

India is Where You Want to Be

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For close to the last decade, a debate has raged over whether China or India was going to take the top spot among the 21st century's entrants to the major global economic powers. And, while China's GDP is growing faster than any in the world, including India, the relevance to specific businesses varies and, for most businesses, India is where you want to be.

While major automobile and mobile phone producers face the unenviable challenge of juggling their investment priorities between both India and China, and major retailers and brands have to bet on which of the two will consume more per capita, companies involved in software, IT-enabled services, business-to-business services, and pretty much any business that requires knowledge working rather than factory working, your decision is made for you.

India's day has come, and with each passing week, the reasons to be there grow almost as fast as dose the ease of setting up an Indian operation.

In a handful of years, India has moved from a stifled economy of government run businesses and inefficient old firms who were better at finessing the bureaucracy than building competitive businesses, to a country with a growth rate averaging over 7.5% for the last eight years, and where the Sensex passed the Dow Jones last week.

Key factors leading to sustained, stable growth:

Political - India is a vibrant, dynamic democracy. India's multi-party, parliamentary system can appear to be messy and chaotic, but what it delivers is the same as in the US: confidence by a fully-enfranchised electorate in the permanence and authority of the representative political system, not of a single party or leader. This ensures the sanctity and continuity of policy - what the elected government agrees to is honored at every state and local level.

Judicial - India has an independent judiciary that acts with the same fearless authority as the US's second branch of government. In front of the local, high, and supreme courts, all parties are equally treated, and the government of India has long ago accustomed itself to appealing to the courts in disputes within the legal framework as a party no more or less equal to the one opposing them. For businesses, this means that the right of redress in the courts, even in a dispute with the government, is both guaranteed and certain to be fair and free of extra-judicial decree. No opaque laws, no questionable interpretations. No arbitrary decisions without explanation. The law is clear and biased towards none. The

system is slow and chaotic, but mainly because of the constitutional right to a fair process that even the poorest villager is aware he or she has.

Economic stability: India does not just have a growing economy; it has the ingredients for a perpetually expanding capitalist culture. At the government level, the government has very steadily moved towards economic liberalization with policies aimed at spurring growth, global competitiveness, and economic integration with the rest of the world. India's well-run Finance Ministry has worked with each successive administration in the last decade and a half to open markets carefully but purposefully (India joined the WTO in 1995); allowing formerly protected local industries to adequately prepare, while ensuring foreign entrants have the incentives and level playing field to come and compete. Each industry, as it opens up, is governed by clear and well-crafted policies on investment, share-holding, taxation, overseas parent-local subsidiary relations, repatriation of profits, and so on. If the government is going to open up a sector, a lot of thought has gone into structuring that step so that it does not falter. This has led to successful, irreversible integration of foreign competition in the local market place: banking, insurance, retail, real estate. One by one, the markets have opened up so that outside players can come in and, for the first time, Indian firms can spread abroad. The result is KFC/Pizza Hut planning 1000 outlets within ten years; single firms planning 14 million square feet of retail space; and Indian pharmaceutical and IT companies buying over firms in Europe and the US with a purchasing power (and convertible currency) they could not have imagined a decade ago. At the individual level, this free market transformation has led to a confident consumer and business climate – with the liquidity to back it up. The key has been a methodical and stable economic policy. The Indian finance minister and his annual budget are treated with the same fanfare as Greenspan and his annual unveiling. Any day now, India's is expected to allow the full float of its currency – a move as significant and symbolic to any Indian or person familiar with the country as the fall of the Berlin Wall.

Communications – Voice and data infrastructure has been put in private hands, with the competition engendering an explosion of services and infrastructure, coupled with remarkably low prices.

Finally, my big India 'plus':

Education. Indian universities and graduate schools are churning out a spectacular number of software engineers, electrical engineers, financiers, and managers. The various Indian Institute of Management campuses see the recruitment of their students by firms from around the world for impressive starting salaries in posts from Tokyo to London. Many Indian Management schools are now in the top global rankings, and a large number of US and UK universities have tie-ups here. The engineering schools too graduate tens of thousands of IT programmers to supply the country's BPO's, software development firms, and hardware design firms. The result is a juggernaut of Indian intellectual potential more powerful than China's manufacturing capability. The millions of English-speaking graduates coming into the market with skill sets ranging from programming software, managing the software firms, to running the investment banks which back the software firms is an example how this excellent education system has

helped foster a stable business ecology, not just a niche IT industry. In high end manufacturing, India is poised to not just fabricate chips like Malaysia or China, but to carry out the design of the chips and their software by their tens of thousands of PhD graduates – then have their engineers manufacture them. Education has proven to be the true enabler up the value chain of the world's economy. The country's roads may be bad, but its 'soft' infrastructure is rivaling the world.

Together, these factors add up to an important market in which to participate – and a very attractive base from which to carry out a variety of services for your own firm or clients around the world.

This has become clear to a great many US and European firms.

