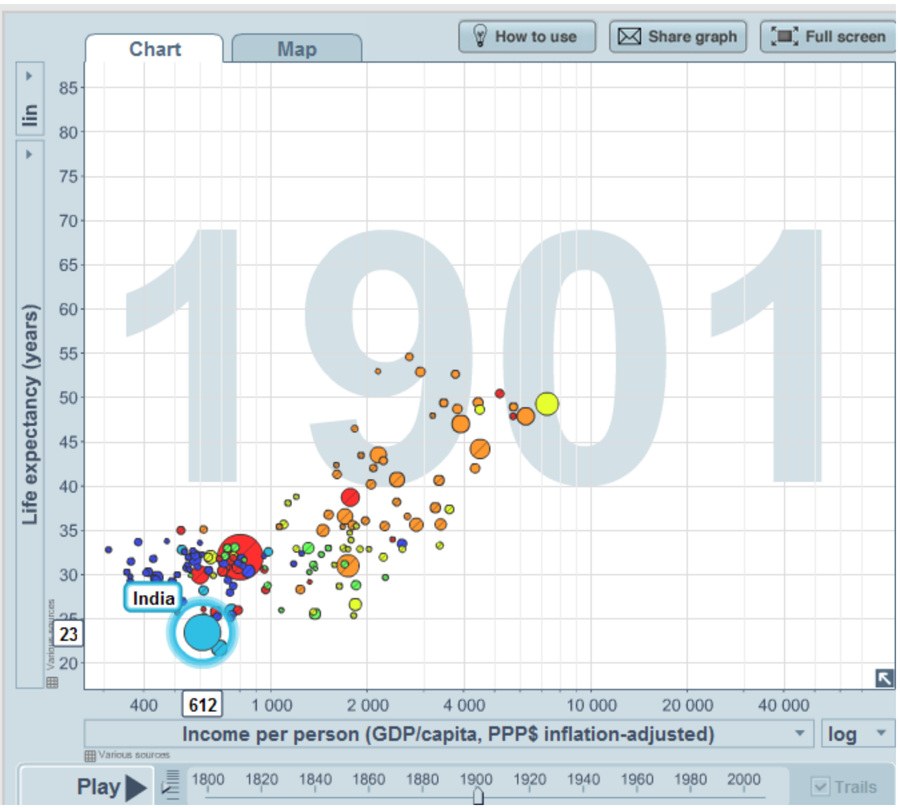


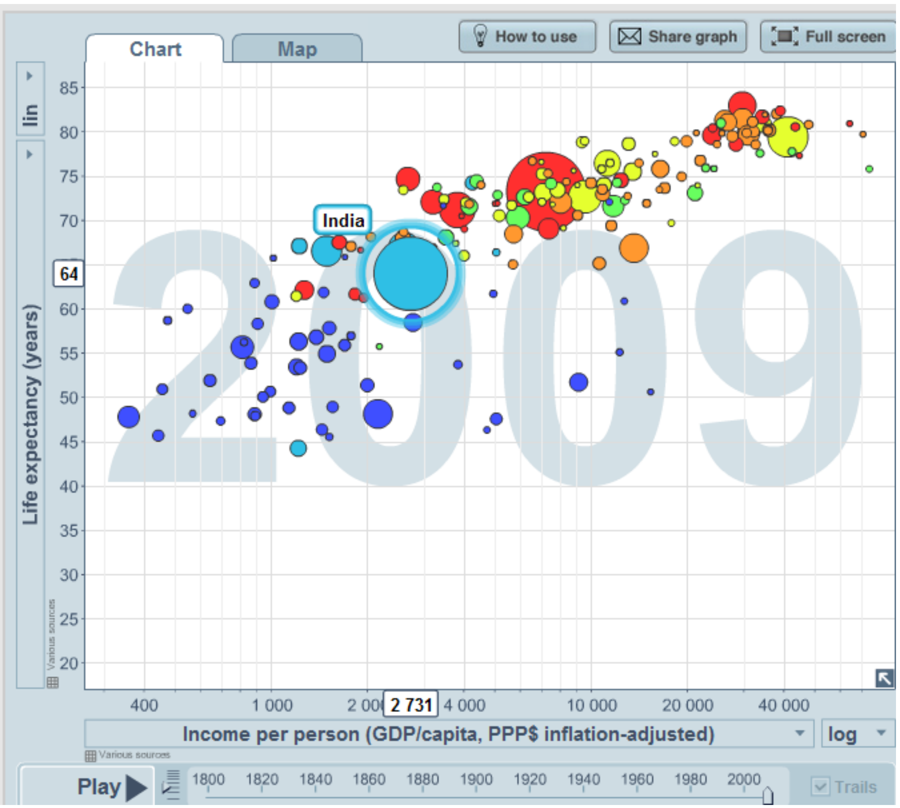


1947 to 2014
Overcoming the Great Divergence



Wealth/Health: 1901 to 2009



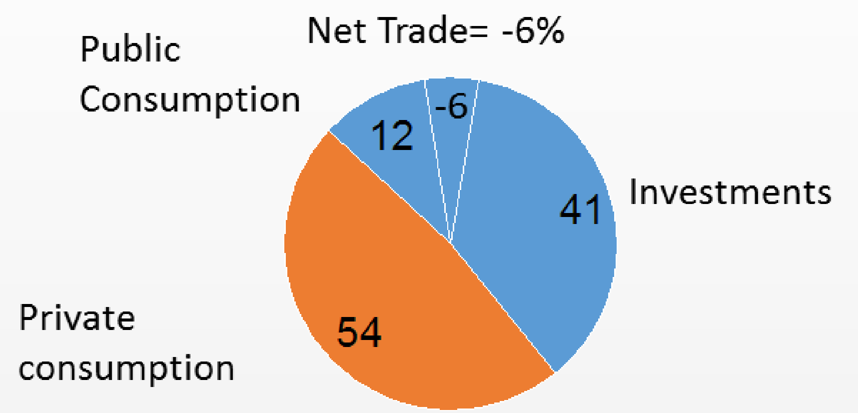


India Today: GDP

India Today: GDP

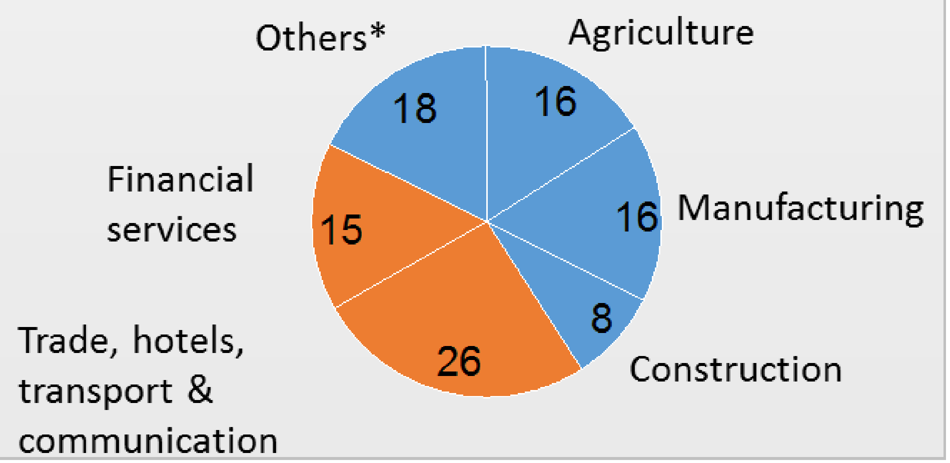
Real GDP growth – expenditure approach

FY 10; percent



Real GDP growth – output approach

FY 10; percent



A healthier population

- Population: 1,236,344,631 (July 2014 est.)
- Life expectancy: 67.8 years from 32 in 1951
- Infant mortality rate: 43.19/1,000 births from 190
- Literacy: 63% from 11%

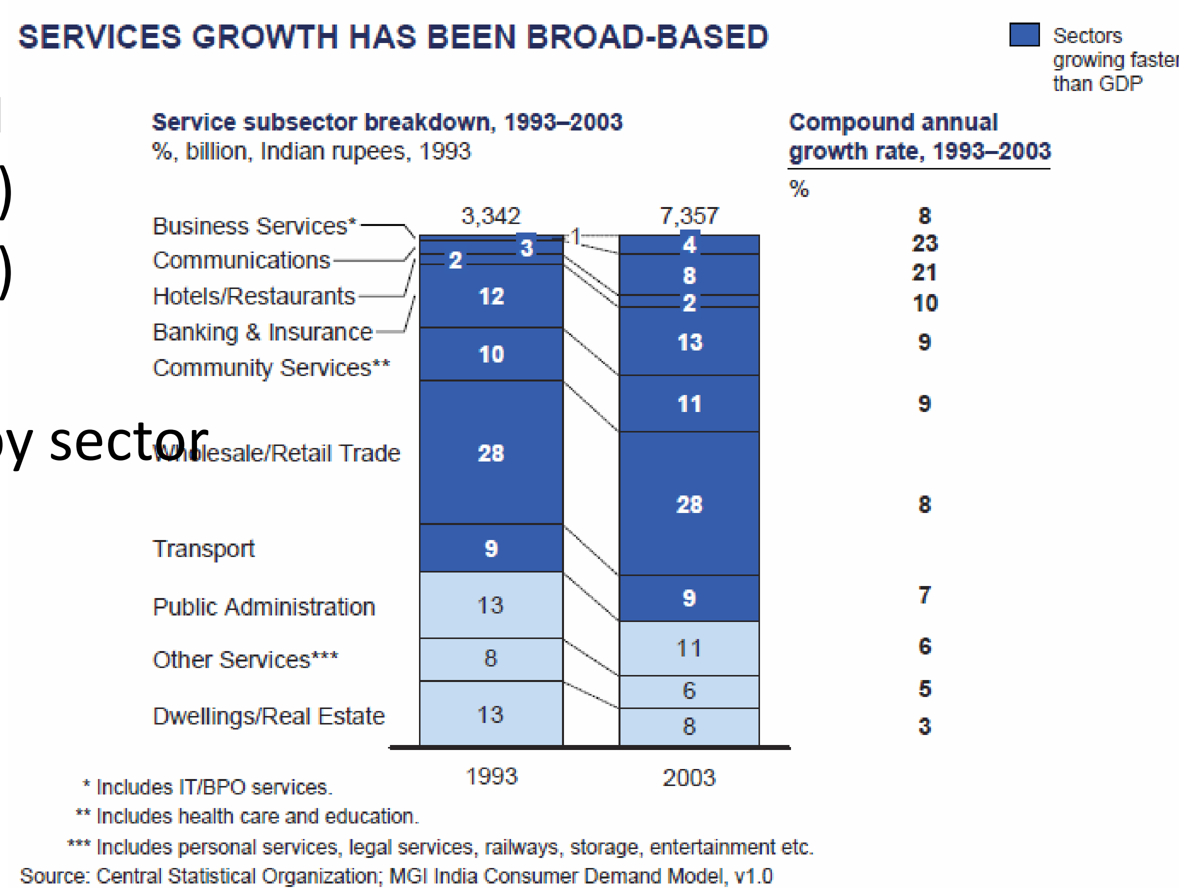
- Labor force:
  - 487 million
  - 2nd largest in the world

