

India

THE CHANGING ECONOMIC AND CULTURAL LANDSCAPE

By Bento J. Lobo

India is the cradle of the human race, the birthplace of human speech, the mother of history, the grandmother of legend, and the great grandmother of tradition.

— Mark Twain

As I sat down to write this essay on the Indian economy, I realized that for me India was home, a place to think about warmly, a place to visit for a few weeks every other year. India was about cricket, food, Bollywood films, and family. When I got to thinking about why it is that India is so highly regarded by economic commentators the world over, I thought about what I knew of the India I had left behind, and I quickly realized that India's economic landscape today is dramatically different from the one I left some twenty years ago. Social and cultural changes during the same period were occurring as well, though arguably at a slower pace. This essay is intended for instructors and students who are unfamiliar with recent developments in India. What follows is a discussion of India's changing economy and how society and culture both impact and are being impacted by those changes, and India's future economic prospects.

ECONOMIC PROFILE

The world's largest democracy has emerged as a major power in the last couple of decades. With a GDP of \$3.2 trillion in 2008, the *CIA World Factbook* ranks India fifth in the world in terms of economic size. However, with the world's second largest population of 1.2 billion, per capita income is only \$2,900, making India a "low-income" country by International Monetary Fund (IMF) standards.

The economy has grown on average by about seven percent in the decade since 1997, reducing poverty by about ten percentage points. Services (information technology, in particular) are the major source of economic growth, accounting for more than half of India's output and helping to lessen the country's economic dependence on the monsoon. Roughly thirty percent of the GDP comes from manufacturing, led by the engineering, electronics, automotive, textiles, and chemicals sectors. Slightly more than half of the work force is involved in agriculture that produces less than twenty percent of total output.

The rapid economic growth of the last two decades might not immediately be evident to foreign observers. Signs of poverty are everywhere. Beggars greet you as you step out of the Mumbai International Airport. A taxi takes ninety minutes to travel twenty kilometers over pothole-ridden roads even as the crush of humanity adds to the noise and air pollution in the major cities. A closer look, however, reveals new office buildings, research and development centers, a thriving private sector, a vibrant entrepreneurial spirit, and an optimistic outlook, even as urban middle class nationalism is increasingly expressed in a desire for economic modernization.

Despite modern day images of poverty and deprivation, India was once a very rich nation. Christopher Columbus set out to discover India in 1492 because he had heard tales of her wealth. Angus Maddison, the Cambridge economic historian, noted that around the seventeenth century, India and China accounted for about fifty percent of world output, while Europe accounted for only twenty percent. The USA was not yet born.

Historian William Dalrymple draws attention to the change in India's economic fortune when he said, "In 1600, when the East India Company was founded, Britain was generating 1.8 percent of the world's GDP, while India was producing 22.5 percent. By 1870, at the peak of the *Raj*, Britain was producing 9.1 percent, while India had been reduced for the first time to the epitome of a Third World nation."¹

Newly-independent India in 1947 was a rural and impoverished country with ninety percent of the population living in villages. As Indian politicians ascended the steep learning curve of self-governance, self-sufficiency and distaste for economic dependence on foreigners after two centuries of overseas rule shaped the post-colonial Fabian socialism of Prime Ministers Jawaharlal Nehru and his daughter, Indira Gandhi. Policy tended toward protectionism, with a strong emphasis on import substitution, a large public sector, business regulation, and central planning that resembled the Soviet Union. Steel, mining, machine tools, water, telecommunications, insurance, and electrical plants, among other industries, were effectively nationalized in the mid-1950s. Elaborate procedures, regulations, and red tape, commonly referred to as the "License Raj," were required to set up business in India.² In the 1960s, India was considered by most development specialists to be hopeless. Two decades later, as students of economics, we studied the mighty five-year plans and lived through sedate "Hindu" rates of growth.³

India graduates some 400,000 technology students every year, more than any other country in the world.

