

### **Fish Eye India**

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For those who remember what India looked like in the 80's (or from the stories of what I heard the seventies had looked like), the progress of the world's largest democracy over the last 20 years is simply immeasurable. Yet notwithstanding India's miraculous growth, comparable only to Europe's or Japan's post-war reconstruction, year after year India's progress continues to be out-shadowed by the performance of Asia's other giant, China. It seems that, whether be it at home, abroad, or in India proper, one cannot complete a conversation praising India's progress without falling into a comparison with China. Unfortunately, it is not only the percentage points of GDP growth that separate the two countries that speak out loud. A first time visitor to Shanghai, riding on the magnetic bullet train that connects Pu Dong's airport to its financial business district, will have no opportunity of being reminded of the ravages of the Cultural Revolution, or the devastating consequences of the Great Leap Forward, (only the monotonous landscape of uninterrupted identical and anonymous buildings that still characterize rural China can give us a reminder of China's tumultuous and flattening recent history). One cannot claim so much of India, if a city like Mumbai – the country's vibrant financial capital, with roughly 5000 companies listed on its stock exchange with a market cap above USD 600 BN, and a fast growing population of millionaires and billionaires (in US dollars, that is) – still cannot digest its share of the hundreds of millions of displaced farmers that fled war and famine in the seventies. Mumbai's peddlers and sprawling shanties are a gruesome warning that India's road to development is far from complete. Only that this time, India has understood where lies the key – infrastructure.

Surprisingly, one can still bump into the odd self-realized and self-contented businessman that will remind the foreigner how thanks to IT and the service industry, India does not need a manufacturing base, and can even do without any need for self-respecting infrastructure. Fortunately this complacent attitude is rapidly becoming a rarity. The world cannot be carved out into theme parks – manufacturing to China, services to India. And Indians are finally realizing that IT alone cannot support a population of over a billion people. Advocates of the complacent 'service' theory, fail to notice how it is the lack of infrastructure that has forced the creative drive of India's entrepreneur's to burst into the only possible direction, one that does not require infrastructure. India's service and IT industry did not (or at least not only) flourish because Indians have a knack for 'services' rather than for 'making things', but because the creative drive of India's scores of entrepreneurs could not express itself in sectors such as manufacturing, which would require an infrastructure the country does not have.

Fortunately, theories of self-complacency are rapidly disappearing, and the Indian government has understood better than ever the need to build competitive infrastructure. Today, India has allocated USD 30 BN just on the development of roads and highways, and two new airports in New Delhi and Bombay are due to start functioning by 2010. Much focus also has been placed also on India's belt of second tier cities such as Bangalore, Hyderabad and Pune, encouraging a much needed decentralization that will further demand and reinforce growth in infrastructure development.

More can be done. I believe that one of the best cards played by Chairman Deng on the road to China's development was the creation of the Special Economic Zone (SEZ), with its first pilot in Shenzhen launched just before his 'Southern Tour'. SEZs have existed in India for almost the same amount of time, but have not given even nearly the results of China's SEZs. Unlike China's, India's SEZs are tightly regulated, and can only be utilized for export. If I can be as bold as to make a suggestion to India's policy makers, I would recommend deregulating the SEZs, allowing for example the SEZ to be used as a gateway by foreign manufacturers to access the booming Indian consumer market. Today, I suspect that access to the local markets should be a far more attractive component to foreign manufacturers, rather than simply low cost labour – which by the way can now be found elsewhere.

India's IT and service industry, has served the country well, putting India back on the world map of economic heavy weights. It has done for India what low cost manufacturing has done for China; yet like its neighbour, India has understood it is time to diversify, and with the creation of new competitive infrastructure, it is easy to imagine that the genius of India's entrepreneurial spirit will now no longer be segregated to IT or services.

Carmelo Pistorio  
Managing Director