

Handelsblatt, April 12, 2006, cover story:

"India is forced to grow; it has no choice."

Interview with globalization guru Rajat Gupta

Rajat Gupta, former global manager of the consulting firm McKinsey & Company, discusses India's rise as a new economic power. Handelsblatt editors Tanja Kewes and Torsten Riecke met the Indian-born Gupta in his Manhattan office.

China's ascent has greatly changed the global economy in the past two decades. The country is already considered to be the dominant economic power of the 21st century. Will India continue to be "China's little brother"?

India will play a prominent role in the 21st century. The next 20 years will still clearly be dominated by China, but in the long run – over the next 50 years – its structural and demographic advantages will cause India to pull ahead. In contrast to China with its one-child policy, India is a very young and dynamic society. But the real issue in the end isn't whether China or India will be ahead. Both countries will define the course of the 21st century equally and try to make links to earlier points in history, when China and India were the world's leading economic powers and no one had ever heard of the United States. Europe will remain strong, but will lose in relative significance.

What impact will India's ascent have on the global economy?

In merely 15 years, India has made economic history. It has moved from being an underdeveloped agricultural economy to a knowledge-based service society. In its development, India has thus skipped the industrialization phase. In the booming sectors of information technology, pharmaceuticals, and biotechnology, it is companies such as Infosys and Wipro that are setting the pace. Indian companies are also among the top global players in other sectors, such as the automotive and chemicals industries. With a growing middle class currently totaling approximately 200 million, India is also one of the last developing consumer markets.

India was a focus of the World Economic Forum in Davos at the end of January. Indian entrepreneurs such as Nandan Nilekani, from the software service provider Infosys, and Anand G. Mahindra, from the conglomerate Mahindra & Mahindra, appeared on the world's economic stage. What sets India's entrepreneurs apart from their international and especially Chinese counterparts?

Like China, India has historical experience with an open-market economy and has produced economic pioneers in the past. Both countries ended the economic isolation they experienced during the last 100 years in their own way. China's economy is driven by a strong state, while India's is driven by private-sector engagements and entrepreneurship. This is why China's companies – with all due respect to their successes – still do not play a large role globally. By contrast, India's companies, and

especially the star players on the IT scene, are not only able to compete internationally, but set the standards worldwide. India's business owners and managers could not just rely on the government; they had to make their mark from the very start – both nationally and internationally.

The best example is Lakshmi Mittal, the Indian businessman operating out of London, who built a global corporation in the span of a few years and now wants to take over the European steel giant Arcelor. Will there be other spectacular takeover offers coming from Indian companies in the near future?

Yes, definitely – especially in information technology. Indian companies such as Infosys, TCS, and Wipro are competing globally with world market leaders such as IBM and Accenture. However, potential also exists in outsourcing, as well as in the automotive and chemicals industries. There are also global players from India in sectors where you would not expect them to be. Indian conglomerate Reliance, for example, is internationally active and successful as an energy company. Many of the Indian economy's top performers have already gone international: within a short period of time, for example, the Tata Group acquired the international telecoms provider Teleglobe, the Spanish bus manufacturer Hispano Carrocera, and Singapore's steel company Natsteel, among others. The takeover of Trevira GmbH made Reliance a world market leader in polyester overnight.

A strong state such as China's pays off, however. The People's Republic of China attracts 20 times as much foreign direct investment as India.

More direct investments are flowing into India every year. This number is exponential: growth rates are almost as high as those of China. Overall, however, India is not as reliant upon direct investments as China is; India can grow on its own. Of course, the government in Delhi also understands that foreign capital and know-how can accelerate growth and increase international competitiveness. That's why they are working on liberalizing sectors such as finance and trade, which have thus far been off-limits to investors.

Even after their sectors were liberalized and they entered the market, some disappointed companies have pulled out of India. Why does this happen?

The greatest barrier to investment in India – even for Indians – is the infrastructure. While a railway network exists, it is completely antiquated. The technical design standards for some sections are still those from the British colonial period. The government must either make massive investments or – as recently seen with the country's two most important airports in Delhi and Bombay – leave the construction to private investors. Another barrier is the excessive bureaucracy. But in the competition for investments, the states have begun outbidding one another with non-bureaucratic solutions.

U.S. President George W. Bush emphasized America's political relationship with India during his visit there in March. What consequences does the new partnership have for India's development?

This acknowledgement from the U.S. has put India back in the spotlight of the world economy. The partnership between the two countries is based upon the things they have in common. Like the U.S., India is a large democracy, interested in free trade and, in terms of the ethnic and religious backgrounds of its population, a diverse society. At the same time, each country has things the other does not offer. India offers a large, almost undeveloped domestic market, a host of well-educated skilled workers, and innovative approaches to business. As a world power, strategic partner, and investor, the U.S. is very welcome in India. As surveys show, India is one of the most positive countries towards America in the world. The majority of India's people admire the U.S. as an open society and free market economy and they welcome the new partnership.