By the late 1980s and 1990s, however, India shed Nehru's "mixed economy" ideology based on heavy industry and agriculture, and put major market liberalization reforms in place. The trigger was a Balance of Payments crisis in 1991 that pushed the country to the brink of bankruptcy. In return for an IMF bailout, the Rupee was devalued and economic reforms were forced upon the country. That low point was the catalyst required to transform the economy through badly needed reforms to unshackle the economy. Controls started to be dismantled as tariffs, duties, and taxes were progressively lowered and state monopolies, such as in telecommunications, automotives, and financial services, were broken up. The economy was opened to trade and foreign investment, and globalization was slowly embraced. These reforms provided the incentives that allowed latent entrepreneurial talent to surface, and along with a modern stock market, private banks and corporations have made the country far more capital-efficient than, for instance, China.⁴

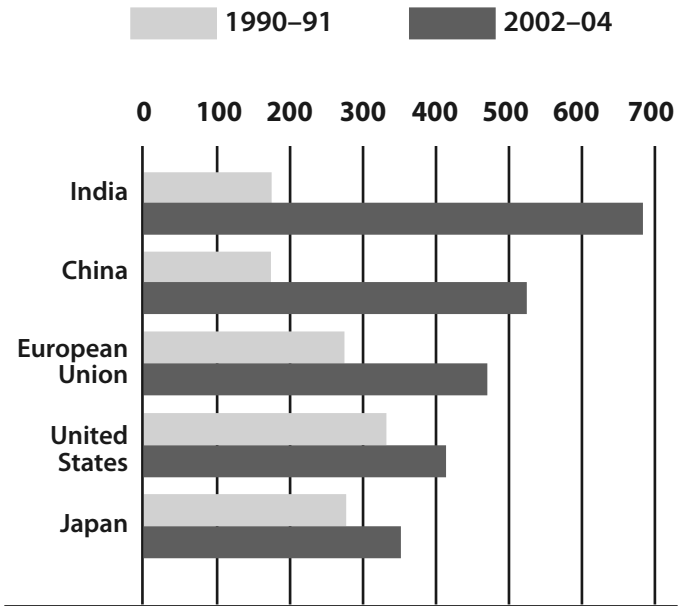
Today, more than half of the nation's GDP comes from the knowledge-intensive services sector, a characteristic of more mature developed economies. Much of this shift in economic emphasis has been a function of global developments as the Internet and other technological advances drive growth and productivity. Yet in many ways, India was already positioned to advantage.

Education has always been highly valued in India. Parents emphasize the need to get educated before seeking one's fortune. In particular, the study of mathematics, science, and philosophy has deep roots going back to Vedic times. Arguably, the world's first university was founded in 700 BC in *Takshila* (in modern-day Pakistan), and reportedly catered to some 10,500 students in sixty different areas of study.⁵

I recall that in my final year of high school in the early 1980s, kids around me primarily chased after careers in either engineering or medicine. The competition to enter these specialized schools was intense, and large sums of money were spent on prep courses so that students would do well on the entrance exams. The most sought-after Indian Institutes of Technology (IIT) were set up by the post-Independence government to develop the scientific manpower needed to propel the country forward. Remarkably, these IITs continue to command a global reputation for the very highest level of engineering training.

Today, not much has changed with regard to Indian kids and their parents seeking to excel in the sciences and medicine. Consequently, India graduates some 400,000 technology students every year, more than any other country in the world. Perhaps this is not surprising in a land that can make a strong claim to be the birthplace of Algebra, Trigonometry, and Calculus. The dearth of such high quality educational institutions relative to the demand for them has resulted in the government promising to open eight new Indian Institutes of Technology, seven new Indian Institutes of Management, five new Indian Institutes of Science Education and Research, and twenty new Indian Institutes of Information Technology.⁶

University Students Graduating in Science and Engineering



Source: Morgan Stanley

Chart information location source: <http://www.beyondvc.com/globalization/>.

THE SOCIO-CULTURAL UNDERPINNINGS OF DOING BUSINESS IN INDIA

The goals and expectations of business are not much different in India compared to anywhere else. Yes, everyone expects it to be profitable, cost-efficient, and productive, even if Indians prefer lots more documentation of agreements, many signatures, and blame the rains for all manner of delays.⁷ However, for a foreigner new to the subcontinent, India can be a major culture shock. The trick is to understand the new Indian economy and business within a larger cultural and social context. After all, this is a land of over a billion people struggling to balance 5,000-year-old traditions with the demands of modern lifestyles. The assault on your senses will leave you with lasting images and will transform you at some level.

The *Country Commercial Guide* of the US Department of Commerce rightly points out that religion, caste, and language are major determinants of social and political organization.⁸ India is a secular nation, but the majority of Indians are Hindu, with Muslims making up the largest minority group. The constitution lists eighteen official languages, but over two hundred dialects are spoken around the country. Often, conversations begin in English and typically morph into a two- or three-language gumbo because most everybody is at least bilingual. The vast English-speaking youth population is often cited as a major positive for India's economic future.