- Median age: 27 years

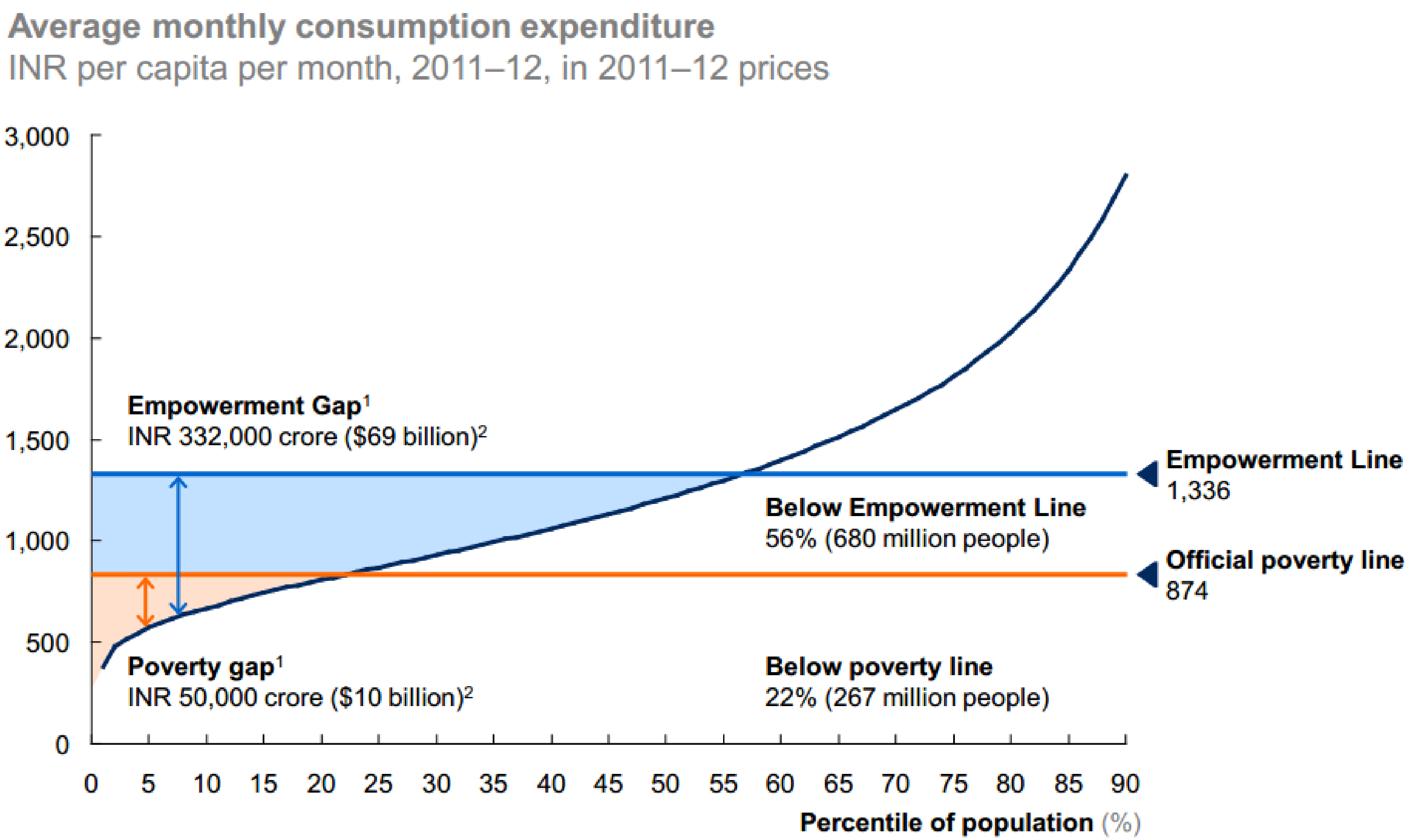
- Age structure
  - 0-14 years: 28.5% (male 187,016,401/female 165,048,695)
  - 15-24 years: 18.1% (male 118,696,540/female 105,342,764)
  - 25-54 years: 40.6% (male 258,202,535/female 243,293,143)
  - 55-64 years: 7% (male 43,625,668/female 43,175,111)
  - 65 years and over: 5.7% (male 34,133,175/female 37,810,599) (2014 est.)

A wealthier population

- GDP per capita (2013 US$)
  - $4,000
    - 169th in the world
  - $3,900 (2012 est.)
  - $3,800 (2011 est.)
- GDP - composition by sector (2009 est.):
  - Agriculture: 17%
  - Industry: 26%
  - Services: 57%



The Empowerment Gap is 7 times larger than the Poverty gap



Categories of Deprivation

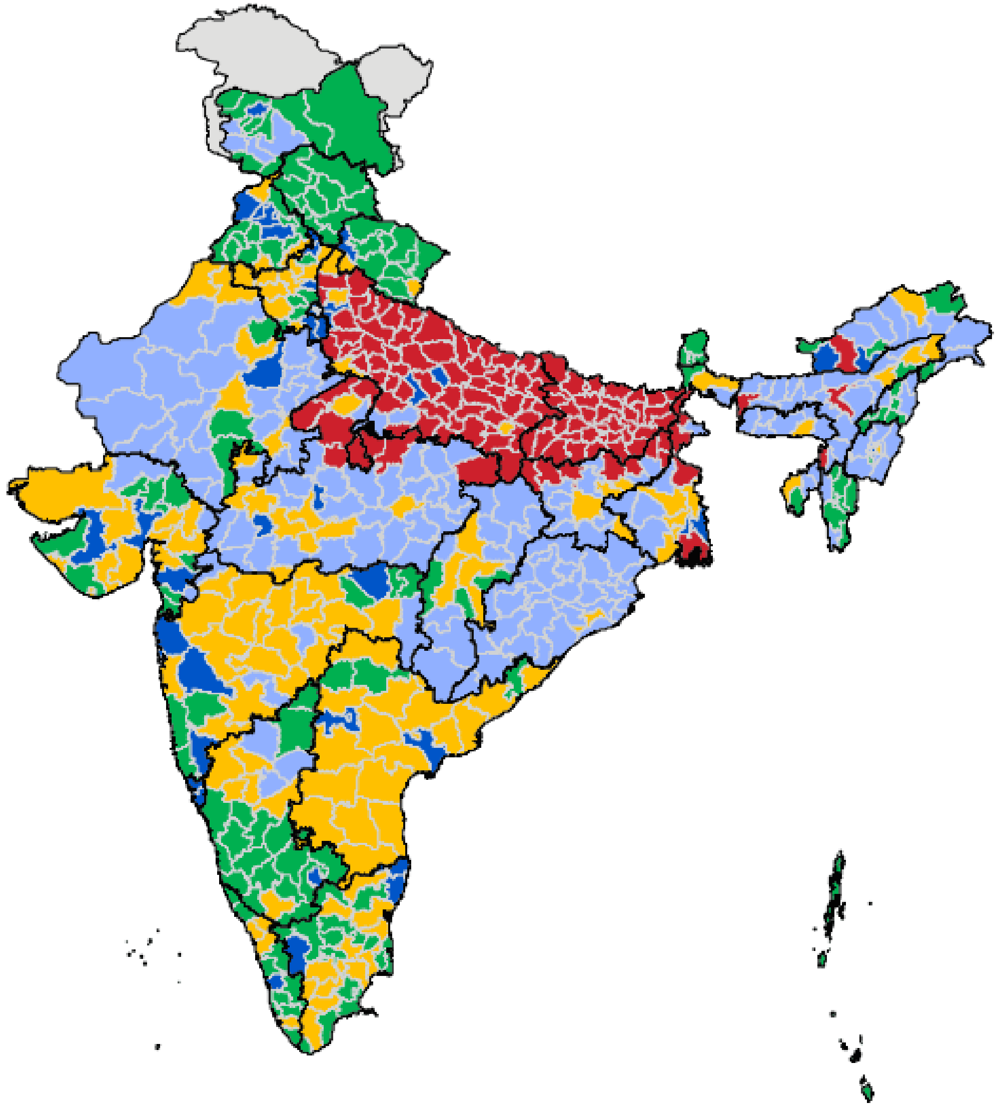
Most Deprived
126 districts
27% population share
Average ADS[1]: 59 percent

Household Services Deprived
177 districts
18% population share
Average ADS: 49 percent

Moderately Deprived
127 districts
26% population share
Average ADS: 41 percent

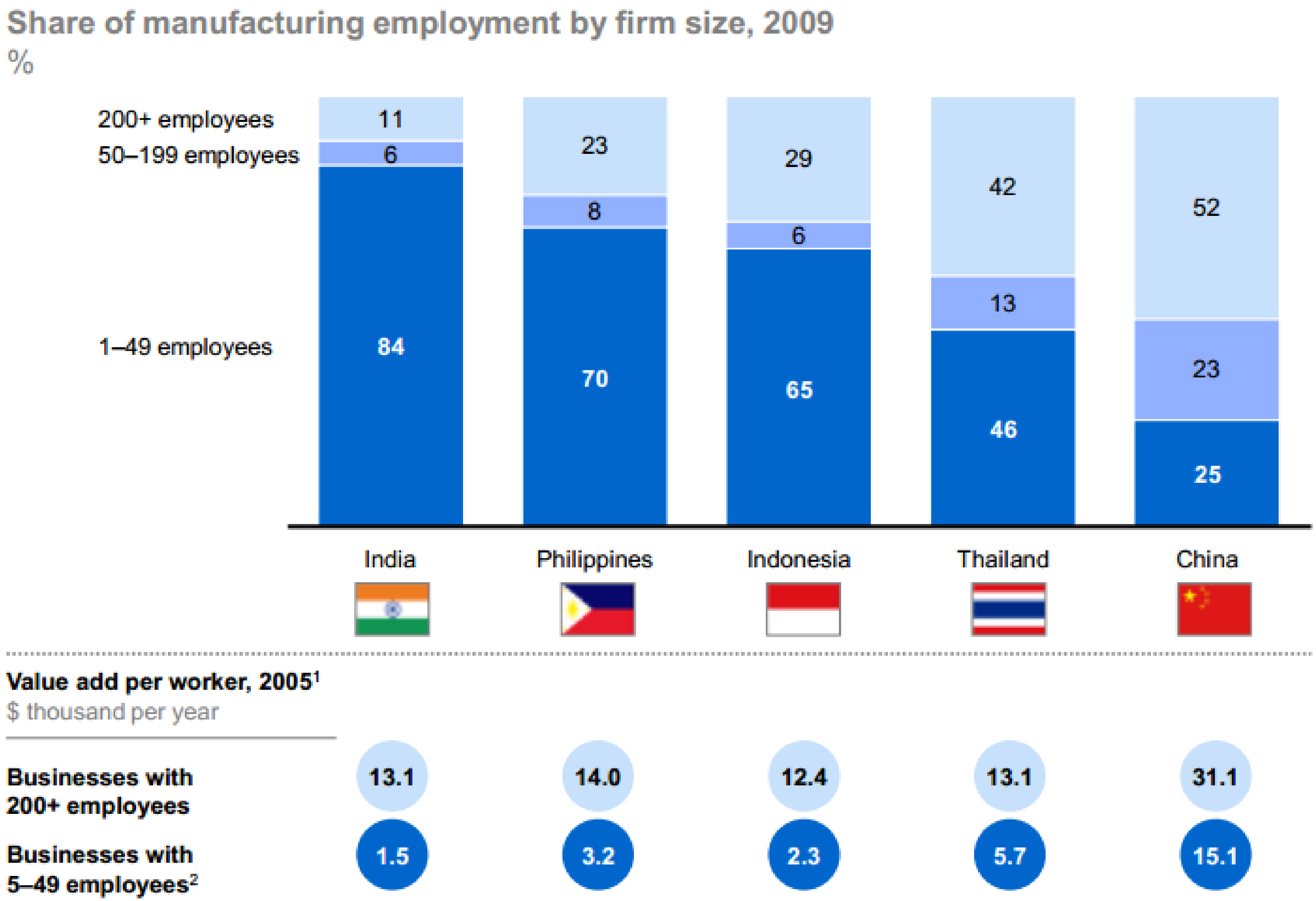
Community Services Deprived
59 districts
15% population share
Average ADS: 37 percent

Least Deprived
151 districts
14% population share
Average ADS: 34 percent



1 Access Deprivation Score: distance of each district from the point of no deprivation.

India’s Manufacturing



A complex, pluralistic society

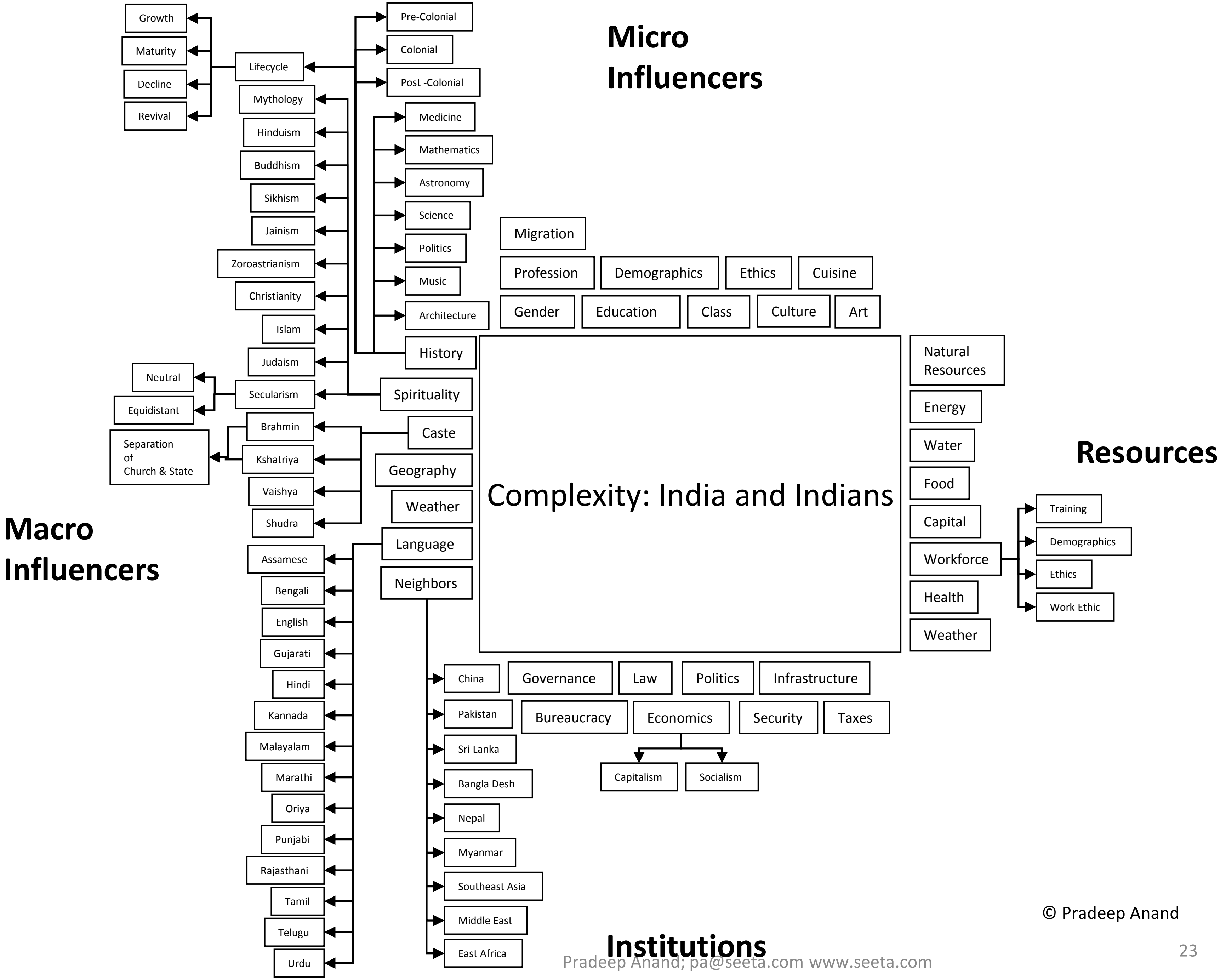
- Complexity
  - Macro
    - Cultural, religious, scientific, political, architectural, and economic histories of a people
  - Micro
    - Quality, Quantity, Characteristics, Drivers/Motivations
  - Resources
    - Infrastructure
  - Institutions
    - Political, religious, economic, legal, social and others