220 of the Fortune 500 firms have operations in India, and over 200 are outsourcing their service or support functions to Indian partners or subsidiaries. Of the almost 300 F500 companies who are yet to cost shift through an Indian strategy, 70% say they plan to start soon.

The result is a huge demand on real estate. Bangalore absorbed 7 million sft of office space in 2005, on top of an additional absorption of 7.5 million sft in 2004. US IT and IT-services majors have and are still moving rapidly into the marketplace. In only Bangalore and only in 2005:

- Cisco moved into 250,000 sft of new space and finalized a 1m sft campus on top of 500,000sft they already have
- McAfee has moved into 100,000 sft
- Intel has moved into 1.7m sft campus and have 200,000sft elsewhere
- Fidelity has occupied 250,000 sft, and have finalized a 1m sft campus on top of the 200,000 sft they already have
- Yahoo has moved into 100,000 sft
- EMC has moved into 200,000sft
- Sun has moved into 70,000 sft on top of their existing 70,000 sft
- Motorola moved into 200,000 sft, finalized 100,000 more and already occupy 500,000 sft
- IBM moved into 500,000 sft and confirmed 1m more, on top of the 1m sft they already occupy in Bangalore
- Freescale has moved into 110,000sft of new space
- Microsoft moved into 250,000 sft with an option on 250,000 sft more
- Accenture has occupied 750,000 sft, and finalized a 750,000 sft campus
- JP Morgan moved into 250,000 sft facility with an option on another 250,000 sft
- HP finalized 750,000 sft on top of the 1.5million sft they already have in Bangalore

These are only the some of the big deals for large firms, in total the IT sector alone is expected to require 75-85 Million square feet of new space over the next five years.

Tips for coming to India:

- If you employ more than 200 people, it is worth considering at least a small team here
- Work with a good bank that straddles both regions well; you're going to need someone that understands the rules, not just doing wire transfers.
- A knowledgeable accounting firm will be more helpful than a law firm in helping you to establish your operation. Setup includes business registration; establishment of company officers and signing authority; legal structure; business and employment licenses; labor regulations; Software Technology Park (STPI) status, if applicable; and much more.
- Come in with the understanding that the real estate market is in flux and frenzy – prices rise by the day, and landlords are driving take it or leave it deals because five other companies want your space.
- Take options on additional space but ensure you have the right to know who else is asking for the space before you have to exercise your first right of refusal.
- Expect yearly lease increments of 5%, and lease periods of 3 year lock ins.
- Finally, in deciding whom to send to India to set up an operation, a dependable person from your company is as valuable an asset as sending anyone else – even a person of Indian origin within your organization. The first impulse is to send someone from your company who knows India, but simply being originally from India is not a guaranteed advantage: language skills aren't required in India's overwhelmingly English-speaking business environment; being from Delhi if the office is to be in Bangalore is as much use as being from Ecuador for a Brazilian start up; and if they have been away just a few years, the country and its business network is not the one they left anyway. Send a veteran manager, regardless of their knowledge of the country, to establish the operation for the first year. It is worth the cost.

Of course, India has its problems.

Corruption is still systemic. Despite strong efforts to eradicate it, India's corruption level remains high, ranking 90th out of 155 countries in Transparency International's survey of honesty in governments. That's worse than Rwanda. So, while you likely will not come across government officials refusing to give a business license without a fat envelope, the persistent petty corruption can make getting things done difficult, and you must be vigilant that your local staff don't cause you to break FCTPA rules by paying small 'fees' to help you get some registrations done.

Infrastructure is lagging behind growth. Almost a million cars come on the road in India each year now, and the government can't keep up. Power consumption is scorching ahead, but power creation is lagging behind, leaving cities like Bangalore as dependent on UPS systems and generators as they are on the power grid. It is estimated that India needs to spend \$35 billion on roads alone to keep up with the traffic demand.

Bureaucracy is still an impediment. While China provides a "single window" service to allow you to virtually set up a business in Beijing without even leaving Boston, India still has too many officials interpreting rules too many different ways. Although India has come a long way from the days of the "License Raj" – when officials ruled with virtual impunity while business waited years for a single telephone line – the country has still not successfully tamed its bureaucrats nor instilled in them a sense that their livelihood is built upon serving the tax-paying population and business community.

Finally - no matter how great its GDP growth year on year, it will be many years before India can bring its hundreds of millions of poor up into a self-sufficient middle class. Colonial and post-colonial misrule, persistent corruption, and simple overpopulation have left the New India with a burden from its past that even a developed economy could not fix in under a few generations. With even the poorest of the poor voting their way to progress, however, it is unlikely that the poor represent a potentially destabilizing or destructive force as in China.

These problems are not deal breakers. The political and economic environment is now dynamic enough to adapt to these challenges more quickly. The government is more responsive, and more willing to hand over to private hands the challenges they cannot tackle alone.

Setting up in India will be one of the most important strategic decisions your company will likely make; it is therefore worth great consideration and care, but it will certainly be worth the effort.