In cross-border mergers, European national leaders are increasingly moving in the direction of protectionism. Does the current nationalism make it more difficult for India's government to follow a policy of liberalization?

Yes, these tendencies greatly hinder such reforms. This is also why India is taking on a dominant role in discussions about the opportunities of globalization. The point is not special one-time cases such as Arcelor in France or Endesa in Spain. More fundamental and significant for India as an up-and-coming agricultural power, for example, is the discussion of agricultural subsidies in the European Union. The competitive conditions must be the same for everyone. The Indian government may be moving towards liberalization slowly, but at least it is moving in a sustainable way and without compromises.

In the past few years, India's economy has grown on average by 8 percent. The government is now calling for a growth rate of 10 percent. Can Delhi keep this promise or is the economy in danger of overheating?

India is forced to grow; it has no choice. A growth rate of 10 percent and more is essential in order to put the cycle of increasing wealth, social stability, and domestic market in motion. India is a young country that produces more workers every year than any other country in the world and this host of workers needs to be employed. The danger does not lie in growing too quickly, but rather, too slowly. In my opinion, the 10 percent target is not unrealistically high – up to now, growth rates were achieved despite, rather than due to, economic policy. The government has been on the right track since 1991, but it could pick up the pace. Only now is Delhi beginning to reform the education system and to expand the infrastructure. This slow reform process, however, is due to the nature of democracy, in which interests are considered and discussed. A centralized government such as China's would be able to react more quickly.

India is already consuming more energy than it produces. Are its increasing energy needs endangering India's rise to world economic power?

A seamless energy supply is absolutely necessary for continued economic development. As the agreement between U.S. President Bush and India's Prime Minister Manmohan Singh on the delivery of nuclear technology for civil use demonstrates, ensuring the energy supply is a top priority. Since 2001, Delhi has been driving reforms in the energy sector. These efforts include the restructuring of bankrupt energy providers and liberalization of energy production. The government has also invested into oil and gas fields from Russia to the Sudan. But much remains to be done before India is no longer dependent upon others for its energy supply. It still does not use its own coal supply in a way that makes economic sense. Other natural resources such as water power and even gas and oil fields are not being utilized. Foreign and domestic investors will have to be found in order for power plants to be built.

Not all Indians belong to the intellectual elite and can benefit from the IT boom. Where will the unskilled and less educated work? Eight million people enter the job market every year, agriculture is still underdeveloped, and industries designed for mass production don't exist.

India's future is in high tech. In addition to IT and pharmaceuticals, India has experience in the automotive and petrochemicals industries. Great success stories can be found here, but these alone may not be enough to create the kinds of employment opportunities that will bring broader economic and social progress. No economy has ever transitioned directly from an agricultural one to one dominated by services. For this reason, India also needs to become an industrial success – with more jobs in sectors such as manufacturing, construction, and agribusiness. In my opinion, these are the future mass employers.

Apart from the IT boom and outsourcing, what else does India have to offer the rest of the world?

A culture that is very authentic after 40 years of isolation. Indian cuisine, yoga, and Bollywood films are very popular in Europe. This is no short-term Indian hype, but rather the soft power of an ethnically diverse nation that is on the way to conquering the world – 1.2 billion people will share Indian culture throughout the world.

Vita: Rajat Gupta

When Rajat Gupta was born in Kolkata in 1948, Mahatma Gandhi had just led India to independence. His father – once active as a freedom fighter himself – worked as a journalist for the liberal daily newspaper, *Hindustan Standard*; his mother was a teacher at a Montessori school.

Rajat Gupta studied mechanical engineering at the Indian Institute of Technology (IIT) in New Delhi. Afterwards, he completed his M.B.A. at the Harvard Business School. After joining the New York office of the international management consultancy McKinsey & Company in 1973, Gupta served as the manager of McKinsey's offices in Scandinavia (from 1981) and Chicago (from 1989).

In 1994, he became the first Indian to become Managing Director, a position that he held until 2003. After three terms in office, he was succeeded by Ian Davis, from the U.K. Since 2004, Gupta has been working worldwide for McKinsey as Senior Partner. He also serves as a pro-bono Special Advisor to U.N. Secretary General Kofi Annan on management reform.

In March of this year, U.S. President George W. Bush met with Gupta at the Indian School of Business in Hyderabad, which the globalization guru helped establish. In his personal life, Gupta has been married since 1971 and has four adult children. He travels to India several times a year.

Photo caption 1: **Globalization guru:** Rajat Gupta bet early on India's growth potential

Photo caption 2: **The interview:** Tanja Kewes and Torsten Riecke met with Rajat Gupta in New York