Jammu and Kashmir
Kashmiri, Urdu, Dogri
Himachal Pradesh
Hindi
Punjab
Punjabi
Uttarakhand
Hindi, Kumaoni
Haryana
Punjabi, Hindi
Delhi
Rajasthan
Hindi, Rajasthani
Uttar Pradesh
Hindi, Urdu, Bhojpuri
Bihar
Hindi, Urdu, Maithili, Bhojpuri, Santali
Nepali, Tamang
Sikkim
Arunachal Pradesh
Hindi, Assamese
Assamese, Bishnupriya Manipuri
Bodo,
Nepali
Nagaland
Meghalaya
Khasi
Assam
Manipur
Manipuri
Tripura
Mizo
Mizoram
Bengali, Kokborok
Gujarat
Gujarati, Kutchi, Sindhi
Madhya Pradesh
Hindi
Jharkhand
Hindi, Bhojpuri, Santali
West Bengal
Bengali, Nepali, Santali
Chhattisgarh
Hindi, Chhattisgarhi
Orissa
Oriya
Maharashtra
Marathi
Andhra Pradesh
Telugu, Urdu
Konkani
Goa
Karnataka
Kannada, Konkani, Tulu
Kerala
Malayalam, Tulu
Tamil Nadu
Tamil, Saurashtra
Malayalam, Dhivehi
Lakshadweep
Andaman and Nicobar Islands
Hindi, Bengali, Tamil

20
भारतीय रिज़र्व बैंक
बीस रुपये
TWENTY RUPEES
20

20
RESERVE BANK OF INDIA
GUARANTEED BY THE CENTRAL GOVERNMENT
75G 738555
भारतीय रिज़र्व बैंक
I PROMISE TO
PAY THE BEARER
THE SUM OF
TWENTY RUPEES
20
GOVERNOR
75G 738555
बीस रुपये


75G 738555
RESERVE BANK OF INDIA
GUARANTEED BY THE CENTRAL GOVERNMENT
भारतीय रिज़र्व बैंक
केन्द्रीय सरकार द्वारा प्रत्याभूत
20
PROMISE TO PAY THE BEARER THE SUM OF TWENTY RUPEES
मैं धारक को बीस रुपये अदा करने का वचन देता हूँ।
सत्यमेव जयते
बीस रुपये
75G 738555


Micro Influencers
Growth
Maturity
Decline
Revival
Lifecycle
Pre-Colonial
Colonial
Post -Colonial
Mythology
Hinduism
Buddhism
Sikhism
Jainism
Zoroastrianism
Christianity
Islam
Judaism
Secularism
Neutral
Equidistant
Separation of Church & State
Medicine
Mathematics
Astronomy
Science
Politics
Music
Architecture
History
Spirituality
Migration
Profession
Demographics
Ethics
Cuisine
Gender
Education
Class
Culture
Art
Caste
Brahmin
Kshatriya
Vaishya
Shudra
Geography
Weather
Language
Neighbors
Complexity: India and Indians
Macro Influencers
Assamese
Bengali
English
Gujarati
Hindi
Kannada
Malayalam
Marathi
Oriya
Punjabi
Rajasthani
Tamil
Telugu
Urdu
China
Pakistan
Sri Lanka
Bangla Desh
Nepal
Myanmar
Southeast Asia
Middle East
East Africa
Governance
Law
Politics
Infrastructure
Bureaucracy
Economics
Security
Taxes
Capitalism
Socialism
Institutions
Resources
Natural Resources
Energy
Water
Food
Capital
Workforce
Health
Weather
Training
Demographics
Ethics
Work Ethic

Lacking Infrastructure

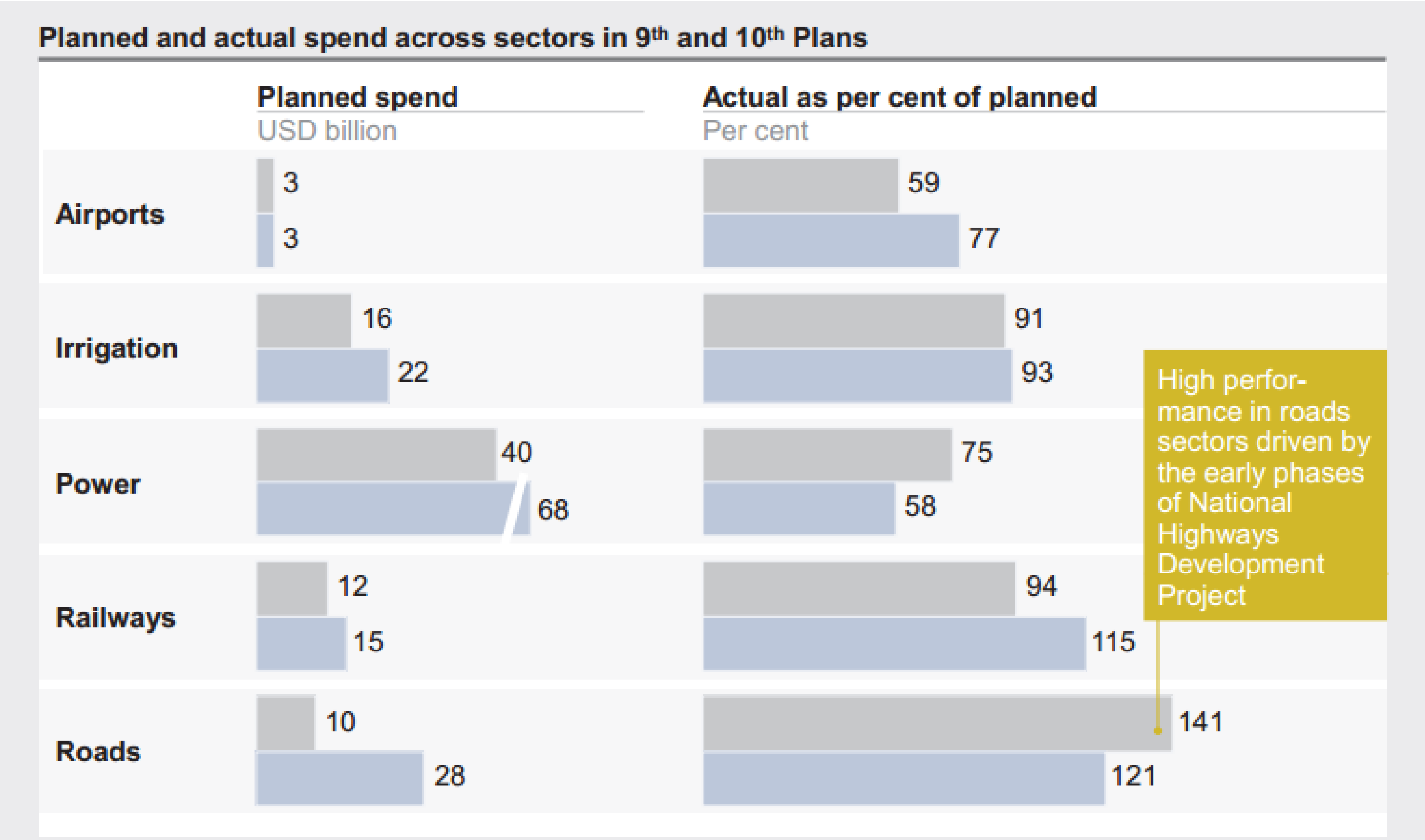
- Common Complaints
  - Roads have potholes; traffic lights don’t work; rural roads are largely unpaved; cities traffic often snarls to a halt; long-distance trucks average only about 20kph (12mph); delays and shakedowns by grasping officials add 30% to the cost of road freight
  - Businesses need their own power backup; own water-treatment plants; own transport for employees; computer servers need costly extra layers of backup

There ain’t no free lunch

- The state can't fix the infrastructure because it is broke
  - Government debt almost 70% of GDP, more than half is interest expense
  - Government expenditures amount to about 15% of GDP; average 40% of GDP in OECD countries
- Badly designed and administered tax system
  - Income tax is about 3.7% of GDP, half that in South Korea and other Asian tigers
  - Agriculture in India accounts for 17% of GDP; wealthy farmers don't pay taxes
  - Excise taxes account for over 60% of India's indirect taxes
  - Exemptions invite abuse. Evasion of excise taxes is more contagious than evasion of taxes on profits and incomes

India Government Debt to GDP

Planned Spend vs. Actual Spend (2009)



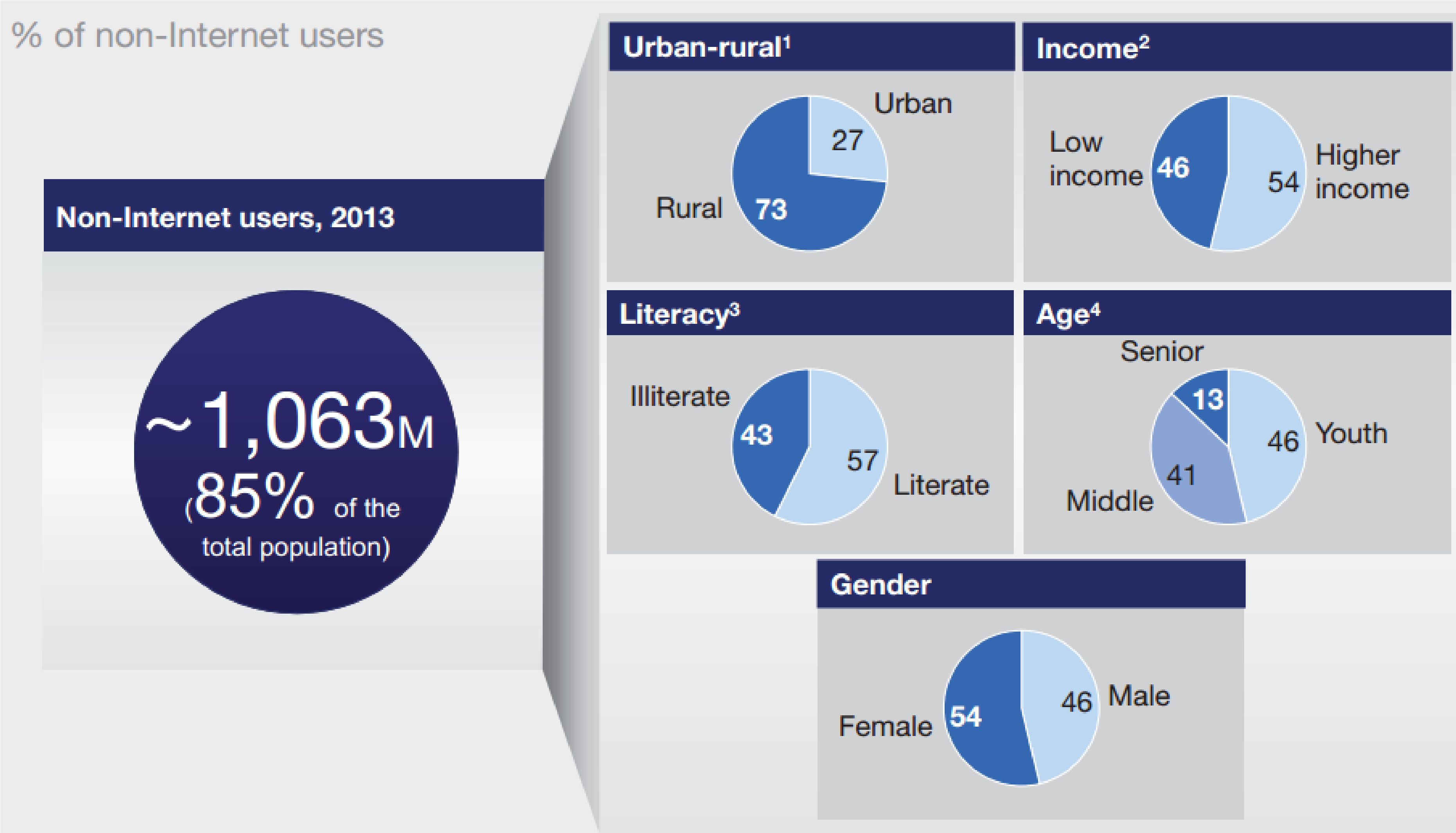
Skills Shortage

- 40% are illiterate; another 40% failed to complete school
- Shortage: 200,000 engineers, 400,000 other graduates and 150,000 vocationally trained workers;
- Surplus: barely-skilled workers in agriculture