Visitors to India will encounter quite different customs and ways of life. For instance, Indians have a different perspective on time relative to the West. Things don't *have* to be done right away, this very instant. Perhaps a sense of the smallness of self in the largeness of time has something to do with this laid-back manner. As a consequence, timed

It never occurred to us to place our grandparents or parents in retirement homes or assisted living facilities . . .



Senior Citizens of Sandhya Kirana Day Care Center for Senior Citizens in Bangalore, India.
Image source: <http://givetimetgether.sabre.com/?p=1926>.

appointments are more likely to serve as guideposts rather than hard deadlines. Dinner parties slated to begin at seven o'clock seldom get going until nine or ten.

Visitors must also adjust to a different numbering system that uses commas differently from the Western system—after the first three digits, a comma divides every two rather than every three digits. So the term “lakh” refers to a hundred thousand, written 1,00,000. The term “crore” refers to ten million, written as 1,00,00,000, also called 100 lakhs.

Being a land of diverse faiths and the birthplace of several leading world religions, the Indian city is a cosmopolitan mix of Hindus, Muslims, Sikhs, Parsees, and Christians. Growing up in Bombay (now, Mumbai), it was commonplace to describe a stranger as a “Muslim” or “Christian” rather than as black or white, thin or stout. This was because revealing the person’s faith also revealed his belief system, primary language, dress code, and eating habits. The latter is particularly important because many Hindus abstain from beef, Muslims abstain from pork, and many others practice vegetarianism. However, it would seldom do to describe someone as a “Hindu” because that was not sufficiently revealing. Instead, we would refer to a Hindu, for

instance, as “Maharashtrian” (i.e., Marathi-speaking) or “Punjabi” (i.e., Punjabi-speaking, and probably with ancestors from the North). Someone referred to as “Gujarati” would likely speak Gujarati, and probably be a Jain rather than a Hindu. The *marwadi*, so named for a region in the western state of Rajasthan, would likely be a shopkeeper, trader, or broker and probably a Hindu or a Jain. This type of stereotyping is uniquely Indian.

India is a land of many traditions, many of which are evolving in the face of newer influences. Foreigners, for instance, are quite taken by Indian marriage practices. Most marriages are arranged in India, with folks commonly marrying within their faith or caste community. This tradition, going back centuries, came about to ensure the socio-cultural and economic compatibility of the couple and to increase the probability of the marriage succeeding. I was once told that while marriages are said to be made in heaven, they have to be nurtured here on earth! As a consequence, an Indian marriage is not merely between a man and a woman, but is more about the marriage of families. Today, the process and definition of an arranged marriage is evolving. The “arranged-love-marriage” is a rapidly growing phenomenon whereby parents find or approve potential spouses and then give their children the freedom to veto them or to meet via Internet cafes or even real cafes, leading to a quasi-courtship.⁹ This Indian version of “e-Harmony” has given rise to a multitude of matrimonial Web sites and opened the door to increasing numbers of marriages outside of faith, caste, or regional communities, especially in the major urban areas. Consequently, the stereotyping described above is likely to be less meaningful to subsequent generations of Indians as their parentage becomes more diverse.

Moreover, in the urban centers the institution of the joint family is gradually being replaced by the nuclear family. Like most Indians, I grew up in an extended family. We never paid for baby-sitters. It never occurred to us to place our grandparents or parents in retirement homes or assisted living facilities—actually, I’m not sure there were any. Some entrepreneurial opportunities will at least partially be driven by these social changes. For instance, the need for new housing for nuclear families and retirement facilities for the elderly, and the need for nanny services, are likely to be significant in the years ahead.

INDIA’S ECONOMIC FUTURE

Predicting economic outcomes is difficult in an ancient culture that has supported the simultaneous abuse and worship of women, and a caste system, now illegal in practice but still influential, that assigned occupations and social roles to people based on hereditary social stratifications. For a while now, India has been grouped with countries expected to make the greatest economic impact in the next twenty years. The BRIC (Brazil, Russia, India, China) economies by various measures are expected to be on the leading edge of global economic development in the years ahead.

For India, the economic emergence has been dramatic. The economic outlook, however, hinges on a mix of factors. Working in favor of a bright outlook are a young population, a vast pool of mostly English-speaking university graduates, a growing middle class, and a tradition of democracy that is both well-entrenched and valued. With a common-law legal system and a 130-year-old stock market, India has a comparative advantage in financial services, like the one it has in information technology.