- Only 16 world-class Indian Institutes of Technology
- Tech-minded young are getting cocky; wages are surging; additional training needed for college graduates; poor employee loyalty; excessive poaching

- Supplies disappear; teachers do not turn up; cannot be fired constitutionally

India's Offline Population



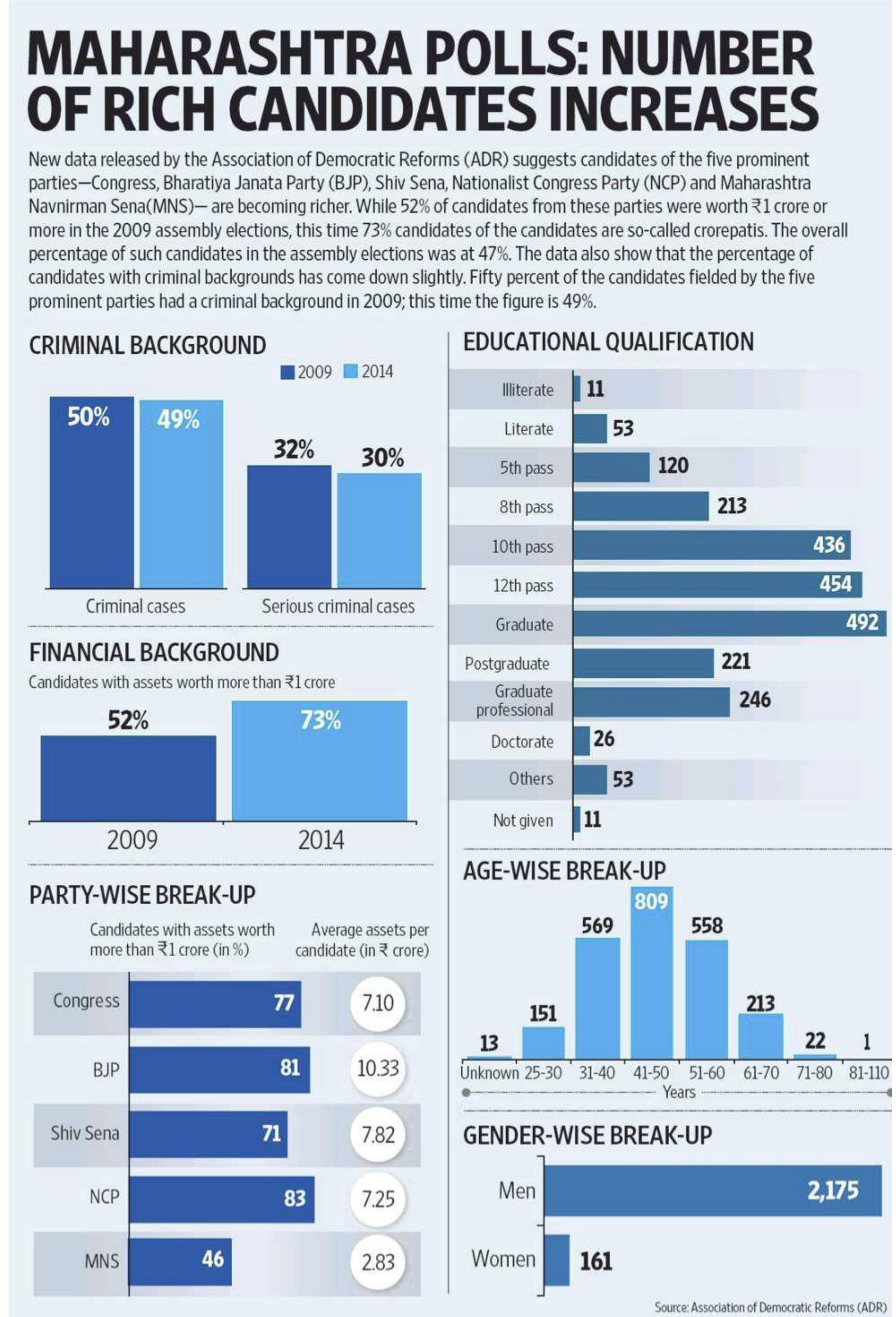
Hunger, Health & Corruption

- Nearly half of children under five are malnourished; brains and body do not develop properly
- A government scheme to deliver cheap grain to the poor: two-thirds of the grain is stolen or adulterated

- India's Prime Minister, Narendra Modi is widely admired
- Some of his colleagues are crooks, thugs, rabble-rousers
- Corruption is debilitating for large and small businesses
  - Exists at all levels from ministers down to the street

Election Candidates' Profile: Maharashtra

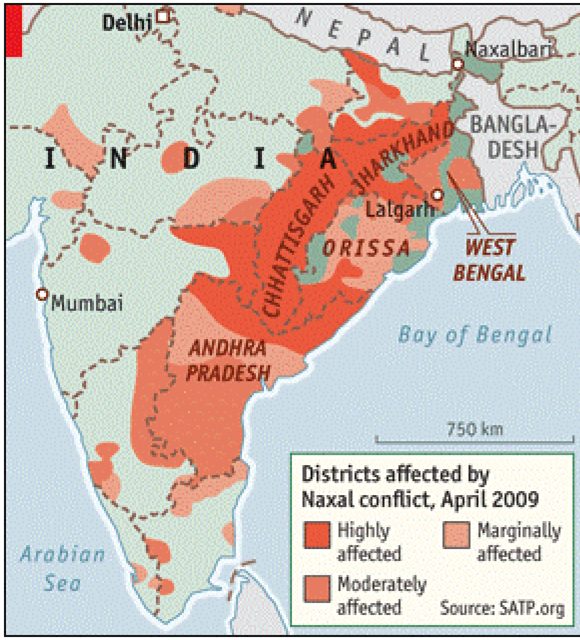
- Criminal Background
- Education
- Finance
- Demographics
- Gender



Maoism, Political Populism

- About 200 of India's 640 districts are affected by a Maoism
- Mining and logging firms are seriously affected.

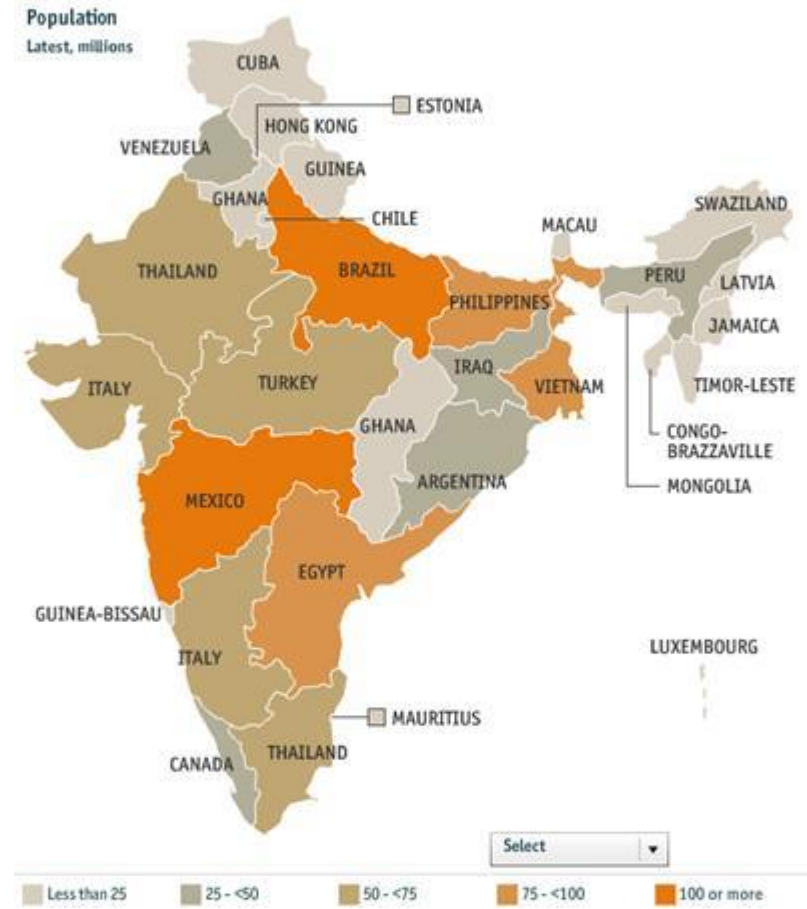
- Political populism demonizes business
  - Tata Motors dropped a plan for a factory in West Bengal after
  - Construction of a new road between Delhi and the Taj Mahal delayed



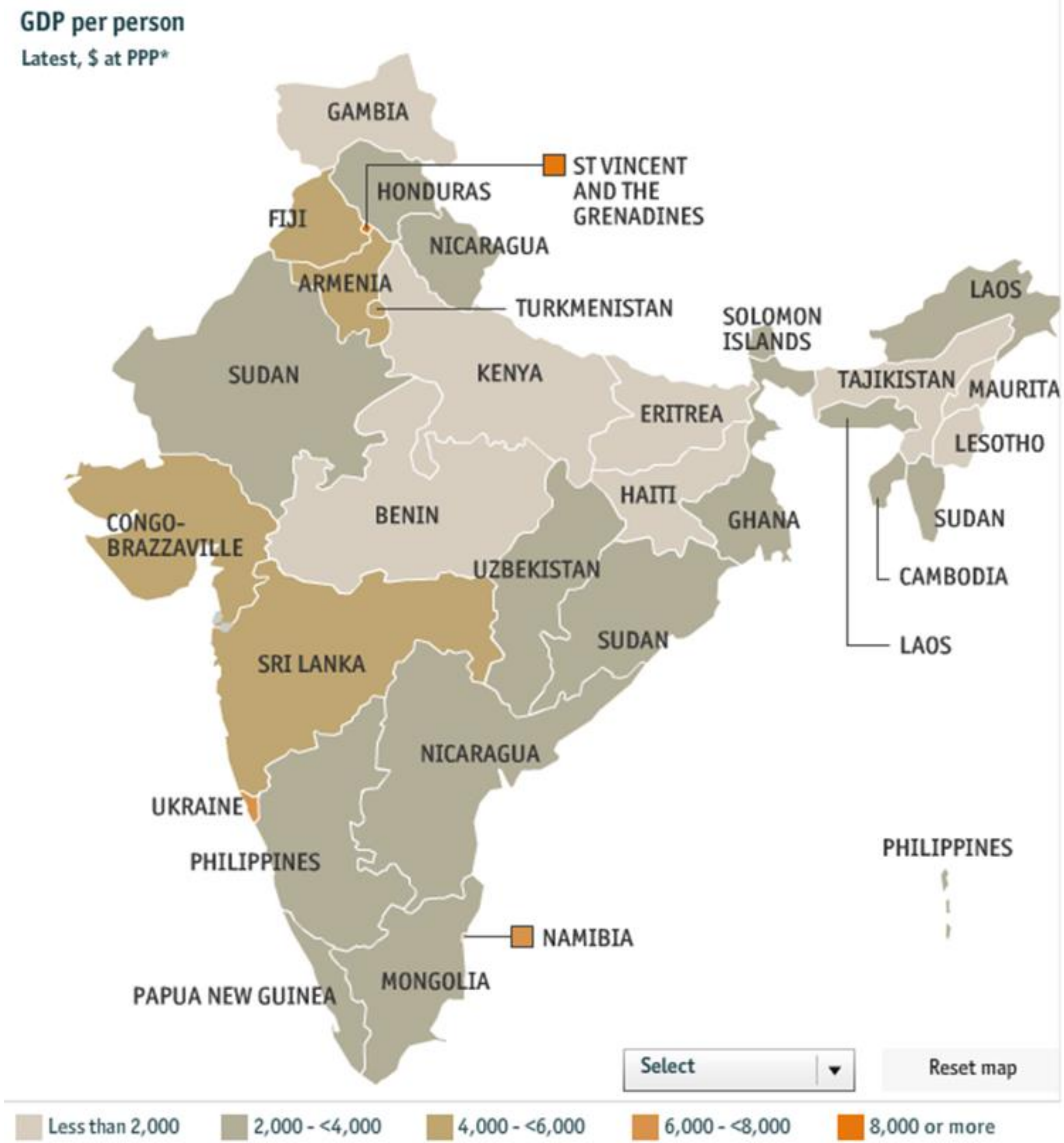
GDP


GDP
Latest, $bn
BAHAMAS
GUINEA
MAURITIUS
TUNISIA
MOZAMBIQUE
SERBIA
LATVIA
ST KITTS AND NEVIS
ST LUCIA
DOMINICAN REPUBLIC
QATAR
BOLIVIA
ZIMBABWE
UZBEKISTAN
BELIZE
BOSNIA
ANGOLA
GUATEMALA
ANGOLA
LIBERIA
SOMALIA
CÔTE D'IVOIRE
URUGUAY
CENTRAL AFRICAN REPUBLIC
SINGAPORE
SLOVAKIA
MALAWI
COMOROS
CROATIA
SOMALIA
ANGOLA
TUNISIA
Select
Less than 25
25 - <50
50 - <75
75 - <100
100 or more

GDP & Population



GDP per Person



India Today

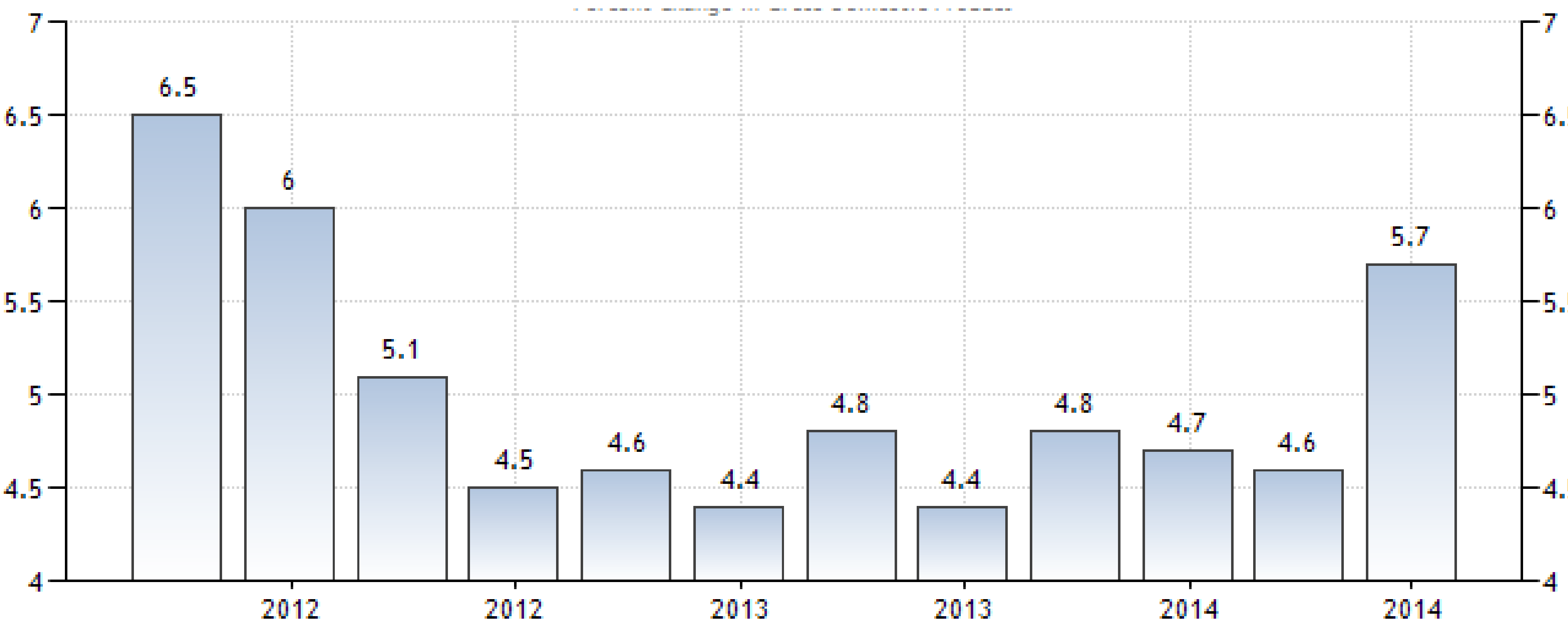
- Despite these shortcomings India has shown growth during the last decade
- India has momentum in its sails!

Real GDP Growth: OECD

Table 0.1. Real GDP growth of Southeast Asia, China and India
(annual percentage change)

	2012	2018	2014-18	2000-07
ASEAN-6 countries				
Brunei Darussalam	1.0	2.4	2.3	-
Indonesia	6.2	6.1	6.0	5.1
Malaysia	5.6	5.3	5.1	5.5
Philippines	6.8	5.9	5.8	4.9
Singapore	1.3	3.1	3.3	6.4
Thailand	6.5	5.3	4.9	5.1
CLMV countries				
Cambodia	7.2	7.1	6.8	9.6
Lao PDR	7.9	7.5	7.7	6.8
Myanmar	-	7.0	6.8	-
Viet Nam	5.2	6.0	5.4	7.6
Average of ASEAN 10	5.5(*)	5.6	5.4	5.5(**)
2 large economies in Emerging Asia				
China	7.7	7.5	7.7	10.5
India	3.7	6.1	5.9	7.1
Average of Emerging Asia	6.4	6.9	6.9	8.6

GDP Growth Rate



India Tomorrow

- India's GDP is expected to grow by 5.7 % this fiscal year

- India's economy will grow fivefold in the next 20 years

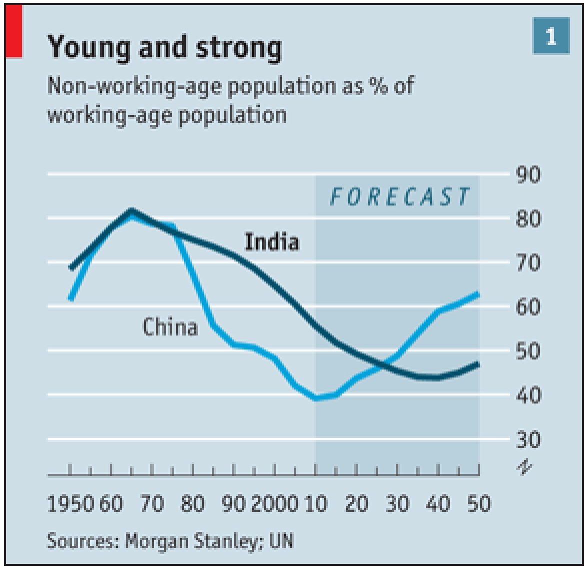
- The urban population will double from the 2001 census figure of 290 Million to 590 Million 2030

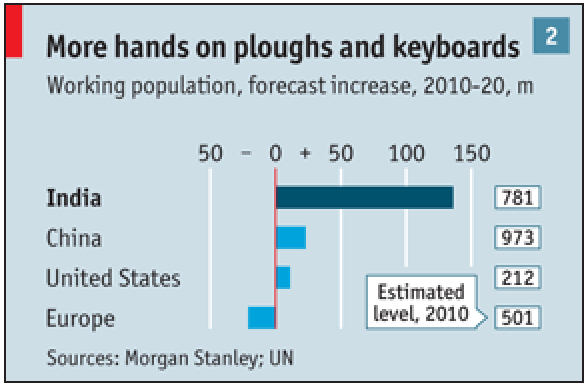
Reasons behind optimistic forecasts

1. Demographic dividend
2. Domestic consumption
3. Economic reform
4. Democracy
5. Secularism
6. Global aspirations of Indian businesses
7. Entrepreneurship
8. Frugal innovation
9. Capital flow
10. Global growth momentum

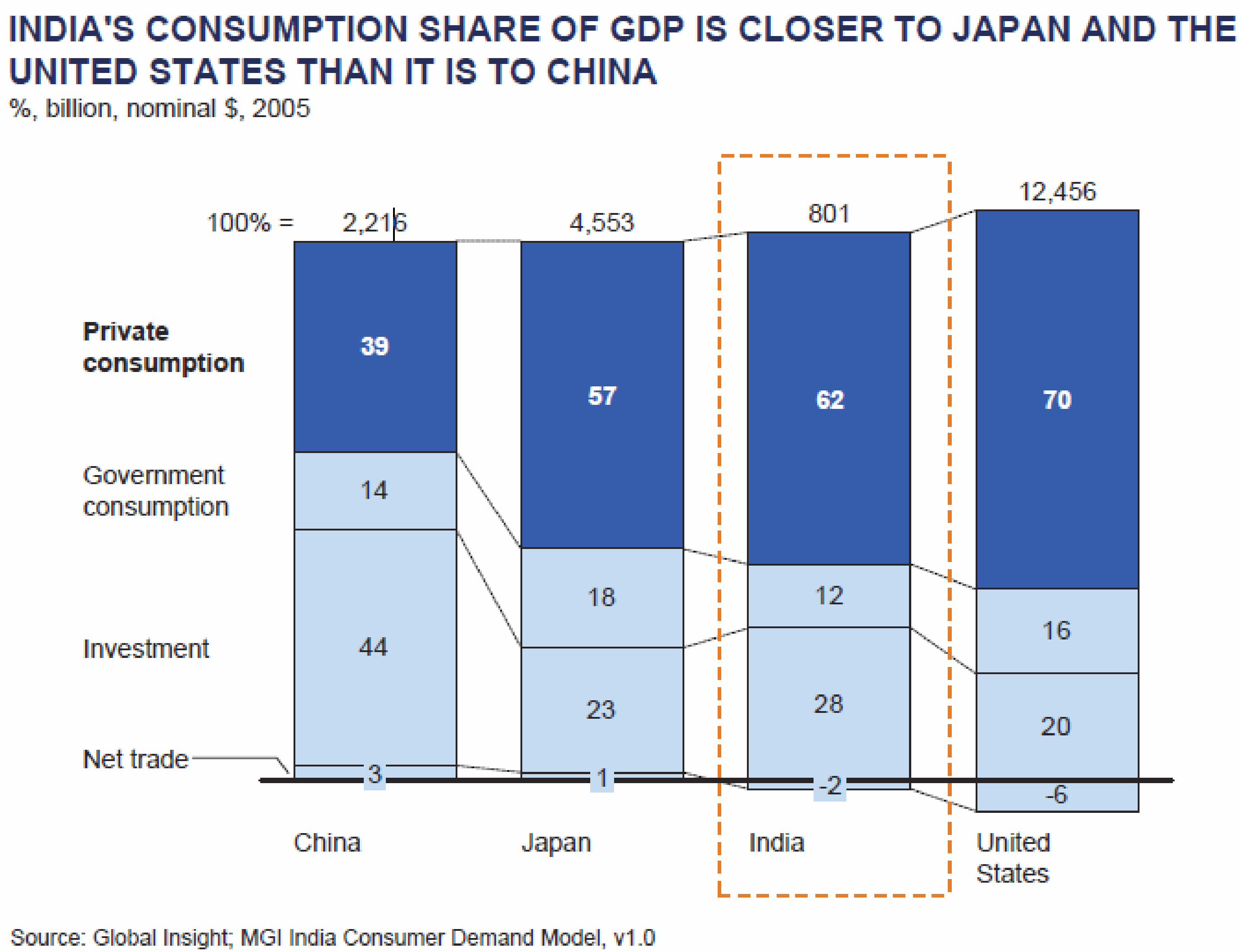
1. Demographic Dividend

- Demographic Dividend
  - Indians are young
  - The proportion of Indians aged under 15 or over 64 has declined from 69% in 1995 to 56% this year
  - India's working-age population will increase by 136 Million by 2020
  - China's will grow by 23 Million
- However, skills gap is a huge burden to overcome