However, there are many obstacles that must be overcome. Ironically, democratic traditions are among the biggest impediments to

World's Ten Biggest Economies



Sources: IMF; Goldman Sachs

Chart source: "Emerging at Last. Developing Economies are Having a Good Run," *The Economist* (September 14, 2006).

* Purchasing Power Parity

** Market exchange rates

growth, hampering decision-making and rapid socio-political reform. The nearly three million elected officials and coalition governments at the federal and state levels complicate the division of power in a system where many political actors wield a veto.

Rigid labor and Foreign Direct Investment laws, coupled with a lack of adequate infrastructure (e.g., transportation, telecommunications, and utilities), are among the most-cited obstacles to growth.¹⁰ The relative dearth of foreign capital and the need for investment to fuel the growth momentum has driven up budget deficits at the federal and state levels to ten percent of GDP. India's bureaucratic red tape and corruption are legendary. University of Pennsylvania economist Joydeep Mukherji points out that Indian managers spend more time dealing with bureaucrats than their counterparts in most countries. Starting a business requires ten permits and a median time of ninety days in India, about twice as long as in China.

The World Bank gives India a rank of 133 (out of 183) for "ease of doing business."¹¹ Translation: it is not easy to do business in India. Consider, for instance, that it takes about thirty days to start a business in India, compared to an Organisation for Economic Co-operation and Development (OECD) average of thirteen days. The time to enforce a commercial contract from the time a plaintiff files the lawsuit until actual payment is about 1,420 days, almost three-and-a-half times the OECD average. Moreover, the time to close a business is found to be about seven years, compared to an OECD average of 1.7 years.

Economist John Kenneth Galbraith, who served as American ambassador to India in the 1960s, once described the country as a "functioning anarchy." Indeed, in India, economic contradictions are the norm. A 2007 Goldman Sachs report cautioned that while the Indian GDP would likely surpass that of the United States before 2050, India would remain a low-income country for several decades, with per capita incomes well below its BRIC peers.¹² According to *Forbes*, India is home to the largest number of billionaires in Asia with thirty-six Indians on

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Mukesh Ambani, the head of Reliance Industries, is the wealthiest person in India with a net worth of thirty-two billion dollars.

Image source: <http://www.downloadbowl.com/2009/11/mukesh-ambani-tops-forbes-india-rich.html>.

Almost 300 million Indians, most of them in its 680,000 villages, cannot be sure where their next meal will come from.



Two children begging outside of a bus station in India..
Photo by Robin Lerner, used under Creative Commons License.

their “100 Richest People in the World” list. However, the World Bank estimates that forty-seven percent of India’s children under five are underweight, and infant mortality is fifty-seven per 1000, almost twice that in China. Edward Luce, Washington Bureau Chief of *Financial Times*, points out that this is a country where cell phone users jumped from three million in 2000 to one hundred million in 2005, and the number of television channels from one in 1991 to more than 150 by 2006.¹³ Yet, almost 300 million Indians, most of them in its 680,000 villages, cannot be sure where their next meal will come from. Only ten percent of India’s workers have jobs in the formal economy and less than three percent are taxpayers. The excellent engineering schools turn out ten times more graduates than the United States and Europe combined, yet thirty-five percent of the country remains illiterate.

Still, deregulation has enabled Indian entrepreneurs to spread their wings globally. From Ratan Tata’s US 13.7 billion dollar acquisition of Anglo-Dutch steelmaker Corus Group, to Vijay Mallya’s US 1.2 billion dollar investment in Scotch whiskey maker Whyte & Mackay, many Indian businesses are now global conglomerates. Indeed, as the long-term globalization trend towards outsourcing and offshoring gains even more momentum, India’s “go to” status as a premier business destination will be enhanced because, to paraphrase a senior Cisco executive, firms will come to India not merely for the costs or the quality, but also for the innovation.

Many analysts, this author included, believe that India will play a dominant role on the global economic stage in the years ahead. Indeed, as Thomas Friedman put it, “If India was stock, I would buy it.”¹⁴ For those who study socio-cultural changes in the face of economic growth, India will be a fascinating story to watch unfold. It is a country steeped in religion that is also modernizing at an astonishing rate, not because of its rich spiritual heritage, but on the back of a visible cult of wealth and, to borrow from Luce’s popular work on India, “in spite of the gods.” ■

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NOTES

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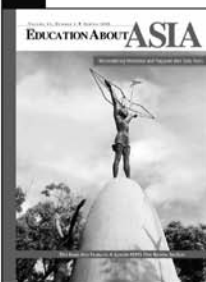
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