2. Domestic Consumption

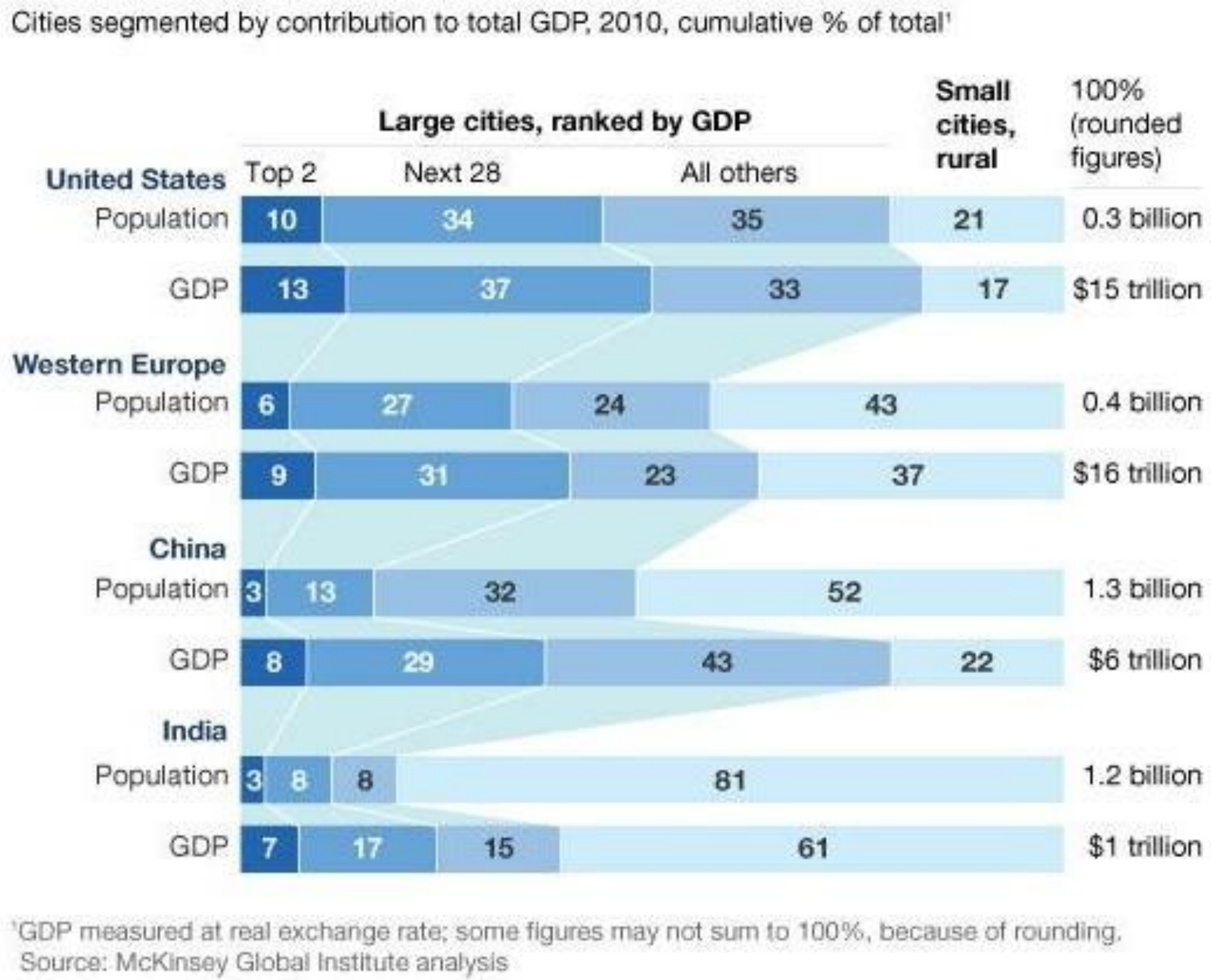


Consumer spending to nearly quadruple by 2020

	Spending, 2010 ($billions)		Spending, 2020 ($billions)
Food[1]	328	2.7x	895
Housing and consumer durables[2]	186	4.0x	752
Transportation and communication	168	3.9x	664
Education and leisure[3]	71	4.2x	296
Clothes and footwear	59	3.8x	225
Health	49	3.8x	183
Other[4]	129	4.4x	570
Total	**991**	**3.6x**	**3,584**

Sources: Euromonitor; National Sample Survey Office; BCG proprietary research with 6,300 consumers: BCG analysis.

2. Consumption & Urbanization



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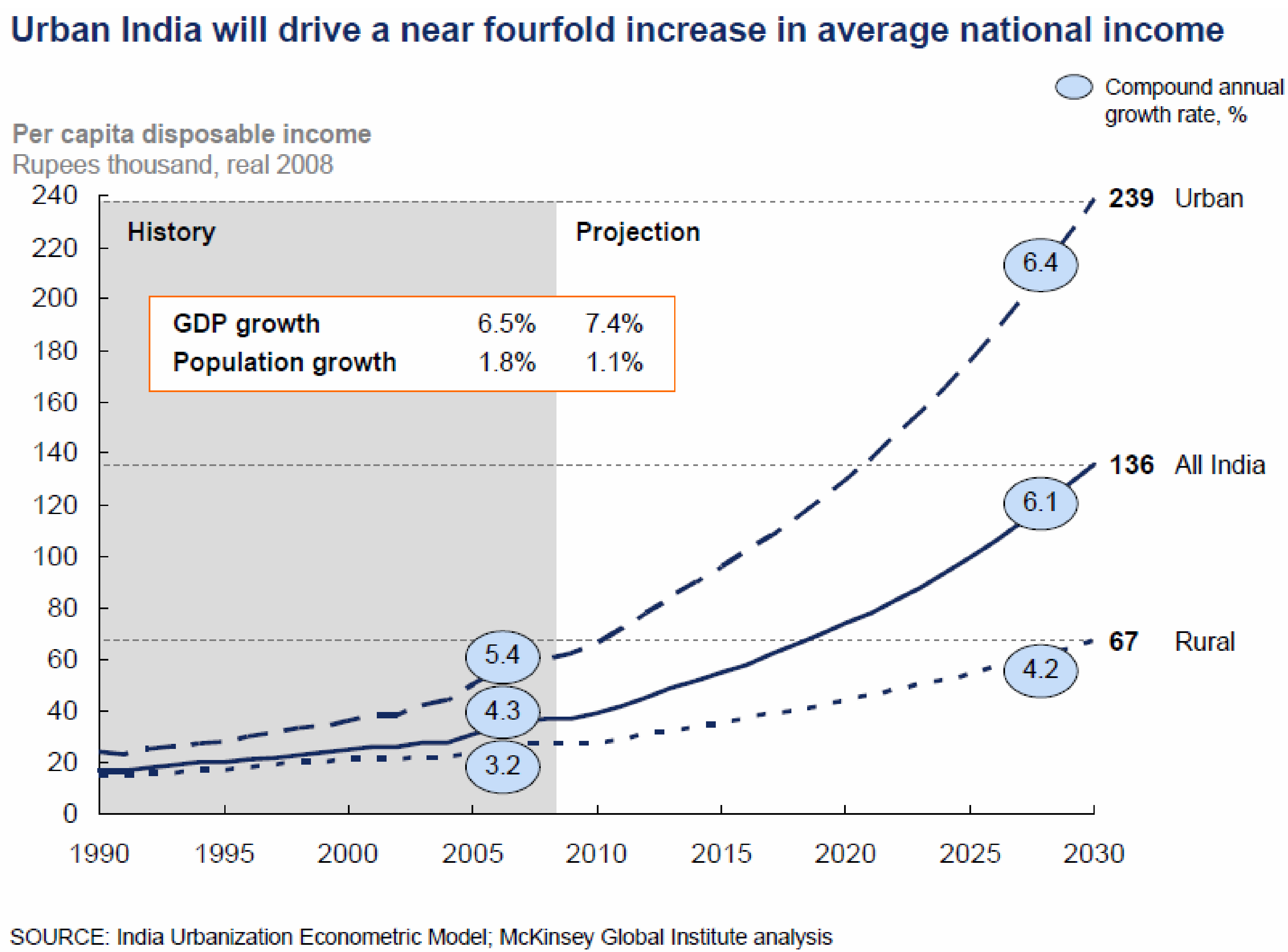
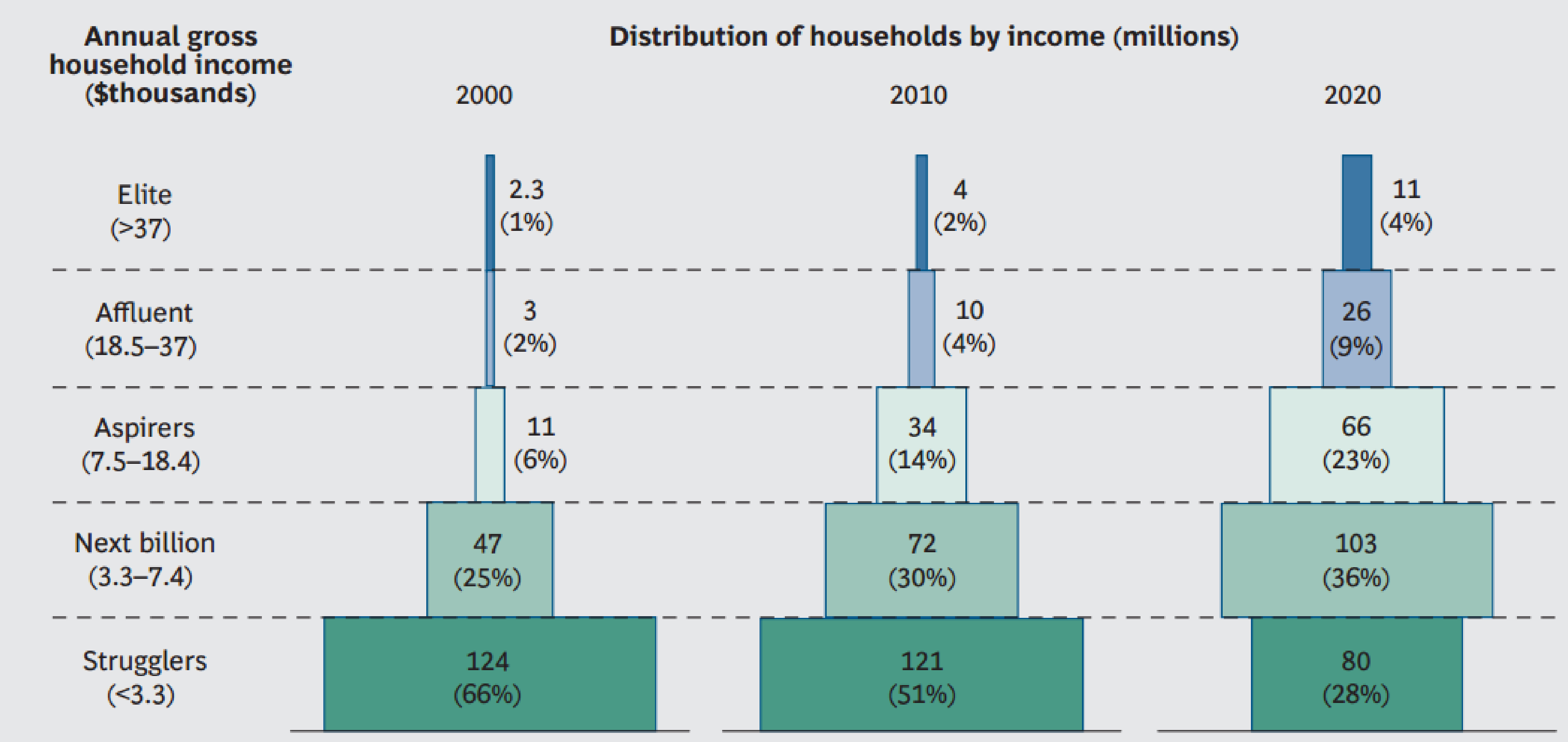


Average household income will explode



Sources: National Council for Applied Economic Research income models; Euromonitor; BCG income distribution adjustment model; BCG analysis.

Urban Population

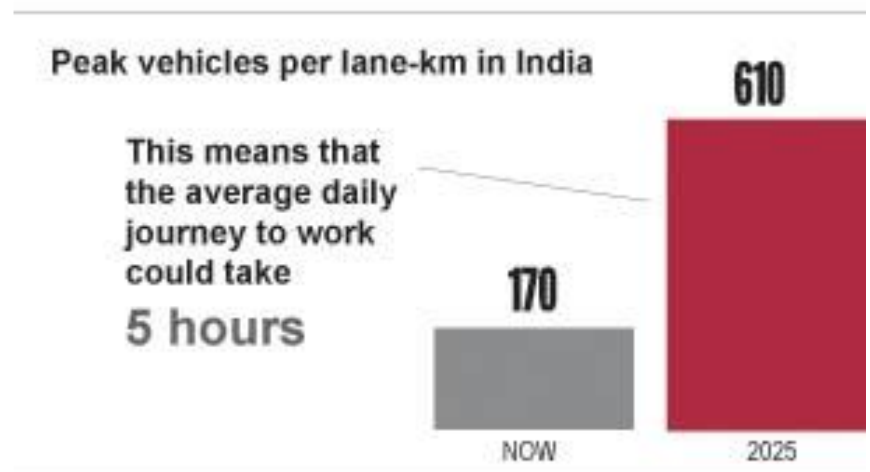
- New Delhi (capital) 22.654 million
- Mumbai 19.744 million
- Kolkata 14.402 million
- Chennai 8.784 million
- Bangalore 8.614 million
- Hyderabad 7.837 million

2. Consumption & Urbanization

- Domestic consumption
  - 70% of employment in cities by 2030
  - 91 million middle class households ; 22 million today
  - $1.2 Trillion capital investment needed for cities

  - Today consumer market ranks twelfth in the world
  - By 2025, fifth largest in the world

  - Limited Resources—Food, Water, Commodities

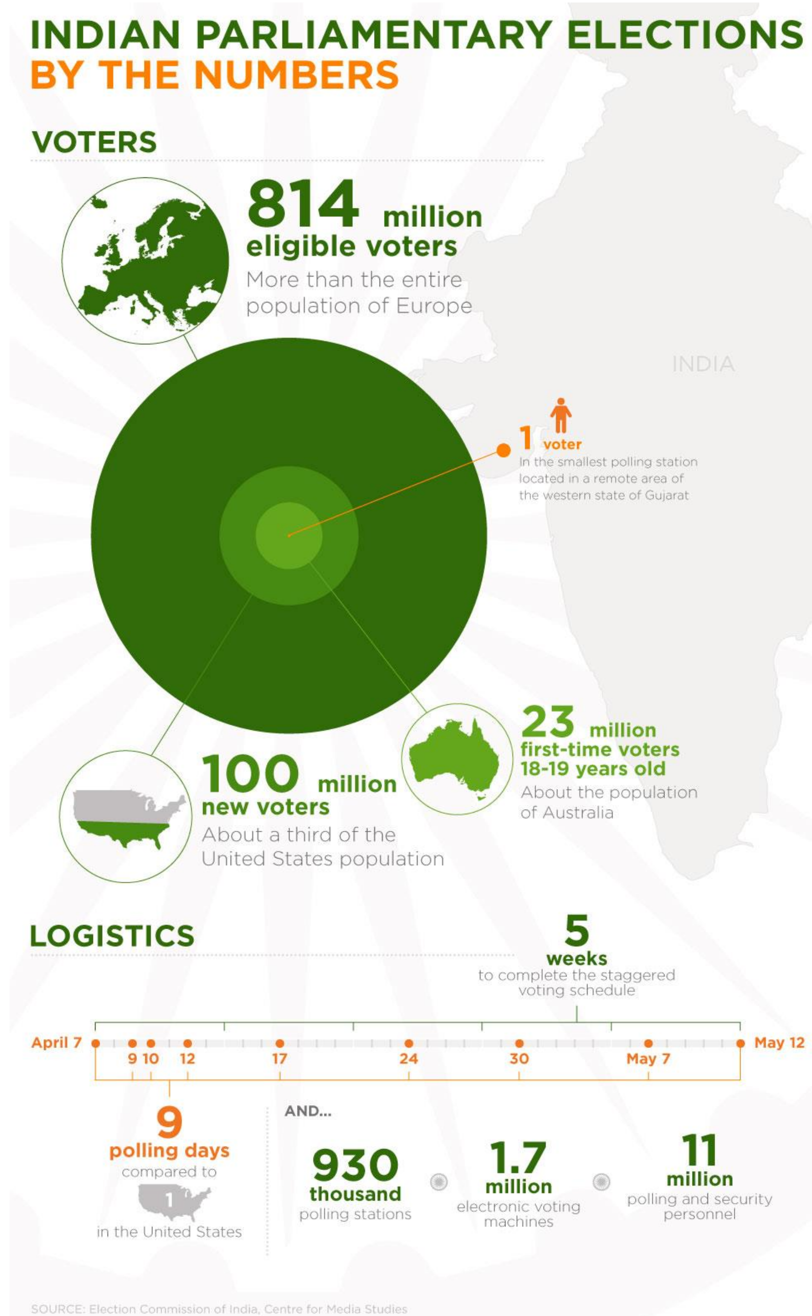


3. Economic Reform

- Economic reforms
  - Tariff ramparts have been torn down
  - The “License Raj”, a protectionist system has been sidelined
  - Indian firms have global competition
  - Unleashed entrepreneurial energy
  - Exports up!

4. Democracy

- Indian democracy is different
  - Electorate of more than 800 Million people
  - Poverty, massive illiteracy and diversity on a sub-continental scale does not deter democracy
  - India’s democracy based upon on pluralism
  - India's democracy is not premised on the standard nationalist invocation of a shared history, a single language and an assimilationist culture



2014 Elections

814.5 MILLION VOTERS (2014) COMPARED TO 713 MILLION IN 2009

TOTAL NUMBER OF FIRST TIME VOTERS OVER 23 MILLION (2014)

FIRST TIME VOTERS CONSTITUTE 2.88 PER-CENT OF TOTAL ELECTORS (2014) AGAINST 0.75 PERCENT IN 2009

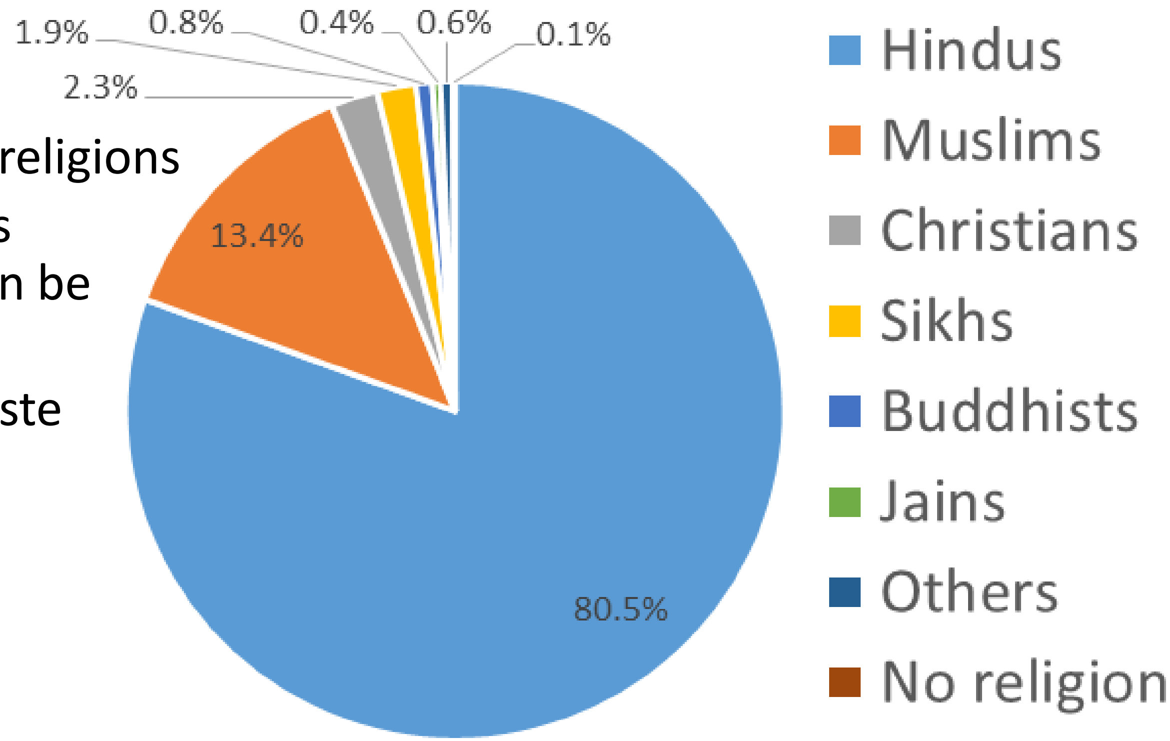
APPROXIMATELY 930,000 POLLING STATIONS (2014) COMPARED TO 830,866 IN 2009.

AROUND FIVE MILLION POLLING PERSONNEL AND CIVIL POLICE FORCES ARE ENGAGED IN CONDUCTING THE ELECTIONS.

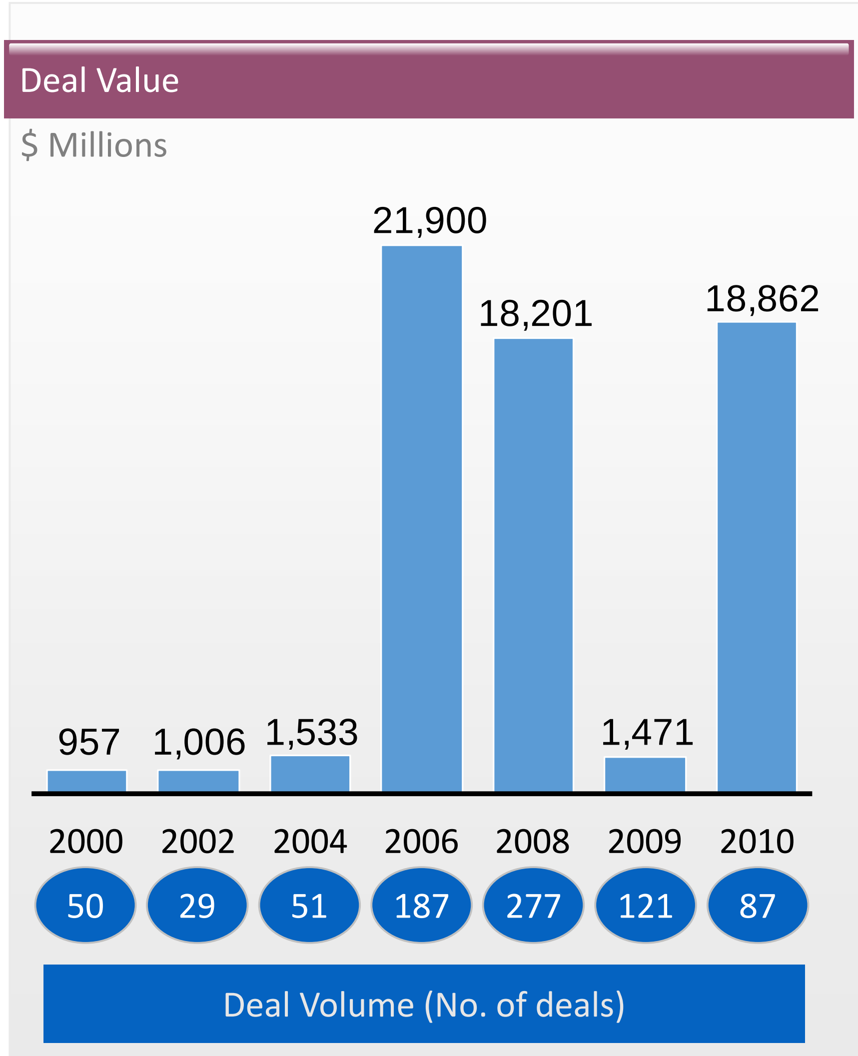
Transfer of Power

5. Secularism

- India's secularism is different
  - It does not neutralize religions
  - It treats all religions as "equidistant" so all can be celebrated
  - Religious/linguistic/caste differences are being marginalized



6. Global Aspirations



SOURCE: Dealogic
Upto May 12, 2010

TATA – corus	$12,983 Mn
bharti – zain	$10,700 Mn
HINDALCO (Aditya Birla Group) – Novelis	$5,731 Mn
ONGC Videsh – Imperial Energy	$2,624 Mn
TATA – Jaguar, Land Rover	$2,300 Mn
ESSAR – Algoma	$1,794 Mn

More people see Bollywood movies than Hollywood movies

7. Entrepreneurship
8. Frugal Innovation

- India's economy driven by 45 Million entrepreneurs
- Primary focus is domestic consumers
- Indian "Frugal Innovation" oblige "Bottom of Pyramid"
  - Safe drinking water filter no power @ $0.65/mo; a $35 laptop
  - Suspension bridges for 1/10 the price

- Tata Motors is selling its "people's car" for $3,000
- GE's Indian arm offers a medical ECG machine for $400
- Bharat Biotech sells a single dose of its hepatitis B vaccine for 20 cents
- Bharti Airtel provides one of the cheapest wireless telephone services in the world.


Miticool – Village Fridge
Innovator:
Mansukh Prajapati
Gujarat
It is a fridge made from special clay. It has three chambers, one just for cooling water. It requires no electricity and is a perfect solution for rural areas.
Discovery CHANNEL
National Innovation Foundation
AFP/GETTY IMAGES/FILE


COURTESY ANIL GUPTA


COURTESY ANIL GUPTA


COURTESY ANIL GUPTA


COURTESY BMVSS


COURTESY FRUGAL DIGITAL

8. Indianization of products

8. Indianization of products

8. Indianization of products

Local Players Lose their Shine

Local brands like Vicco, Ajanta, Anchor, Smyle and Baidyanath among others slipped to 2% in 2013

Two years ago they had over 5% share

Cos like Colgate, Dabur and HUL have widened their rural reach

Indian firm, Dabur has 11% market share

Dabur's Red toothpaste is fastest-growing brand in the oral-care market with 17 annual growth rate

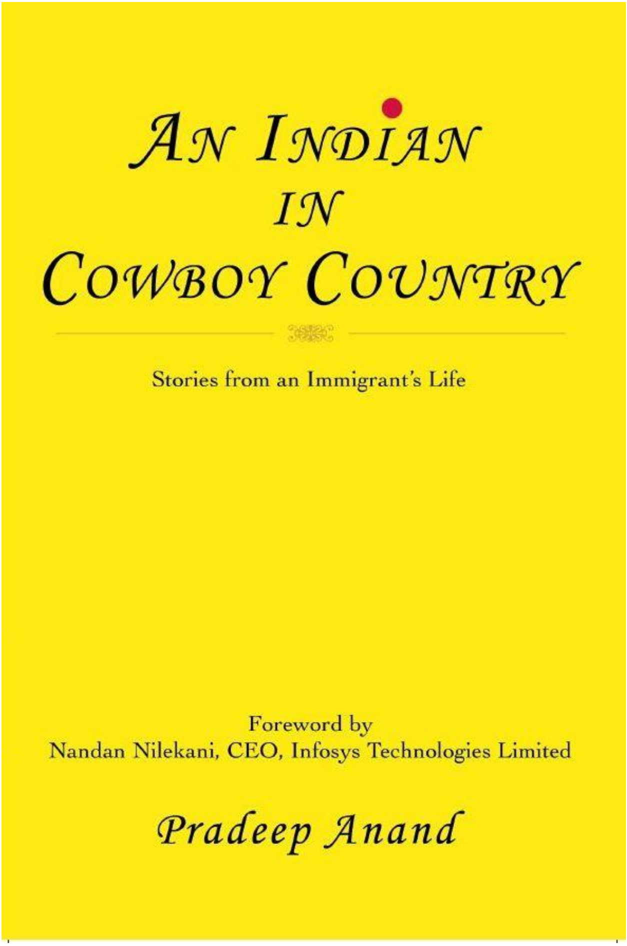
It has a 50% adoption rate among first-time users against industry average of 35%

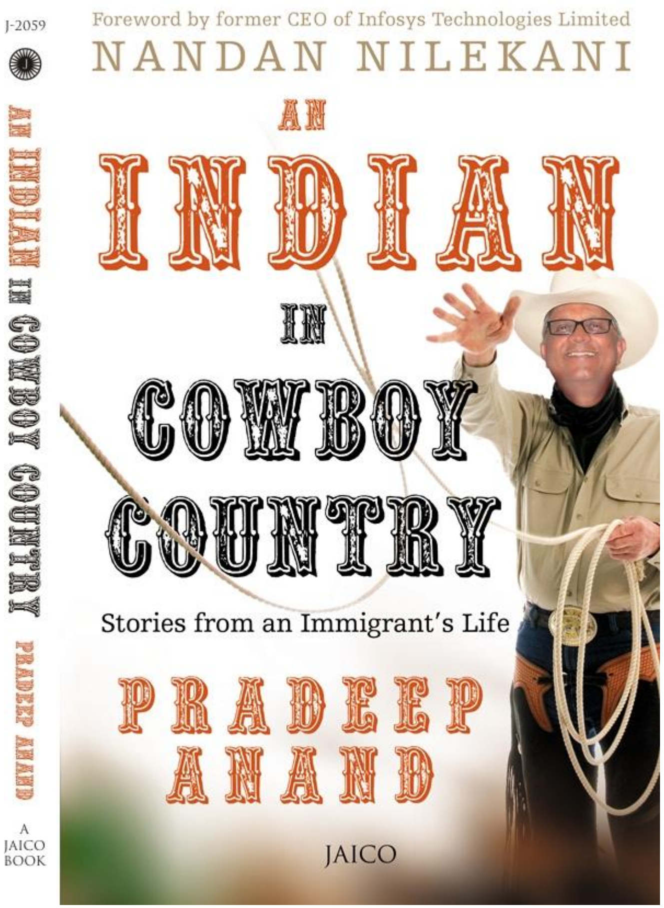
Entry of GSK and P&G also affected the small regional brands

Colgate's share rose to **54**% last year, from 51% in 2011

GSK's Sensodyne leads the sensitive toothpaste category with **27**% market share

8. Indianization of products





9. Investments/Capital Flow 2013

- Globally $1.46 trillion, with the lion's share going to developing countries
- India ranked 16; USA ranked 1

- FDI flows into India grew 17 per cent in 2013 to $28 Billion
  - 1990 <$1 Billion
  - 2010 $45 Billion
  - 2011 $51 Billion
- The sectors that attracted higher inflows:
  - Services
  - Telecommunication
  - Construction activities
  - Computer software and hardware

10. Global Growth Catalysts

- Economic Growth
  - Resources—People, Food, Materials, Energy, Air, Water
  - Productivity—Technology/Innovation
  - Capital—Create, Invest, and Gain Returns
- Government
- Trade
- Health, Education, Entertainment
- The Planet Earth

10. Global structural changes in the 20th Century

- Political: Royalty/Empires ➔ Democracy and Countries
- Enfranchisement: White males only ➔ Anyone, 18 years or older
- People Binder: Religion ➔ Culture

- Commercial Language: European languages ➔ English
- Distance Travel: Ships/Rail ➔Air/Space
- Local Travel: Carriage/Rail ➔ Automobile

- Health: High Mortality Rate ➔ Low Mortality Rate

- Education: Private education ➔ Public education
- Education: Personal ➔ Distance

- Edutainment, the merger of entertainment and education

- Entertainment: Live ➔ Theaters ➔ Media ➔ On-demand, personalized interactive content

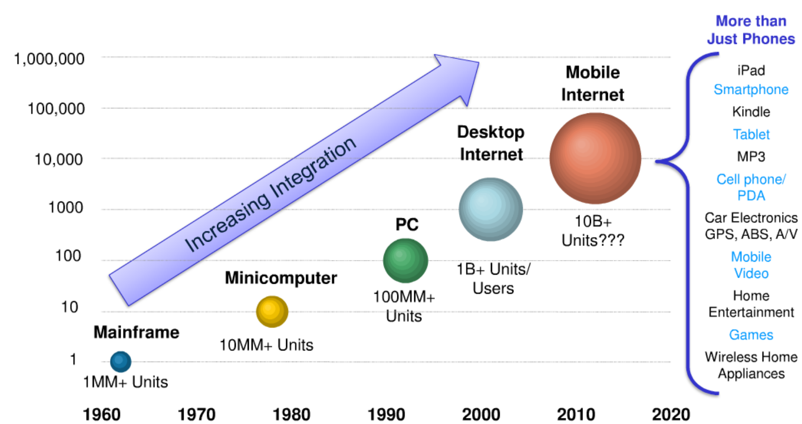
10. Global structural changes in the 20th Century

- Industry: Craftsmanship → Mass production
- Workers: Physical → Knowledge
- Workplace: Centralized → Distributed
- Workplace Demography → Men/Women equalization
- Commerce: Brick & Mortar → eCommerce
- Population → 1 Billion (1810) → 7 Billion (2011)

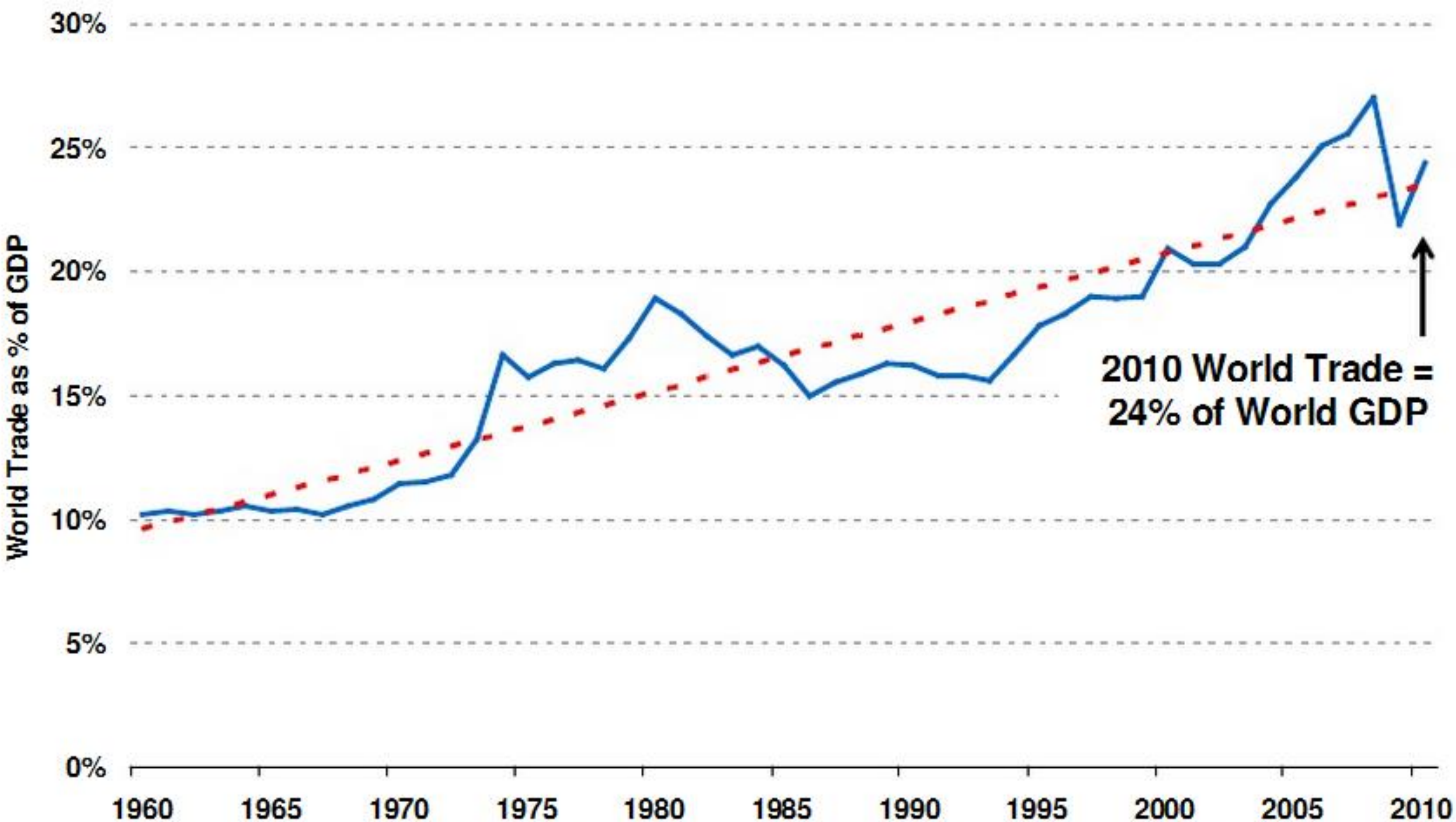
- Opportunities: Western Europe → Europe/USA → Asia
- Economic System:
- Imperialism → Capitalism
- Money: Precious Metals → Currency → Credit Cards/Bits & Bytes
- Closed Economies → Globalization

10. Global structural changes in the 20th Century

- Fuel: Vegetable/Animal Fat, Coal ➔ Coal/Petroleum/Natural Gas/Nuclear
- Environment: Cities (sewage/manure) ➔ Global (CO_2)
- Materials: Natural ➔ Synthetic ➔ Composites
- Communication: Letters/Telegraph ➔ Landline ➔ Telephone/Internet ➔ Smartphone



World Trade as % of World GDP 1960-2010



Note: World trade calculated as the sum of all countries' imports (or exports). The biggest trading partners of USA includes EU nations, Canada, China, Mexico, Japan and South Korea. Source: Trade data per World Trade Organization (WTO), GDP data per United Nations (UN).

10. Unstoppable global momentum

- More growth from emerging markets than the developed ones, new middle-class consumers, innovations
- Major productivity innovations in the G8 world accelerate global economies
- Resource productivity, clean-tech industries
- Complex flows of capital, goods, information, large-scale interactions, new business models, accelerating the pace of innovation, more economic volatility

10. Global Economy: A Complex Adaptive System

- A dynamic network of many agents (cells, species, individuals, firms, nations) acting in parallel, constantly acting and reacting to what the other agents are doing
- Control tends to be highly dispersed and decentralized
- Coherent behavior in the system arises from competition and cooperation among the agents themselves
- Overall behavior of the system is the result of a huge number of decisions made every moment by many individual agents

Summary: India Tomorrow

- Growth Drivers
  - Demographic dividend
  - Domestic consumption
  - Economic reform
  - Democracy
  - Secularism
  - Global aspirations of Indian businesses
  - Entrepreneurship
  - Frugal innovation
  - Investments/Capital
  - Global growth momentum
- Potholes, Roadblocks & Detours
  - Skills development
  - Education
  - Hunger
  - Health
  - Education
  - Infrastructure
  - Urbanization
  - Maoism
  - Corruption
  - Political populism

Summary: India

- Yesterday was tragic
- Journey to today, despite slow start and detours, confirms promise of the future
- Tomorrow can be spectacular but with potholes, roadblocks and detours

Thank you

India:
Yesterday, Today, Tomorrow

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